

Overturning a Qualifying R&D Rejection using ReaDI-Watch

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As an SME embracing technological innovation, navigating the complexities of R&D tax credits can be a challenging endeavor.

This case study explores how an Irish firmware company, renowned for its expertise in high-performance computing and embedded systems, successfully overturned a significant rejection of its R&D tax credit claim.

By collaborating with ReaDI-Watch and partnering with an experienced accounting firm, the company was able to leverage ReaDI-Watch's advanced AI-assisted tools to systematically document and present its qualifying R&D activities. This resulted in the successful turnaround of all relevant projects - with full acceptance of "qualifying R&D" - in just five weeks!

Background - a "Rejected" R&D Tax Claim?

The company at the center of this case study is a leader in the development of high-performance computing solutions, specializing in embedded systems and software for a wide array of industry applications, based in Ireland.

Over decades, the company has built a reputation for innovation and technical prowess, collaborating with global giants in the tech industry to push the boundaries of server and firmware capabilities.

Firmware, also known as “software for hardware,” is program code embedded in hardware devices that enables them and their features to function properly. Firmware is regularly updated to fix common problems, add or expand features or increase a device's compatibility with new technologies.

Many devices rely on firmware to function, including TVs, cameras, mobile phones, printers, drives and more. Firmware is located in a device’s nonvolatile memory, where content can be stored when a device is off. Firmware can be written to different memory types including, random access memory (RAM), read-only memory (ROM), erasable programmable read-only memory (EPROM) and flash memory. - [Mesh Flinders, Author, IBM Think](#)

Research and Development (R&D) tax credits represent a crucial financial incentive aimed at fostering innovation by offsetting some of the costs associated with R&D activities. For tech companies, these credits can significantly affect cash flow and investment capacity. To qualify for these credits, firms must satisfy specific criteria, demonstrating that their activities not only advance scientific or technological knowledge but also seek to resolve uncertainties.

It is the requirement of the claimant to clearly outline how the activities in the claim periods are

qualifying under all of the following criteria outlines by Revenue:

1. be systematic, investigative or experimental activities;
2. be in a field of science or technology;
3. involve one or more of the following categories of R&D - a. basic research, b. applied research, or c. experimental development.

In addition, they must:

4. seek to achieve scientific or technological advancement; and
5. involve the resolution of scientific or technological uncertainty.

It is the claimants responsibility to clearly demonstrate compliance with all above criteria through contemporaneous documentation. - Excerpt from Expert Auditors R&D Report

In this case, the company faced an audit challenge when a significant portion of its R&D tax credit claim was initially rejected by auditors. The rejection highlighted gaps in the documentation and reporting of R&D objectives, systematic R&D work done, and scientific/technological advancements technological uncertainties. This setback underscored the need for a more considered approach to R&D reporting and compliance, especially for a firm of this nature, operating at the cutting edge of technology.

The Urgent Challenge

The initial rejection of the R&D tax credit claim by the auditor posed a significant hurdle for the company. Out of the five high-value projects submitted for the claim, four were initially deemed ineligible, threatening a substantial financial setback. The primary issues stemmed from insufficient project documentation that failed to clearly demonstrate compliance with the stringent criteria set by the tax authorities.

The auditors flagged several key deficiencies: a lack of a consolidated project lifecycle documentation, unclear articulation of project objectives, and insufficient evidence of technological advancements and uncertainties addressed during the development process. These gaps made it difficult for the auditors to ascertain whether the R&D activities qualified under the outlined criteria, which include systematic investigative or experimental activities aimed at achieving technological advancement and resolving scientific or technological uncertainties.

Faced with this challenge, the company realized the need for a more robust and structured approach to documenting and reporting its R&D efforts. The task was compounded by the complexity and cutting-edge nature of the projects, which often involved working with pre-release technologies from major industry players. It became evident that merely having technical expertise and innovative prowess was not enough; the company also needed to present its R&D processes in line with regulatory requirements to secure the much-needed tax credits.

The company only had a 6-week window to achieve the above, due to the tight deadlines set for audits/appeals.

Identified Solution

In response to the pressing need for a comprehensive and robust R&D reporting framework, the company partnered with [ReaDI-Watch](#) and an experienced, reputable accounting firm. This collaboration aimed to address the deficiencies identified in the initial audit and successfully overturn the rejection of the R&D tax credit claim.

ReaDI-Watch deployed two of its deeply specialist R&D team members, backed by its cutting-edge AI-assisted platform to implement an interview-based approach to R&D reporting.

The process implemented by the ReaDI-Watch team was designed to urgently:

1. Interview the leaders in the company about each R&D project in detail;
2. Upload all contemporaneous sources of documentation (incl. initial R&D reports, timesheets, test records, emails, development files), and;

3. Assess the basis for the R&D tax credit rejection by the auditor.

This process was implemented in order to:

1. Re-generate four highly comprehensive R&D reports for resubmission within the 5-week window;
2. Connect the contemporaneous evidence into a cohesive, detailed story about the R&D journey of the company, and;
3. Address identified weaknesses by the auditor and the company across all R&D reports & associated evidence packs.

Implementation - Key Areas of Focus

The company and ReaDI-Watch undertook a methodical approach to fundamentally revamp its framing of R&D . Over the span of five weeks, the focus was on ensuring that all projects clearly met the requirements for R&D tax credits, despite the challenges inherent in their initial framing and the dynamic nature of agile development.

Reframing R&D Projects:

A key challenge was shifting the perception of R&D activities from customer-oriented projects to core technological development initiatives. The initial framing often focused too heavily on immediate customer outcomes, such as project delivery timelines and end-user functionality. ReaDI-Watch worked closely with the company to reframe these projects, emphasizing the underlying technological discoveries, innovations, and intellectual property development.

Structuring Data Collection:

Using its interview-based framework, ReaDI-Watch conducted thorough sessions with key project members to capture detailed narratives around each R&D project. This approach helped bridge the evidence gaps often found in an agile development environment, where project documentation can be sparse or decentralized.

Emphasizing Scientific/Technological Discovery:

Another challenge was highlighting the core technological discoveries beyond just customer successes or failures. ReaDI-Watch facilitated discussions focused on identifying and documenting the technological advancements and new knowledge gained, rather than the end-user outcomes alone.

For this firmware company, traditionally known for delivering tailored solutions to a prestigious global clientele, the R&D program gains added value when viewed through the lens of core technology advancement rather than just customer project delivery. By focusing on core technologies like high-speed digital design, BIOS/BMC firmware, and complex system integration, the company's R&D efforts extend beyond specific customer outcomes to contribute to the broader field of technological innovation.

Each customer project, while tailored to specific outcomes, also functions as a prototype that advances the company's core technological capabilities. For instance, projects underpinned by systems engineering principles align with ISO/IEC/IEEE 15288 standards, ensuring methodical integration and management of complex systems. This structured and interdisciplinary approach allows the company not just to meet client specifications but to enhance its own technological framework, often resulting in new knowledge and intellectual property.

Instead of merely focusing on whether individual customer objectives—such as performance improvements or specific feature integrations—were met, the company's R&D teams concentrate on the technological uncertainties resolved and the innovations achieved across all projects. This shift in focus drives a systemic exploration of new frontiers in hardware architecture and software development, propelling both customer satisfaction and scientific advancement.

By documenting these processes rigorously, capturing insights across iterative cycles of development, testing, and refinement, the company not only meets immediate client expectations but also enriches its core technological portfolio. This strategic blend of customer engagement and core technology focus enhances the company's competitive position and establishes a strong foundation for future innovation. - [Prof. Gerry Byrne, Chief Scientific Officer, ReaDI-Watch](#)

Identifying R&D in an Agile Development Environment:

The implementation also tackled the complexity of framing R&D in an agile setting, where iterative, sprint-based development can often obscure structured or logical reporting. By leveraging advanced data capture & evidence analysis, ReaDI-Watch ensured that insights were framed throughout the project lifecycle, showcasing iterative learnings and technological uncertainties addressed along the way.

In an agile development environment, where projects are typically organized in short sprints with a focus on immediate deliverables, the reframing of R&D activities around core technological advancements offers a practical advantage in evidence collection and reporting. This strategic shift emphasizes the broader scientific and technological contributions of projects, rather than just sprint-specific outcomes.

Traditionally, agile reports prioritize short-term deliverables and may overlook the cumulative technological progress made across multiple sprints. By concentrating on core technologies, the company can systematically document R&D activities that contribute to significant advancements, enabling a more comprehensive collection of evidence. This holistic approach aligns individual sprints with overarching technology goals, ensuring continuity and coherence across the entire development process.

Through this reframing, the company establishes a robust framework for documenting technological uncertainties addressed, innovations achieved, and knowledge gained during each sprint. This includes maintaining detailed records of experiments, testing protocols, and technical challenges resolved, which are critical for substantiating R&D efforts for audits or tax credit claims.

In practice, this means that instead of isolated sprint reports, teams maintain continuous documentation of core technological elements such as system architecture changes, firmware updates, and integration techniques. This documentation is systematically linked to the company's core R&D objectives, providing a clear narrative of technological progress over time. - [Dr. James Ryle, RD&I Expert, ReaDI-Watch Innovation Labs](#)

Outcome

The strategic intervention by ReaDI-Watch and the partnering accounting firm resulted in a complete turnaround of the initial audit outcome. By adopting an advanced platform-assisted approach to R&D reporting, the company successfully overturned the auditor's rejection for all projects initially questioned. The meticulous re-documentation and strategic framing of the R&D activities allowed the auditing body to recognize the inherent innovation and technological advancement within each project.

The success of this audit resolution had a significant positive impact on the company's financial and operational health. Securing the R&D tax credits provided a substantial boost in cash flow, enabling the company to reinvest in further innovation and development efforts. Operationally, the enhanced documentation and reporting practices

paved the way for more robust project management and oversight, fostering a culture of transparency and accountability.

Key Learnings for other Companies

Real-Time Data Capture and Structured Reporting:

The case shows the critical advantage of using real-time data capture and structured reporting in R&D management. This approach not only ensures compliance with regulatory standards but also enhances the accuracy and relevance of the data collected, making it easier to demonstrate the qualifying criteria of projects in real time. If you do this in real-time, you save yourself from these types of audit situations, which are very time consuming and risky.

Forming a Strong, Specialist Team:

The collaboration between technology solutions like ReaDI-Watch and professional expertise from the accounting firm was instrumental in this case. This synergy highlights the importance of combining advanced technological tools with expert human judgment to thoroughly address complex auditing requirements. Such strategic partnerships can significantly enhance a company's ability to navigate regulatory challenges and secure financial benefits.

Core Technological Advancements vs Customer-Focused Outcomes:

One of the crucial lessons from this case is the importance of distinguishing between core technological advancements and customer-specific project outcomes. While customer deliverables often drive immediate business goals, it's essential for businesses to emphasize the underlying technological innovations and intellectual property developments in their R&D reports. This perspective not only enhances the potential for qualifying activities under R&D tax credit schemes but also strengthens the company's long-term innovation capabilities and competitive edge. By clearly articulating the scientific advancements and technological uncertainties resolved, businesses can effectively showcase the value and impact of their R&D efforts beyond immediate project deliverables. This balanced approach not only aids in securing financial incentives but also aligns with strategic growth and innovation goals.

What can I do with this Knowledge?

In light of the insights from this case study, consider how your organization can enhance its R&D processes and reporting. Ask yourself:

Are we effectively documenting our core technological advancements?

Evaluate how your team currently reports its R&D activities. Look beyond project deliverables to identify and document the underlying technological innovations and developmental strides.

Could we benefit from real-time data capture and structured reporting?

Explore technologies and platforms that facilitate real-time insights into your projects. By adopting tools that streamline documentation and reporting, you can ensure compliance, reduce audit risks, and maximize financial benefits such as R&D tax credits. Check out [ReaDI-Watch!](#)

Do we have the right partnerships in place?

Consider forming or strengthening strategic collaborations with technology experts and accounting professionals who can provide the expertise needed to navigate complex regulatory landscapes.

Take proactive steps today to transform your R&D management approach!
