

Turning innovation into impact: tax incentives and the sustainable future of business

The growing pressure for sustainable and socially responsible solutions has led leaders and investors to look for ways to align their businesses with ESG (Environmental, Social and Governance) values. Surveys show that 82% of Brazilian executives believe that the CEO should lead this agenda and that 94% of consumers expect greater involvement from companies, although only 17% believe that they actually practice related initiatives (MATSUE, 2022).

The Brazilian government has a number of incentives that can speed up the adoption of ESG projects. These include BNDES credit lines (Finem and Finame), the Brazil ICT Law, the Mover Program and, in particular, the Lei do Bem (Law 11.196/2005), which offers tax incentives to companies that invest in Research, Development and Innovation (RD&I), reducing the costs and risks associated with creating new solutions (BRASIL, 2005). This policy encourages the use of renewable energies, clean technologies and business models that minimize environmental impact and strengthen sustainable competitiveness.

The Lei do Bem (Law No. 11.196/2005) is an instrument that offers tax incentives to companies that invest in research, development and innovation (RD&I), allowing deductions in Income Tax, accelerated amortization of intangible assets and reduced rates on remittances abroad. It caters for organizations from all sectors, as long as they adopt the Real Profit regime and develop projects with technological risk, such as new products or process improvements. Through these benefits, the aim is to make the business environment more competitive, driving technological advances that generate economic and environmental value, in line with ESG factors.

Companies and startups can take advantage of these incentives to improve products and processes. The automotive industry, for example, has been adopting strategies to reduce carbon emissions by investing in hybrid and electric vehicles. Natura, renowned for its line of sustainable cosmetics, has used research and partnerships to develop packaging with less impact. In the technology sector, companies such as Hewlett Packard Enterprise and IBM are already using the resources encouraged by the Lei do Bem to create highly energy-efficient data centers. This opens up opportunities for expansion into various segments: retail, agribusiness, health and education can incorporate innovations that minimize socio-environmental impacts and strengthen governance.

For these mechanisms to generate real value, companies must incorporate ESG principles into their culture, and not just disclose them in marketing reports. Access to public funding at reduced rates and the possibility of deducting R&D expenses when calculating income tax boost innovative projects with greater technological risk. The dissemination of good practices increases the potential for cross-sector partnerships and strengthens regional development, contributing to long-term competitiveness and sustainability (PORTER; KRAMER, 2011).

As well as boosting business models based on the circular economy or clean energy, the promotion policy helps organizations to tackle bottlenecks. Lack of internal training and regulatory uncertainty are challenges that can be overcome if R&D planning is integrated with environmental and social goals. Adopting approaches inspired by the Oslo Manual encourages the search for solutions that generate positive and measurable impacts, boosting reputation and attractiveness for investment (OECD, 2018).

Companies of any size subject to the Real Profit regime can benefit from the tax incentives provided for in the Good Law, as long as they maintain fiscal regularity and effectively develop innovation activities (BRASIL, 2005). Spreading this culture of applied research, combined with social and environmental engagement, makes it possible to create more competitive products, more efficient production processes and new market opportunities. Government incentives thus promote the adoption of sustainable technologies and stimulate the generation of skilled jobs and the strengthening of Brazil's image as a responsible innovation hub.

Companies from various sectors have used the incentives of the Lei do Bem (Good Law) to reduce costs in Research, Development and Innovation (RD&I) and strengthen competitiveness. TOTVS, for example, uses tax incentives to improve its management software solutions, as reported in its annual report. Natura invests in the development of sustainable products and has benefited from the deduction of R&D expenses, especially in research into raw materials with a low environmental impact. Embraer is taking advantage of the Lei do Bem to promote more efficient aircraft projects and fuel-efficient propulsion systems. These incentives allow companies to finance initiatives with greater technological risk, such as prototypes, tests and the development of new technologies, generating economic and environmental benefits.

These examples illustrate the scope of the Lei do Bem in different sectors, from technology and cosmetics to the aerospace industry. In common, companies can count on the deduction of R&D expenses when calculating income tax, accelerated amortization of intangible assets and a reduction in the tax rate on remittances abroad to register intellectual property. This gives organizations a financial boost to maintain or expand innovation projects. This encourages practices such as collaborative research with institutes and universities, the formation of specialized teams and partnerships to develop solutions that serve both the domestic and international markets.

Collaboration with universities and research institutes strengthens the development of R&D projects, allowing companies to take advantage of the benefits of the Lei do Bem and align innovations with ESG factors. For example, Embraer, in partnership with the Technological Institute of Aeronautics (ITA), develops efficient propulsion solutions that reduce emissions, while Natura collaborates with institutions specializing in biotechnology to create eco-friendly products and still take advantage of tax deductions for research. These partnerships bring advanced scientific knowledge into the corporate environment, driving the development of new clean technologies and responsible social practices, in line with the demands of governance and sustainability.

Small and medium-sized companies can also take advantage of the benefits of the Lei do Bem to develop sustainable projects that meet ESG demands. Agritech startups, for

example, can dedicate themselves to developing drones for environmental analysis and optimizing water resources, obtaining tax deductions and reducing research costs.

There are also cases of software companies creating platforms for efficient energy management in buildings and industries, valuing governance and social responsibility factors, even on a smaller scale.

Thus, the transition to a sustainable and innovative business model is not the exclusive task of large corporations or the government. It's up to each entrepreneur to seek out information on the Lei do Bem, invest in partnerships with research institutes and align internal processes with environmental and social goals. By embracing this responsibility, the company assumes the role of transforming agent, benefiting from competitive advantages and collaborating towards a more prosperous and balanced economy.

Strengthening responsible innovation involves synergy among companies, universities and public policies, such as the Lei do Bem, which generates opportunities for sustainable development and competitive gains. By incorporating ESG values from the conception of projects, organizations intensify the potential for economic and social returns, increasing their perception of value in the eyes of investors and consumers. The active participation of managers and teams, as well as the commitment to building strategic partnerships for research and development, strengthens the ability to face global challenges and ensures greater legitimacy for the proposed initiatives.

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Further Reading

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2. MATSUE, C. *Estudo mostra quais são as empresas campeãs em ESG do Brasil na opinião de consumidores*. Valor Investe, São Paulo, June 15, 2022. Available at: <https://valorinveste.globo.com/mercados/rendavariavel/empresas/noticia/2022/06/15/estudo-mostra-quais-sao-as-empresas-campeas-em-esg-do-brasil-na-opinio-de-consumidores.ghtml>. Accessed on: 28 Feb. 2025.

