



MOORE

THE RESEARCH & DEVELOPMENT TAX CREDIT: INCENTIVISING INNOVATION

Taxation Consultancy





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THE RESEARCH & DEVELOPMENT TAX CREDIT: INCENTIVISING INNOVATION

The Research & Development (“R&D”) Tax Credit is a generous incentive aimed at promoting expenditure in R&D by Irish resident companies (and branches of foreign companies). The R&D Tax Credit is a valuable relief and this brochure contains some of the key information to enable you to establish whether your business might be entitled to relief under the regime.

The R&D Tax Credit is an incentive for qualifying Irish tax resident companies and branches of foreign companies which provides a refundable tax credit of 25% of qualifying expenditure carried out in a period. This is in addition to the usual corporation tax deductions and capital allowances claims, such that the total tax saving is potentially 37.5%.

ENTITLEMENT TO CLAIM

Before embarking on an analysis of the activities being carried on by a company, first consideration should be given to the requirements to be considered a “qualified company”.

A company is eligible for relief where it is:

- Within the charge to Irish corporation tax;
- Carrying on a trade or is a member of a trading group;
- Carrying out qualifying R&D activities in the period;

In summary, where a trading company within the charge to Irish tax engages in R&D, it may be entitled to claim the R&D Tax Credit in respect of eligible expenditure incurred in the period.

QUALIFYING ACTIVITIES

In order for an activity to be eligible for relief under the R&D Tax Credit regime, it must be systematic, investigative or experimental, in a field of science or technology, and be describable under one or more of the following headings:

- **Basic research**, being work undertaken to achieve new scientific or technical knowledge without a specific practical application in mind, effectively blue sky thinking;
- **Applied research**, being work undertaken to achieve scientific or technical knowledge with a specific practical application in mind. Practically, this is often traditional R&D, i.e. labs and white coats; or,
- **Experimental development**, being work undertaken which draws on previous research or experience but which aims at achieving new or improved methods. From our experience, most R&D claims fall within this category, the aim often being to bring a product or solution to market, building on earlier basic or applied research.

Activities will not be considered qualifying unless they seek to advance existing scientific or technological knowledge and involve the resolution of a pre-existing scientific or technological uncertainty.

ELIGIBLE EXPENDITURE

Eligible expenditure is determined by reference to the particular activities carried on by a company. This is in recognition of the varied and diverse research and development being carried out by Irish companies.

REVENUE EXPENDITURE

Eligible expenditure typically includes:

- Wages and salaries (fully loaded, to include bonuses, pension, health insurance, etc.),
- Direct overheads such as light and heat, direct facility costs such as rent and maintenance,
- Direct costs, including materials used in the course of the R&D activities being carried out,
- Sub-contractors and third-level institutions may also be included in the claim; however, there are limits as to the amount of expenditure which may be included.

CAPITAL EXPENDITURE

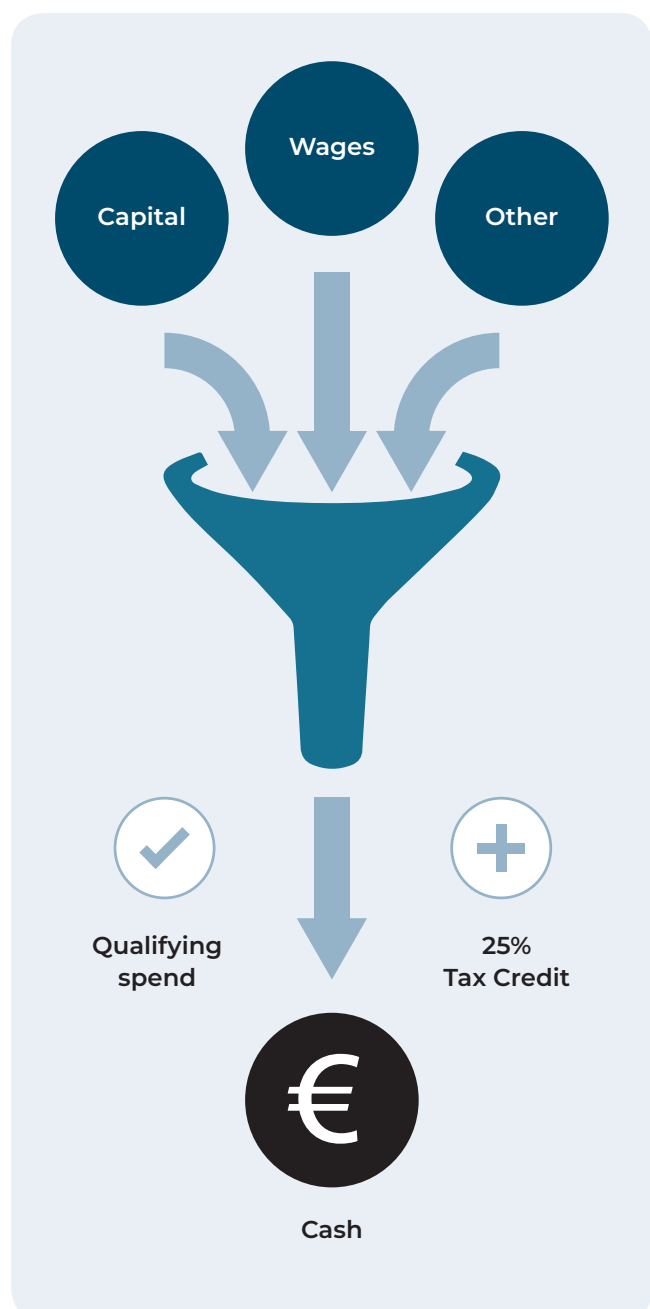
Eligible expenditure includes plant and machinery to the extent that the assets are used for the R&D effort, once the assets are eligible for capital allowances.

Likewise the capital cost of buildings may be included in a claim in the year of expenditure, to the extent that a facility is purpose built to facilitate R&D activities.

CLAIMING THE CREDIT

As with the Irish corporation tax system more generally, the R&D Tax Credit regime operates on a self-assessment basis. Further, the claim is made on the Form CT1 in the period in which the qualifying expenditure is incurred.

A key point to note in relation to making an eligible claim is the time-limit. In order for a claim to be accepted by Revenue, it must be received within 12 months of the end of the period in which the expenditure was incurred.



UTILISING THE CREDIT

First, the R&D Tax Credit can be used to reduce a company's current year corporation tax liability.

Next, where the current year corporation tax liability is insufficient to utilise the credit arising, a company may choose to carry back the credit to the immediately preceding accounting year.

Once the above opportunities have been exhausted, a company may then choose to either carry the credit forward or elect for a refund of the remaining credit.

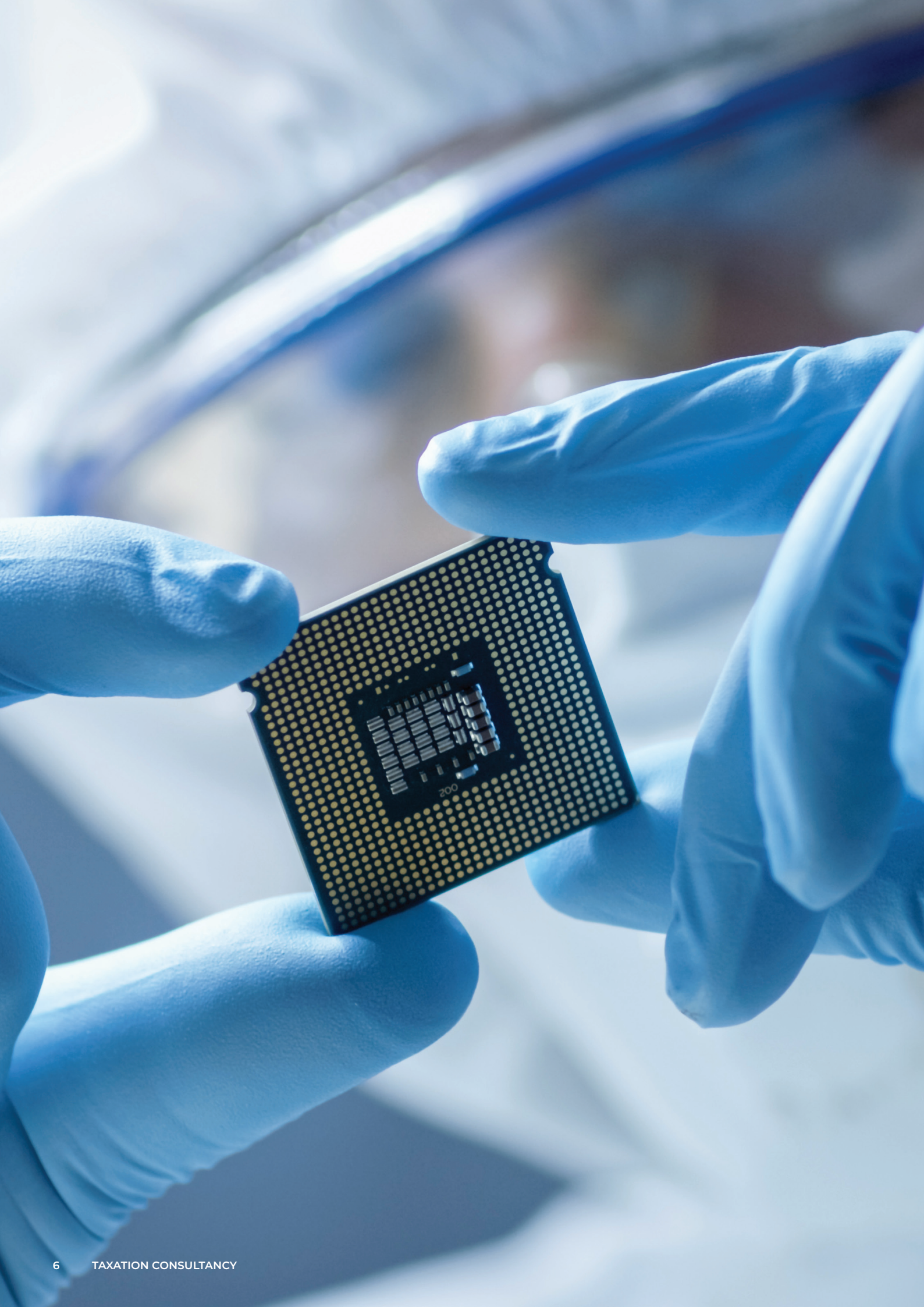
Where an election for repayment is made, the credit will generally be refunded in three instalments. The maximum refund available is generally limited to payroll tax liabilities of the company in the year.

TAKE AWAYS

- R&D tax credits at 25% of qualifying expenditure, in addition to a 12.5% Corporation Tax deduction.
- Qualifying expenditure includes fully loaded wages, subcontractors, direct and overhead costs, and capital expenditures.
- Refundable credit, loss making companies may also get a cash benefit.
- Not just white coats – credit is aimed at problem solving disciplines, seeking an improvement on the norm.
- Software and IT are key areas for R&D claims in Ireland.
- Claim must be made within 12 months of end of accounting period.

NEXT STEPS

If you are engaged in R&D activities and feel that you might have grounds to make a claim, we would be happy to meet with you and discuss such an opportunity.



R&D INTENSIVE INDUSTRIES

From our experience, R&D is much more than white coats in labs. R&D is often found in many companies which face technical challenges on a regular basis.

Based on claims which we have made, we have found that companies engaged in the Moore Stephens – Dublin following industries may be carrying on qualifying R&D:

IT – SOFTWARE & HARDWARE

- Developing algorithm's and writing code
- Identification of database management techniques.
- Installation and compatibility issues between new software and legacy hardware.
- Development of new hardware.

PHARMACEUTICAL & MEDICAL DEVICES

- Development of new drugs and medicines.
- Reverse engineering existing drugs and medicines, for example drugs coming off patent.
- Development of new medical devices.
- Refinement and / or iterative improvement to manufacturing processes.

DESIGN / MANUFACTURING

- Engineering design works.
- Process design and / or re-design in manufacturing facilities.

ENGINEERING

- Development of new materials and products.
- Research and application in to new work practices, tools and processes.

CONSTRUCTION & ARCHITECTURE

- Design and build of bespoke structures.
- Combining the old and new, perhaps old buildings with new technologies.
- Introduction of unique modelling methods.
- Introduction of novel techniques, including modular and pre-fabricated designs.

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