

How to Prepare a Strong R&D Report for Tax Claims | ReaDI-Watch

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A strong R&D report is a critical component of any R&D tax credit claim in Ireland. While the claim itself is submitted through the corporate tax return, the supporting documentation, particularly the technical narrative, plays a key role in demonstrating that activities meet Revenue's definition of qualifying R&D. If you are planning to claim R&D tax credits, it is important to ensure that your R&D report has the strength to meet the requirements as set out in tax legislation.

An R&D report is a document that describes your company's R&D activities in detail, and it is often the primary supporting document for your R&D tax credit claim (as well as your financial calculation spreadsheet).

A good R&D report should provide a clear and concise overview of your R&D project, including the objectives, methodology, and results. It should also explain the scientific or technological uncertainties that your project addressed, and how your project advanced the state of the art in your field.

To create a strong R&D report, it is important to follow best practices and guidance provided by the authorities, such as the HMRC in the UK, Revenue Commissioners in Ireland or the CRA in Canada.

As well as meeting R&D tax credit requirements, a well-written R&D report can also help you to demonstrate the value of your R&D activities to potential investors or partners, and can support your company's overall innovation strategy.

Ireland - R&D Report Guidance

In Ireland, there is currently no requirement to directly file an R&D report with your Corporation Tax return, to claim an R&D tax credit. It is deemed a taxpayer "self-assessment". However, the Irish Revenue Commissioners may undertake a compliance intervention on your R&D tax claim for a number of years after the claim has been filed, where they will enquire about the details of your claim and assess its eligibility. We won't go into too many details about this process here, however, if each R&D project claimed has the following report structure to back it up, you should significantly reduce your risk of the Revenue Commissioners raising the claim to a full audit / risk review.

When to use this report?

This report can be used to respond to any letter from the Revenue Commissioners asking for details about the claim and the projects in question. It will also be used as a reference document, should a further risk review or audit take place. This report should be complemented with contemporaneous evidence / documentation, available in ReaDI-Watch platform.

Report Contents:

Project Administrative Details

When it comes to creating an R&D report, there are a number of administrative details that need to be captured in

order to ensure that the report is comprehensive and accurate. These details include the author of the report, the financial year in which the research was conducted, the contact details of the author or authors, and the title of the report.

The author or authors of the report should be clearly identified at the beginning of the document, along with any relevant affiliations or qualifications they may have. This information is important as it provides context for the research findings and allows readers to understand the perspective from which the report was written.

The financial year and project start/end dates in which the research was conducted is also an important detail to capture, as it helps reviewers to understand whether this project started during the course of the current financial year, or is a continuation project from the past (or into the future).

R&D Tax Eligibility Self-Assessment

It is beneficial to include an early section in your report, to confirm that you have self-assessed your eligibility to claim this R&D tax credit, by explicitly confirming:

- The category of R&D taking place (Basic, Applied Research or Experimental Development)
- The category of R&D (product, production process, mixed, other)
- Field of science / technology

and by confirming

- The outcomes of this project are not readily apparent in the public domain, to this company or to a competent professional working in the field
- The findings of this project will be transferable
- The findings of this project will be reproducible

The company have therefore concluded that this project is R&D Tax eligible to be claimed under the Irish R&D Tax Credit scheme.

Irish Tax Legislation reference - Section 766(1)(a) TCA 1997 – in the definition of “research and development activities”.

Qualifying R&D activities must satisfy all of the following conditions:

They must be:

Systematic, investigative or experimental activities, in a field of science or technology, encompassing one or more of the following categories of R&D:

- a. Basic research,
- b. Applied research,
- c. Experimental development.

In addition, they must seek to achieve scientific or technological advancement, and involve the resolution of scientific or technological uncertainty.

R&D Project Financial Summary

While your R&D report should be complemented with a detailed financial breakdown (usually in spreadsheet format), it is often useful to include a short section with a high-level overview of the expenditure incurred on the

project, including:

- Total expenditure in claim period (financial year)
- Categories of expenditure incurred (and totals against each)
- Deduction of R&D tax claim amount due to receipt of grant funding
- Estimated R&D tax claim value.

R&D Project Team & Location

When writing your R&D report, it is important to provide an overview of your project team members, including any third-party individuals involved. It is very useful to add the qualifications, skillsets or experience that each team member brings to the table.

Additionally, it is important to include the location of the R&D activities. This information can help prove that the R&D work was eligible under Irish R&D tax legislation.

Finally, it is crucial to detail the methodology used to capture how much time the team spent on the project. This may include timesheets, apportionment, or another method. Providing this information can help reviewers understand how each team member's contributions were measured and how the workload was distributed, and to ensure that the time was spent on “qualifying R&D activities”.

R&D Project Scientific/Technological Objectives & Background

At this stage, the report starts to focus on the merit of the project as qualifying research & experimental development. The following aspects should be included in this section of the report.

- The R&D project Scientific/Technological Objectives (not to be confused with commercial goals)
- The commercial goals of the project and the market impact / opportunity for the business
- The background to the project, including the history of why the project arose in the business
- What the company is trying to achieve in the project
- Why achieving this (these) target(s) is challenging
- Broadly, the type of activities that took place in the project
- The key unknowns at the outset of the project (Note, these are not to be confused with the scientific/technological uncertainties outlined below)
- The knowledge gaps in the company to achieve the goals as set out
- Any limitations to capturing R&D evidence, supporting documentation, timesheets or other materials in the project
- Third party or external work that was carried out to achieve the project outcome

R&D Project Scientific/Technological Uncertainties, Advancements and State of the Art Review

This part of the report is what catches a significant amount of companies out. By international and Irish R&D tax legislation, your R&D project must:

- Involve the resolution of scientific/technological uncertainty
- Seek to achieve scientific/technological advancement
- Advance the overall knowledge base (not just the company's know-how) in the field of science / technology.

In this section of the report, clearly specified scientific / technological Advancements, scientific/technological Uncertainties must be articulated. In addition, in order to prove that the advance in overall knowledge sought was world-wide (not just in the company), we propose that claimants include a State of the Art section in their report.

The concepts of advancement, uncertainty and state of the art are not covered in this guidance document, but we propose to include the State of the Art, Advancements and Uncertainties together in the report.

Important note: If your project spans multiple financial years, the specified advancements and uncertainties must be relevant and sought to be achieved/resolved for the specific financial year being claimed!

R&D Project Plan & Overview Work Undertaken to Date:

In Ireland, the only qualifying R&D work that can be claimed for R&D tax credits is specified as the “Carrying on” of R&D. This is quite a tight definition as it does not include, for example:

- undertaking a state of the art review
- travelling or administrative work
- management related work
- routine work (non R&D)

Therefore, in this section of the report, we want to establish certain clear aspects:

1. Outline the project plan. How does this particular financial year fit into the project plan? What are the key dates involved, and what is the sequence of R&D activities that have taken place?
2. Key Milestones/Deliverables - what are the key milestones/deliverables sought to be met during the course of the financial year? What remains unmet at the end of the year? What was already achieved at the start of the year?
3. What work packages / work programme took place?
4. Provide some examples of the investigative / experimental work done - such as an extract from a trial sheet, a test result and investigative interpretation of results by the team
5. What man-hours / staff resources went in to each work package? What were the start / end dates of the work packages?

Recommended format from ReaDI-Watch to outline work packages in project for year:

- Work Package Title
- Start Date / End Date
- Work Package Description (high level)
- Key Progress Updates / Work Package progression over the course of the year (sequence of R&D activities)
- Which Advancements and Uncertainties were sought to be achieved / resolved in this work package?
- What investigations / experiments / trials / tests took place in this work package? Provide a list.
- Provide an extract / example of an investigation / trial / test & analysis evidence as part of this work package (or multiple examples)
- Provide a measure of what staff were involved, to what extent (hours, man-months, etc.)

R&D Project Conclusions & New Knowledge Gained:

Conclude on the R&D project for the financial year in question.

- What remains to be achieved, or is the project completed?
- Were the uncertainties resolved? Which? Partially or fully?
- Were the advancement achieved? Which? Partially or fully?
- What new knowledge and IP was gained (even if no formal IP, patents etc.)

