

R&D Tax Credit

(Section
766 TCA 1997)



RESOURCE DOCUMENT - V1. 2014

Research & development tax credit

Overview

The R&D Tax Credit is a tax-based incentive that is designed to encourage investment in R&D by companies in Ireland. Where a company incurs a cost on qualifying expenditure in R&D they may be entitled to a credit against their corporation tax liability or a refund of employment taxes over a 3 year period.

The relief is generally available for R&D activities carried out in a wide variety of science and technology areas such as software development, engineering, food and beverage production, medical devices, pharmaceuticals, financial services, agriculture and horticulture.

To qualify for the credit the following must apply:

- The applicant must be a company.
- The company must be within the charge to Irish tax.
- The company must undertake research and development activities within the European Economic Area (EEA).
- In the case of an Irish tax resident the expenditure must not qualify for a tax deduction under the law of another territory.

A 25% credit is available for qualifying expenditure on qualifying activities, as defined below. For example, a company spending €100,000 on R&D in 2012 could potentially claim up to €25,000.

Qualifying expenditure can include direct expenditure, e.g. salaries and consumables; indirect expenditure, e.g. allocation of rent and rates, light and heat and other overheads; and the expenditure incurred on plant and machinery which is used for the purposes of R&D activities.

There are two situations where the law provides for relief for a company that has not carried out the research and development itself:

- R&D work outsourced to universities or colleges, up to maximum of 5% of the project costs. The first €100,000 of such expenditure qualifies, to the extent that it is matched by the company's own R&D expenditure, irrespective of whether that amount is greater than the 5% limit.
 - R&D work outsourced to external contractors, up to a maximum of 10% of project costs. Again, the first €100,000 of such expenditure
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qualifies, to the extent that it is matched by the company's own R&D expenditure, irrespective of whether that amount is greater than the 10% limit.

The maximum credit which may be claimed in any one year is the greater of:

- Total corporation tax paid in all accounting period's for the ten years prior to the period in which R&D tax credit is being claimed or
- Total PAYE/PRSI liability of the company in the period in which the R&D expenditure is incurred

To claim the R&D tax credit it is firstly offset against the current year corporation tax liability of the company, then the prior year tax liability with any excess still remaining becoming refundable to the company over a three year period.

Research and Development Activities

Qualifying activities must satisfy all of the following conditions. They must be:

1. Systematic, investigative or experimental activities
2. In a field of science or technology

3. One or more of the following categories of research and development:

- Basic research,
- Applied research, or
- Experimental development.

In addition, they must:

4. Seek to achieve scientific or technological advancement, AND
5. Involve the resolution of scientific or technological uncertainty

The categories of activities that qualify for Relief are:

1. Natural Sciences
2. Engineering and Technology
3. Medical Sciences
4. Agricultural Sciences.

Further details of each category are contained in **Appendix 1.**

Categories of R & D

Basic research means "experimental or theoretical work undertaken primarily to acquire new scientific or technical knowledge without a specific practical application in view".

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Applied research means, “work undertaken in order to gain scientific or technical knowledge and directed towards a specific practical application”. Applied research is usually undertaken either to determine possible uses for the findings of basic research or to determine new methods or ways of creating practical applications.

Experimental development means, “work undertaken which draws on scientific or technical knowledge or practical experience for the purpose of achieving technological advancement and which is directed at producing new, or improving existing, materials,

Supporting Documentation

Where a company is satisfied that it can comply with the requirements, a claim to relief may be made by completing Section 12 on the form CT1. It is important to note that no supporting documentation is required to be submitted with the return but the claim must be made within twelve months of the accounting year end.

However, Revenue may inspect a claim to an R&D tax credit return within four years of the end of the accounting period in which the company

has made the return. Revenue may, if necessary, refer the project to an expert in the field of science and technology for an opinion as to whether the activities constitute research and development activities.

It is the claimant company’s responsibility to maintain records which provide sufficient evidence that a project entails research and development activities.

The types of records which are required include:

1. Project title and description
2. Purpose of the project undertaken
3. Technology feasibility plan and/or methodology adopted
4. Status and/or progress reports
5. Problems encountered in the course of the project that identified areas of technological uncertainty and experimental development
6. Personnel involved in the project
7. Notebooks, lab reports, patents, and patent applications

In order to reduce the administrative burden

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on claimant companies, no particular format is specified. Given the high cost of research and development activities and the requirement for on-going monitoring inherent in such projects, the records required for Revenue purposes should generally be available within a company for its own internal purposes.

Where expenditure is not wholly incurred for research and development purposes, Revenue will accept reasonable apportionment.

Appendix 1

Natural Sciences

1. Mathematics and computer sciences, including mathematics and other allied fields, computer sciences and other allied subjects, software development,
2. Physical sciences including astronomy and space sciences, physics, and other allied subjects,
3. Chemical sciences including chemistry and other allied subjects,
4. Earth and related environmental sciences including geology, geophysics, mineralogy, physical geography and other geosciences,

meteorology and other atmospheric sciences including climatic research, oceanography, vulcanology, paleoecology, and other allied sciences,

5. Biological sciences including biology, botany, bacteriology, microbiology, zoology, entomology, genetics, biochemistry, biophysics, other allied sciences, excluding clinical and veterinary sciences.

Engineering and Technology

1. Civil engineering including architecture engineering, building science and engineering, construction engineering, municipal and structural engineering and other allied subjects,
 2. Electrical engineering, electronics including communication engineering and systems, computer engineering (hardware) and other allied subjects,
 3. Other engineering sciences such as chemical, aeronautical and space, mechanical, metallurgical and materials engineering, and their specialised subdivisions; forest products; applied sciences such as geodesy and industrial chemistry; the science and technology of food production, specialised
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technologies of interdisciplinary fields, e.g. systems analysis, metallurgy, mining, textile technology and other allied subjects.

Medical Sciences

1. Basic medicine including anatomy, cytology, physiology, genetics, pharmacy, pharmacology, toxicology, immunology and immunohematology, clinical chemistry, clinical microbiology, pathology,
2. Clinical medicine including anesthesiology, paediatrics, obstetrics and gynaecology, internal medicine, surgery, dentistry, neurology, psychiatry, radiology, therapeutics, otorhinolaryngology and ophthalmology,
3. Health sciences including public health services, social medicine, hygiene, nursing, epidemiology.

Agricultural Science

1. Agriculture, forestry, fisheries and allied sciences including agronomy, animal husbandry, fisheries, forestry, horticulture, and other allied subjects,
2. Veterinary medicine.

Squires Gilbride - Chartered Accountants & Advisors are located in Dublin, Ireland.

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