HUGHES
TAX & ADVISORY

# RESEARCH & DEVELOPMENT

TAX INCENTIVES

# RESEARCH & DEVELOPMENT TAX CREDIT

The Research & Development ("R&D") Tax Credit is a lucrative incentive aimed at promoting expenditure on R&D activities by Irish resident companies and branches of foreign companies. The R&D Tax Credit is a valuable relief, and this brochure summarises the incentive, enabling companies to establish whether your business might be entitled to relief under the regime.

## QUALIFYING COMPANY

Before reviewing 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;

Where a trading company within the charge to Irish corporation 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

For research or development efforts to be eligible for relief under the R&D Tax Credit regime, activities 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**; work undertaken to achieve new scientific or technical knowledge without a specific practical application in mind, effectively blue-sky thinking;
- **Applied research**; 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**; 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 scientific or technological uncertainty.

## QUALIFYING EXPENDITURE

Eligible expenditure is determined by reference to the activities carried on by a company and 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.

In addition to Revenue expenditure, a claim can include expenditure on 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

The R&D Tax Credit regime operates on a self-assessment basis, submitted on the Form CT1 form the period in which the qualifying expenditure is incurred.

A claim must be submitted to Revenue within 12 months of the end of the accounting period in which the expenditure was insured. Timeliness of claims is therefore imperative.

## UTLISING 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, a company may choose to carry back the credit to the immediately preceding accounting year, generating a refund of taxes paid.

Once Corporation Tax offsets 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 twice the payroll tax liabilities of the company in the year.

In the case of start-up companies who have yet to commence to trade, the credit may be offset against other tax liabilities, i.e., VAT or payroll taxes.

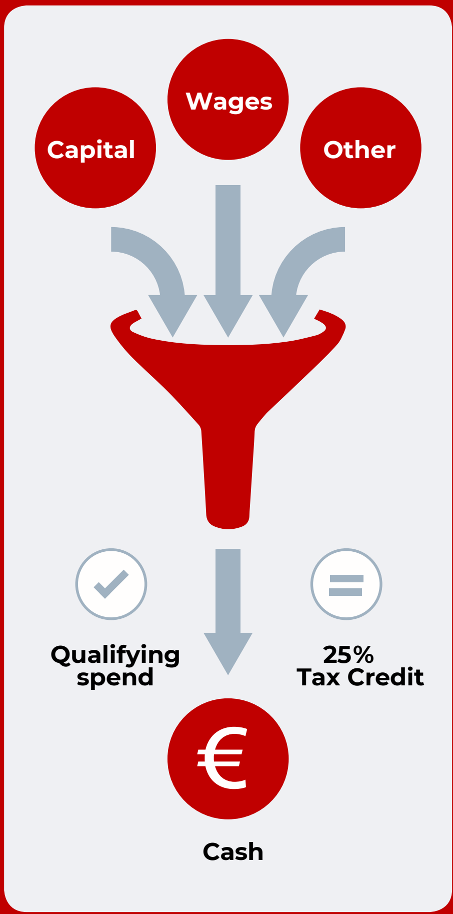
## TAKE AWAYS

- 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 delighted to meet with you and discuss how we can assist to maximise your benefits.

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



# KNOWLEDGE DEVELOPMENT BOX

The Knowledge Development Box (KDB) is a tax relief on income earned from qualifying assets. The relief entitles a company to reduce the rate of Corporation Tax payable on qualifying profits by up to 50%. In some cases, the Corporation Tax rate can be reduced to as low as 6.25%.

KBD was introduced with effect from January 2016, as a tax incentive comparable to other international 'patent boxes'. To qualify, a company must have carried our research and development to create a usable qualifying asset and then must earn income from that same qualifying asset.

A qualifying asset is:

- A computer program,
- An invention protected by a qualifying patent, or
- Intellectual Property for small companies,

that is the result of R&D.

Any marketing related intellectual property such as trademarks, brands, image rights cannot be a qualifying asset. Therefore, KDB very much goes hand in hand with companies who claim the R&D tax credit on their development activities.

If your business does involve the exploitation of intellectual property, then you may have a basis to claim this relief. We would be delighted to meet with you and discuss how we can assist to maximise your benefits.

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