

R|B|K

RDP

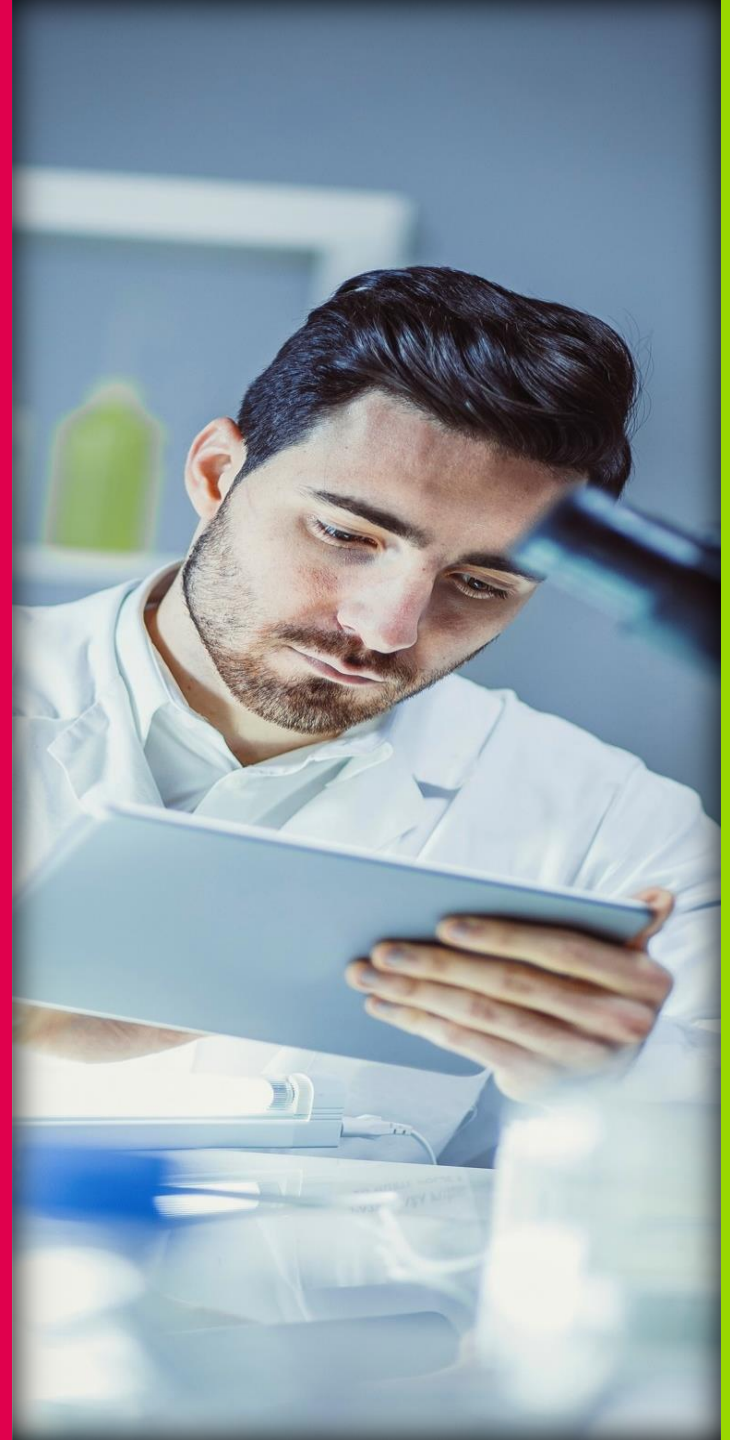
Research & Development Tax Credit

25 March 2021

FIONA MURPHY

TAX PARTNER

We're by your side



Number of Companies Claiming R&D Tax Credits

| Year | Exchequer cost € ('000) | Number of companies |
|------|----------------------------|------------------------|
| 2005 | 65 | 135 |
| 2006 | 75 | 141 |
| 2007 | 166 | 479 |
| 2008 | 146 | 582 |
| 2014 | 553 | 1,570 |
| 2015 | 708 | 1,535 |
| 2016 | 670 | 1,506 |
| 2017 | 448 | 1,505 |
| 2018 | 355 | 1,303 |

Industries Claiming R&D - 2018

| Industry (NACE code) | Number of Companies | % of Overall |
|---|---------------------|-------------------|
| Manufacturing | 410 | 31.4% |
| Information & Communication | 441 | 33.8% |
| Wholesale & Retail | 125 | 9.5% |
| Professional, Scientific & Technical Activities | 189 | 14.5% |
| Other | <u>138</u> | <u>10.6%</u> |
| Total | <u>1,303</u> | <u>100</u> |

R&D Credit 2018 Statistics

| Value of the credit € | Number of claimants | % of total claimants |
|--------------------------|------------------------|-------------------------|
| 1- 10,000 | 235 | 18.03 |
| 10,001- 100,000 | 668 | 51.26 |

| Number of employees | Number of claimants | % of total claimants |
|------------------------|------------------------|-------------------------|
| <10 | 409 | 31.38 |
| 11-49 | 443 | 33.99 |

> In 2018 the value of the R&D tax credit amounted to between €1 and €100,000 for 69.29% of claimants

> In 2018 65.37% of R&D claims were made by companies with less than 50 employees

Overview of the Irish R&D Regime

- > **A company may qualify for the R&D tax credit if:**
 - It is within the charge to corporation tax in Ireland
 - It carries out “qualifying” R&D activities in Ireland or in the EEA
 - The expenditure does not qualify for a tax deduction in another country

- > **To avail of the R&D tax credit the company must be in a position to demonstrate that it can satisfy two essential tests:**
 - 1. “The Science Test”**

This is to ensure the activities under review are consistent with the statutory definitions of R&D activities

 - 2. “The Accounting Test”**

This is to ensure that the expenditure claimed has been incurred on qualifying R&D activities

Tax Benefit

- > Relief is calculated at 25% of the qualifying expenditure. When allied with the corporation tax deduction for the R&D expenditure this is an effective relief of 37.5%
- > The credit is initially used to reduce the liability to corporation tax for the accounting period in which it is incurred
- > Where a company has insufficient corporation tax against which to claim the credit in a given accounting period, the credit can be
 - carried back against the corporation tax for the preceding period,
 - carried forward indefinitely or
 - if the company is part of a group, allocated to other group members.
- > Can also be claimed by the company as a payable credit

Payable Credit

- > Any excess credit can be used to secure a cash refund over 3 years
- > The cash refund is linked to the amount of corporation tax over the last 10 years or the company's payroll liability for the current year and the preceding year
- > Payable credits are claimed on the corporation tax return CT1

Payable Credit - Example

ABC Ltd incurred qualifying R&D expenditure of €500,000 in the year ended 31 December 2020

The company's corporation tax liabilities before the R&D credits for various periods is:

- Y/E 31 December 2019 €30,000
- Y/E 31 December 2020 €20,000
- Y/E 31 December 2021 €15,000
- Y/E 31 December 2022 €12,000

Payable Credit - Example

The credit is due as follows:

- Qualifying expenditure €500,000
- R&D credit due (25%) €125,000

| | 2019 | 2020 | 2021 | 2022 |
|---|------------------------|------------------------|------------------------|------------------------|
| CT liability before credit | €30,000 | €20,000 | €15,000 | €12,000 |
| Credit | (€30,000) ² | (€20,000) ¹ | (€15,000) ⁴ | (€12,000) ⁶ |
| Payable credit | | (€24,750) ³ | (€17,625) ⁵ | (€5,625) ⁷ |
| Liability/(Refund) due | (€30,000) | (€24,750) | (€17,625) | (€5,625) |
| Refund Due Date (not earlier than) | 23 Sept 2020 | 23 Sept 2020 | 23 Sept 2021 | 23 Sept 2022 |

Payable Credit - Example

1. The credit is first used to reduce the CT liability for the year ended 31 December 2020
2. The CT liability for the year ended 31 December 2019 is reduced to zero – refund of CT
3. 33% of the excess is available as a payable credit for the year ended 31 December 2020 i.e. the company will receive a refund of this amount.
 1. $(€125,000 - €20,000 - €30,000) \times 33\% = €24,750$
 2. Unutilised credit carried forward
4. The CT liability for the year ended 31 December 2021 is reduced to zero
5. 50% of the excess is available as a repayable credit
$$(€75,000 - €24,750 - €15,000) \times 50\% = €17,625$$
6. The liability for the year ended 31 December 2022 is reduced to zero
7. The remainder is available as a refundable credit
$$€35,250 - €17,625 - €12,000 = €5,625$$

Compliance

- > All claims for the R&D credit must be made within 12 months from the end of the accounting period in which it is incurred (with the exception of expenditure on buildings and structures). This is strictly enforced!

- > Proper records must be maintained by the companies claiming R&D credit and must be available for inspection by Revenue officials.

Finance Act 2019 - Amendments

> Recent Changes - Finance Act 2019 and updates to R&D tax credit guidelines

- A company which outsources to third parties must now notify in advance of, or on the day of, payment, if that company intends to make a claim for the R&D tax credit – effective for accounting period commencing on and after 22nd December 2019.
- Further restriction on qualifying costs e.g. rent expense

Finance Act 2019 - Amendments

> The Act included additional supports for micro and small companies who undertake R&D activities – subject to Ministerial Order.

> **Defined as a company with less than 50 employees and annual turnover of less than €10m pa/or balance sheet total of less than €10m**

- an increase in the R&D tax credit from 25% to 30%
- the addition of an enhanced method to calculate the payable element of the R&D tax credit, based on twice the current year payroll
- Pre-trading R&D expenditure may qualify for an R&D tax credit, which is limited to offsets or repayments calculated by reference to the payroll tax and VAT liabilities

Grant Funding

ENTERPRISE IRELAND

| Grant type | Summary | Value |
|-----------------------------------|---|---|
| Innovation Vouchers | SMEs to explore a business opportunity | Up to €5,000 |
| Exploring Innovation Grant | Determine feasibility of a project | 50% of eligible expenditure; capped at max grant of €35k |
| Agile Innovation fund | Development of new/improved processes, products, services | Up to 50% funding; grant request <€150k (total project cost < €300k) |
| R&D fund | Development of new/improved processes, products, services | Up to 50% funding; grant request > €150k (total project cost > €300k) |

IDA

| Grant type | Summary | Value |
|------------------------------------|---|---|
| Innovation Vouchers | SMEs to explore a business opportunity | Up to €5,000 |
| RDI Feasibility Study Grant | Investigate the feasibility of developing a new product, process, technology or service | 50% of eligible expenditure; capped at max grant of €250k |
| RDI Grant Aid | For companies that are planning an expansion of their existing R&D activity in Ireland | % of the overall eligible costs on a case by case basis |

Grant Funding

EU Horizon 2020 (H2020)

| Grant type | Summary | Value |
|---|--|--|
| Concept and Feasibility (Phase 1) | Exploring and assessing the technical feasibility and commercial potential of a breakthrough innovation in your industry | €50K per project (70% of the notional eligible costs) |
| Innovation Project (Phase 2) | Innovation projects underpinned by a strategic business plan and feasibility assessment (which can be – but need not be – developed through a phase 1 project). | In the order of €500k to €2.5m (based on % of eligible costs) |

Key Takeaways



Key Tips – Preparation is Key

- Very specific definitions of what is “qualifying” R&D – this is not an accounting test but a technical science/engineering test. Need to involve the right people

- The R&D activity need not be successful to qualify – “Try again. Fail again. Fail Better”

- We know the questions that Revenue will ask in advance - therefore key preparation is to produce a report that address all of the standard queries in advance.

- Problems with Revenue tend to arise where inadequate time has been spent on the preparation of the claim i.e. avoid back of the envelope claims! You wouldn't build a house without digging foundations so be mindful of making an R&D claim without doing the ground work!

Key Tips – Preparation is Key

- Entitlement to R&D tax credits are not the preserve of large multi-nationals. SMEs can claim and the FA 2019 provisions will enhance the benefit of the regime for SMEs
- Once you understand what qualifies, systems can be set up to “capture costs” and projects on a current basis rather than “back-filling” after the event
- Be mindful of the restrictions on outsourcing and the interaction with grant funding
- Watch the 12 month claim period - very tight and strictly enforced




Thank you

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Disclaimer

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R&D Tax Credits

What Qualifies in Ireland

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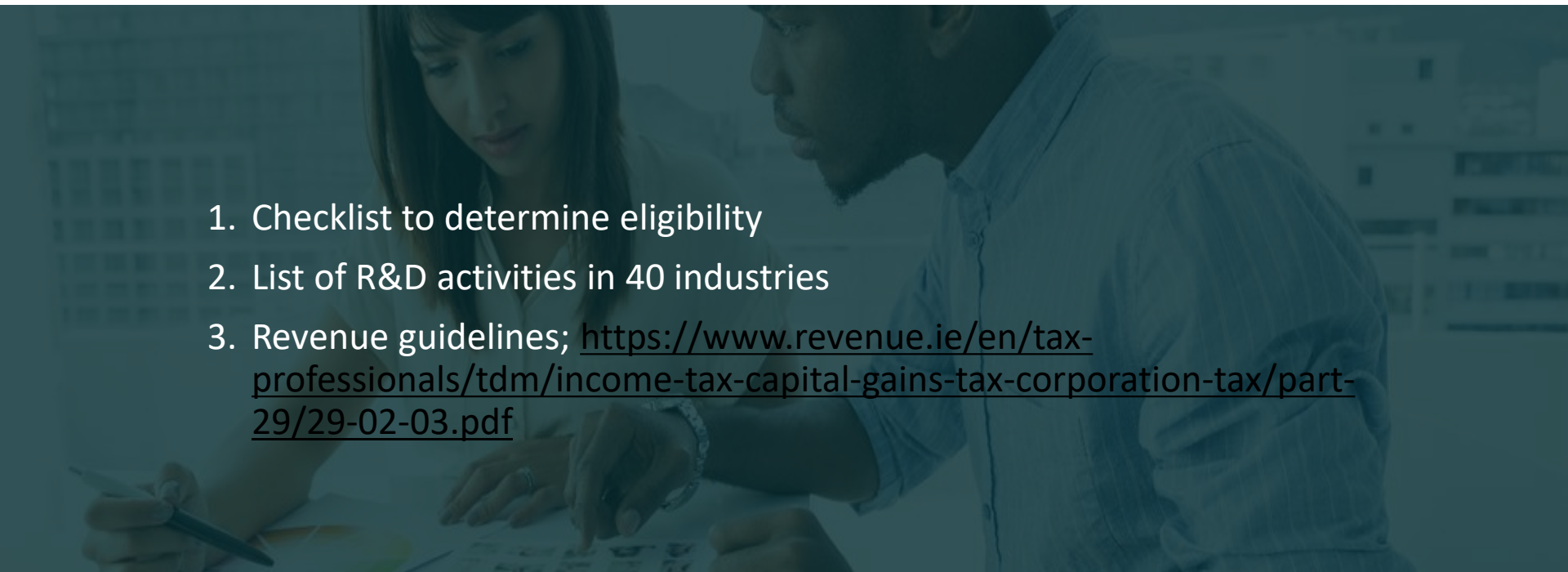
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RESOURCES

- 
- A woman and a man are looking at a document together. The woman is on the left, holding a pen, and the man is on the right, pointing at the document. They are both looking down at the document with interest.
1. Checklist to determine eligibility
 2. List of R&D activities in 40 industries
 3. Revenue guidelines; <https://www.revenue.ie/en/tax-professionals/tdm/income-tax-capital-gains-tax-corporation-tax/part-29/29-02-03.pdf>

R&D Tax Credit Claims: Ranked by Industry



1. Tech Based
2. Engineering
3. Manufacturing
4. Architecture / Construction
5. Breweries & Wineries
6. Food Sciences
7. Consumer Packaging
8. Pharmaceuticals
9. Plastics
10. Digital Media
11. Energy
12. Oil & Gas

OVERLOOKED INDUSTRIES



**Architects &
Construction**



**Retail &
Wholesale,
Dental Labs**



**Insurance &
Marketing Firms,
Publishing
Companies**

Ask yourself RDP's 6 P's

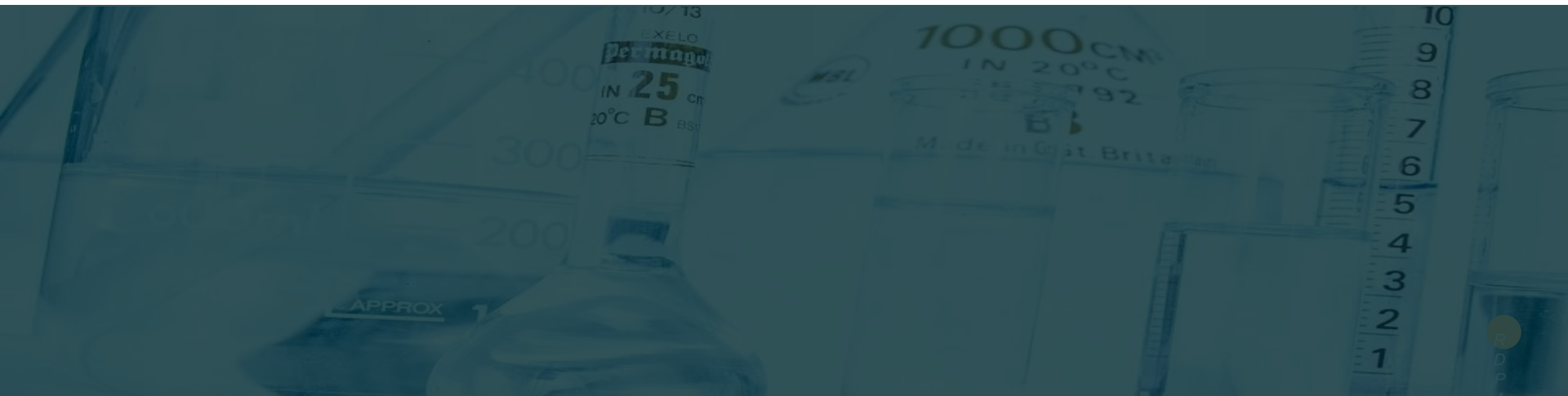
Are you:

- Developing a new **Product**?
- Improving and Developing your **Process**?
- Applying for a **Patent**?
- Employing **Professionals**?
- Developing **Prototypes**?
- Solving Technical **Problems**?

CHECKLIST

- The six “P”S; product, process, patent, professionals, problems and prototypes
- Watch out for costs incurred outside of Ireland
- Financial statements might not always provide an indicator

Science Test



WHAT IS AN R&D PROJECT?

THREE TECHNICAL CRITERIA TO BE MET



Scientific or
Technological
Advancement



Scientific or
Technological
Uncertainty Met



Systematic
Investigation
Undertaken

TECHNOLOGICAL UNCERTAINTY

Separate routine from nonroutine development:

- *R&D tax credit activities start when routine development doesn't work, and you are forced to develop an unconventional method.*

- *What are the technical barriers to overcome?*
- *Did you have to:*
 - **Design?**
 - **Build?**
 - **Test?**
 - **Redesign?**
 - **Reiterate?**
- *The more problems the better*

Examples of Eligible R&D: Technology



Fintech

Developing software platform that will allow consumers to find the best mortgage rates



E-

Health
Utilizing new technologies to create a predictive framework that empowers users to prioritize their health regimen.



A.I / ML

Developing new machine learning techniques to overcome limitations in the state of the art with respect to particular data characteristics



Other Projects

Developing new underlying technologies to support the development of an app, such as new ways of obtaining or processing data

Examples of Eligible R&D: Engineering



Advancing the state of the art in engineering practices for HVAC system development to improve efficiency.



Advancing the state of the art in materials engineering to develop novel material composites to achieve greater strength at a lighter weight



Development of new modelling techniques to improve the accuracy of stormwater simulations with more intense storm events

Examples of Eligible R&D: Manufacturing



Development of a custom welding station to improve productivity and throughput



Development of improved production processes & equipment for insulated glass to reduce defects and material waste



Development of techniques and equipment for improved production throughput and quality of storage, process or pressure vessels

Examples of Eligible R&D: Architecture / Construction



Developing advanced strategies to aid in preservation & restructuring of historical buildings.

Novel integrations of technologies for passive ventilation, passive heating/cooling and energy efficiency under new types of site or construction constraints.

Other Projects

- Development of strategies for incorporating advanced materials into buildings
- Development of advanced modelling strategies for evaluating design efficacy prior to construction

Areas of R&D Tax Credits

Construction

- Prototyping doors, roofs, walls, etc. with innovative designs
- Structural / mechanical engineering attempting to resolve unique architectural challenges
- Smart building / LEED suppliers developing new products and control strategies
- Civil engineers testing new materials or techniques prior to full scale implementation
- Automation integration into building processes
- Mechatronics, robotics,
- Site equipment development (enhance capabilities, new functionality, etc.)

Areas of R&D Tax Credits

Construction

- Ground and site surveying equipment or automation
- Biotechnology for ground and surface water treatment
- Laboratory testing for earthquake, wind, environmental performance, fire, hydraulic, etc.
- BIM integration
- New energy source integrations (gasification, fuel cells, solar, batteries, etc.)
- New primary material testing (new metals, plastics, ceramics, electronics, etc.) for strength, UV, low VOC, etc.
- In-door air quality or Sound insulation
- Modularization

Examples of Eligible R&D:

Breweries & Wineries



Development of new or improved fermentation processes

Development of improved strains of grapes

Testing of product ingredient mixtures for desired flavor or aroma profiles

Other Projects

- Evaluation and development of soil and rootstock improvement processes
- Development of new or improved bottle, bottle crown or can designs
- Development of new or improved preservative chemicals

Examples of Eligible R&D: Food Sciences



Developing new formulations, production process specifications and techniques to produce new food products, including mixing times, batching sequences, and cooking temperatures and durations (where adaptation of existing practices is non-trivial)

Other Projects

- Techniques for replacing standard ingredients with alternatives (e.g. natural flavours, vegan ingredients, etc.)
- New techniques for formulating and producing new/novel products

Examples of Eligible R&D:

Agricultural Sciences



Developing alternative methods and equipment for no-till farming to improve productivity

Studying the effects of increasing the amount of certain fats in the feed of livestock on yielding desired levels of lean meat to fat ratio

Other Projects

- Development/implementation of new ways to protect crops from disease
- Development of new technologies to support intelligent crop or livestock management

Examples of Eligible R&D: Consumer Packaging

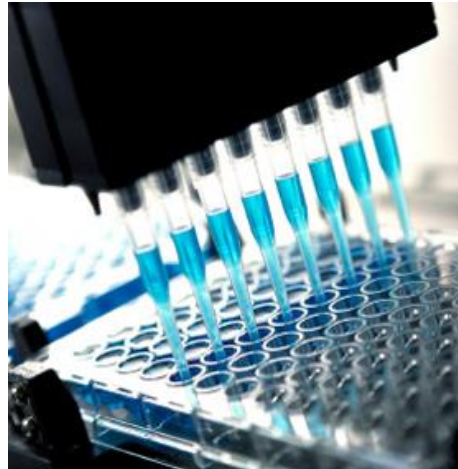


Developing new packaging that is environmentally friendly, ergonomic, and lightweight to be used in different applications for various products where adaptation of existing practices is non-trivial.

Other Projects

- Improving existing production processes to improve efficiency or reduce manpower, lead time, and waste
- Developing techniques for enhancing the characteristics of particular materials within design constraints (i.e. geometry, weight, etc.)

Examples of Eligible R&D: Pharmaceutical



Develop new medicine for the prevention and treatment of inflammatory diseases in the central nervous system. Generally phase I, II & III testing qualify as R&D

Other Projects

- Experimentation to increase product yield and decrease reaction times
- Developing new methods for drug delivery
- Conducting clinical tests to satisfy government regulatory requirements prior to commercialization

Examples of Eligible R&D: Plastics



To develop a product equipped with an advanced formulation to package and protect different metal alloys from corrosion

Developing new additives or methods of incorporating additives to improve the workability or performance characteristics of a material

Other Projects

- New formulations and methods for producing films with enhanced characteristics (e.g. ultra-thin, high-strength, breathable)



Examples of Eligible R&D: Digital Media



Development of new distributed technology platforms to support global Real-Time Bidding for desktop and/or mobile devices

Development of new techniques for graphical processing to improve processing efficiency, speed or compatibility

Other Projects

- Development of supporting technologies for user analytics to ensure optimal content recommendations
- Establishing electronic interfaces and functional relationships between various software modules

Examples of Eligible R&D: Energy



Developing a prototype tide-based energy generator that resolves cost and environmental issues associated with traditional methods

Developing improved designs for photovoltaic cells to reduce reliance on heavy metals

Other Projects

- Development new battery technologies to enhance range and portability

Examples of Eligible R&D: Oil & Gas



Develop new technologies for the automation and improvement of pipeline inspection and maintenance

Other Projects

- Development and testing of plug and abandonment solutions
- Development and testing of turnaround and shutdown services
- Development of novel waste water treatment solutions

Qualifying Activities Include:

- *Designing*
- *Prototype Building*
- *Testing*
- *Project Management*
- *Development of mathematical models/algorithms to achieve functional goals*
- *Translating models/algorithms into code to ensure goal can be reached*
- *Ensure that the application/process/tool developed will function in different scale environments*
- *Ensuring that application/process/tool will function across various platforms*
- *Ensuring that the application/process/tool will integrate as desired with other applications/systems*

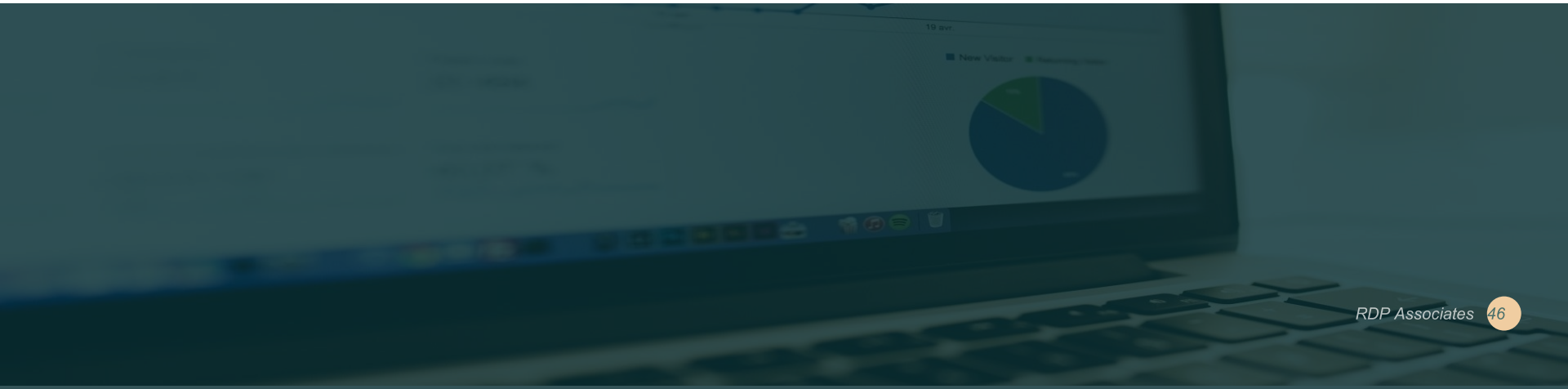
Not Typically R&D Work

- *Is It a Business or Technical Uncertainty?*
- *Examples:*
- *Move From Farm to Cloud to Increase Scalability*
- *Move DB from MySQL to Mongo DB*

Typically R&D Work

- *Where you need implement an iterative process (to design, code, redesign, recode, to overcome a technical problem).*
- *Performance/Scale*
- *Cross Platform Operability*
- *Integration Between 2 or more Systems/Platforms*
- *Inter-Tenant Data Security*

Accounting Test



ELIGIBLE R&D COSTS



Employee/staff cost

- Gross Pay
- Pension Contributions
- Bonus Payments
- Health Insurance
- Holiday Entitlement
- Employer's portion of above

Individual Consulting

Materials Consumed in R&D

Contract Fees

- Restricted to greater of €100k or 15% of R&D expenditure

Overhead

- Example, power consumed in R&D projects (rent excluded)

ELIGIBLE R&D COSTS



Plant & Machinery

- Qualify for capital allowance
- Can prorate based on R&D use

Building and Structures for R&D

- 35% of R&D activities over four years
- Qualify for industrial building capital allowance

Royalty Payments

CONTRACT FEES

1. If a company is making a R&D tax credit claim (payor) and engaging an Irish company to carry out R&D work (performer) on its behalf, the payor must issue a written notification to the performer stating they may not make a R&D tax credit claim on this work, **before any payment is made (this is effective from Dec 22/19)**
2. If payor is paying an individual or a contractor who resides outside of Ireland, no notification is required
3. Contract fees are limited to the greater of €100K or 15% of R&D expenditure incurred by the company itself

Work done outside of Ireland

- 
- A background image of a factory interior featuring a large orange robotic arm in the foreground, with various industrial equipment and structures visible in the background.
1. Employee is on Irish payroll but works outside of Ireland; costs can be claimed if work is done in EEA or UK
 2. Individual consultants; must work on companies' premises and not to exceed 6 months
 3. Employee secondment; work must be done in Ireland to qualify
 4. Contract fees; if the subcontractor is connected, no payments to contractor can be claimed; if the subcontractor is not connected payments can be claimed for work done anywhere around the world subject to limitations discussed earlier

RELEVANT EXPENSES



Costs that are **not** wholly and exclusively incurred in the carrying on of the R&D activity, including indirect overheads such as:

- Recruitment Fees,
- Insurance
- Travel
- Equipment Repairs or Maintenance
- Shipping
- Business Entertainment
- Telephone
- Bank Charges and Interest

Do not qualify as relevant expenditures

R&D Example

| R&D Cost Example | |
|--|-------------------|
| Employee/Staff Cost | € 120 000 |
| Equipment used in R&D | € 20 000 |
| Contract Fees (Actual fees: €120, 000) (>15% of fees or €100, 000) | € 100 000 |
| Materials Consumed | € 10, 000 |
| Overhead (Cost of running production line, energy costs, etc.) | € 5, 000 |
| Subtotal | € 255, 000 |
| El Grant | (€ 30, 000) |
| Net | € 225, 000 (25%) |
| Tax Credit | € 56, 250 |

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TIPS FOR MAXIMIZING YOUR CLAIM

- 
- *Failure is good*
 - *A project can still qualify even if it has failed*
 - *Group Small Projects*
 - *Redefine and outline the technology they are a part of*
 - *Eligible Activities*
 - *Don't overlook activities like project management or overhead*
 - *Eligible Costs*
 - *Portions of Salaries are often missed*
 - *Eligible Projects*
 - *A project doesn't have to develop groundbreaking technology*

HOW TO DEAL WITH A REVENUE QUERY

- 
- *Prepare a R&D tax credit report prior to filling your R&D tax credit claim*
 - *Cover the 24 question Revenue Query request*
 - *Consider a process similar to RDP's Innovation Connection Program, which captures R&D work in real-time*



RDP has over **30 years** of experience filing R&D claims.

The company has assisted **thousands** of companies in every business sector.

RDP Associates makes claims in the UK, Ireland, Netherlands, Canada, & the United States.

THANK YOU!

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