

# Ireland - R&D Tax Credits

13/03/2024 12:53 pm GMT

R&D and Innovation (RD&I) needs to accelerate in today's world. Climate constraints, social shortfalls, sustainable practices and the rise of "digital" are unprecedented changes and challenges that business are facing today, that require design-thinking, problem-solving, collaboration and strong leadership to overcome.

## Government Support for Innovation

In years to come, trillions will be invested by governments across the globe to stimulate businesses innovating in their products, processes, technology, organisational structures and business models. By our calculations in ReaDI-Watch, some 80,000 companies across Ireland, UK, Canada & the USA are investing over \$450 billion per annum into RD&I, supported by over \$30 billion in R&D Tax relief, billions in RD&I grant funding and growing at a Compound Annual Growth Rate (CAGR) of 10% each year.

This huge, unprecedented volume of RD&I investment needs to be directed and managed in industry, in order to meet these demanding and essential changes. As a financial stakeholder in your company, you need to ensure that your team, your organisation, is given the best chance possible to be innovating, evolving and disrupting norms. This can be achieved by establishing a lean & well-structured RD&I function in your business.

## R&D and Innovation shouldn't be managed Retrospectively

Even if managed on a part-time basis, a real-time RD&I function is key to establishing your company's RD&I direction, which is then used to inform and implement the company's commercial objectives. Having a streamlined RD&I function and process enables a company to develop a culture and capability to innovate.

It helps with traceability, avoidance of loss of knowledge and duplication of work and improves a company's position for claiming R&D tax credits, drawing down RD&I grant funding and offers potential to use the Knowledge Development Box mechanism.

In this short article, we will offer some introductory insights about directing and managing RD&I investments, winning RD&I supports and ensuring your company is given the best chance possible to sustain its competitive advantage.

## How to prepare and submit an R&D Tax Credit Claim

The Irish government provides many supports to Irish SMEs to encourage economic growth, job growth and export development. One of these supports is the R&D Tax Credit. Companies investing in R&D activities may qualify for tax incentives under the R&D Tax Credit Scheme and the Knowledge Development Box which are managed by revenue. Full details of the R&D Tax Credit scheme can be found here:

<https://www.revenue.ie/en/companies-and-charities/reliefs-and-exemptions/research-and-development-rd-tax-credit/index.aspx>

A company may qualify for the R&D Tax Credit if:

- It is within the charge of Corporation Tax in Ireland.
- It carries out qualifying R&D activities in Ireland or the European Economic Area (EEA).

- expenditure does not qualify for a tax deduction in another country.

## What does it mean for a company in financial terms?

Qualifying R&D expenditure will generate a 25%\* tax credit for offset against corporate taxes in addition to a tax deduction at 12.5%. This means that companies undertaking qualifying R&D can claim a refund from the Revenue of €37.50\* for every €100 worth of R&D expenditure. This is hugely valuable for companies who often use this credit to fund future R&D investment.

\*Note: this has been increased to 30% for expenditures incurred after 1st Jan 2024.

### What are qualifying R&D activities?

To qualify for the R&D Tax Credit, a company's research and development activities must:

- Involve systemic, investigative or experimental activities.
- Be in the field of science or technology.
- Involve one or more of these categories of R&D:
  - basic research
  - applied research
  - experimental development
- Seek to make scientific or technological advancement.
- Involve the resolution of scientific or technological uncertainty.

We will go through each of the above areas in turn but let us first start with some definitions.

## What is R&D?

Research and development comprises creative and systematic work undertaken in order to increase the stock of knowledge of humankind, culture and society and to devise new applications of available knowledge (OECD Frascati Manual, 2015).

## What is Experimental Development?

Experimental Development is systematic work, drawing on knowledge gained from research and practical experience producing additional knowledge, which is directed to producing new products and processes or to improving existing products and processes (OECD Frascati Manual, 2015).

## Software Sector

The software sector has a specific section in the Revenue guidelines (Page 20 and 21) in the link above. For software engineering teams it can be challenging to articulate the technology developed as "qualifying R&D" and distinguish it from the various feature requests, bugs and user stories and other activities that take place. The guidelines state that Software developments using known methodologies in standard development environments using the standard features and functions of existing tools would not typically advance technology and would not address or resolve technological uncertainty. Undertaking routine analysis, copying, upgrading or adaptation of an existing product, process, service or material would not be considered to be R&D activities. Therefore, much software

development does not qualify as R&D activity.

Qualifying activity pertaining to software can include

- Development of mathematical models or algorithms to achieve a desired functionality goal(s).
- Translating such models or algorithms into code and ensuring that the desired goal(s) can be achieved.
- Ensuring that the application/process/tool developed will continue to function in different scale environments.
- Ensuring that the application/process/tool developed will function across a range of Platforms.
- Ensuring that the application/process/tool developed will integrate as intended with other applications/systems.

So, to recap with the definitions in mind, to qualify for the R&D tax credit, a company's R&D activities must encompass each of the 5 areas in the Figure below.



Fig. 1 The "Science Test" Requirements