

Recognising your  
investment in  
Research and  
Development  
Tax savings



# Research and Development Regime

Many opportunities exist for organisations to optimise their R&D tax relief. If your organisation has overcome technological challenges to develop new products, processes, materials or services for your own use or your customers' use, then you may qualify for generous R&D tax incentives.

Many companies are not aware of the extent of their eligible activities, or that they are eligible at all. Deloitte offers expertise and experience across a wide selection of industries and has helped many clients achieve tax cash savings under the R&D regime.



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## R&D tax credit - 25% refundable credit

A credit of 25% of the incremental expenditure on revenue items, royalties, plant and machinery related to R&D can be offset against a company's corporation tax liability in the year in which it is incurred. For accounting periods ending in the period 31 December 2004 to 31 December 2008 this rate was 20%.

A credit of 25% is also available for the relevant expenditure incurred on a building/ structure. Relevant expenditure is broadly defined as the expenditure on the portion of the building used for qualifying R&D activities, provided that at least 35% of the building is used for these activities over a four year period. The credit available is deductible in full in the year the expenditure is incurred. This 25% credit is available once a Ministerial order is passed.

This represents a significant benefit compared to the original legislation which provided for a 20% credit over a four year period, in respect of the cost of a building used solely for R&D.

## Group implications

The computation of a credit is made by reference to expenditure incurred in a group as opposed to on a company by company basis. The R&D credit can effectively be group relieved.

## Unused R&D credit utilisation

Any unused credit can be carried back and used to reduce the corporation tax liability of the preceding accounting period. Where a credit is not fully utilised in the current or preceding accounting periods the excess can be offset against future corporation tax payable or it can be paid in cash to the company by the Revenue Commissioners over three years.

There is a limit to the amount that the Revenue will repay in cash for a tax credit.

This limit is the greater of:

- The total corporation tax paid by the company for the 10 years prior to the period for which the company is making the claim or
- The payroll tax liabilities for the specific period in which the expenditure, which is the subject of the claim, is incurred.

## R&D credit time limit

For claims after 1 January 2009, a claim for a credit must be made within 12 months from the end of the accounting period within which the R&D expenditure was incurred.

## Definition of R&D

R&D for the purposes of the relief includes basic research, applied research or experimental development. These activities must seek to achieve scientific or technological advancement and involve the resolution of scientific or technological uncertainty.

## Entitlement to R&D relief

A company which carries on a trade in Ireland, undertakes R&D activities in Ireland or within the EEA and incurs the expenditure shall be entitled to the credit. However, Irish R&D credit is denied for R&D activities undertaken in EEA countries where a tax deduction for that expenditure is allowed.

## Base/incremental expenditure

Expenditure on revenue items, royalties, plant and machinery which qualifies for credit in any year is the incremental expenditure over the expenditure incurred in 2003.

There is no calculation of a base year for expenditure on buildings.

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# Developing sophisticated financial modelling and valuation techniques

A claw back will apply if within a period of 10 years, the building or structure is sold or ceases to be used by the company for the purposes of R&D or for the purpose of the same trade that was carried on by the company when the credit was claimed.

## Qualifying expenditure

Credit is given for all R&D related expenditure that consists of:

- Royalties
- Expenses deductible for trading purposes
- Plant and machinery entitled to capital allowances,
- Revenue and capital expenditure on scientific research
- Buildings entitled to capital allowances

The credit is not available for a royalty that is exempt royalty income in the hands of the recipient or is not arm's length. Furthermore, no credit is available for expenditure that is State funded (e.g. expenditure met by grants).

## Use of universities and subcontractors

Where a company subcontracts the R&D activities to a third party, any payments made to that person up to an amount of 10% of the company's own R&D expenditure will qualify for the relief. Likewise, where a company subcontracts the R&D activities to universities or third level institutions in the EEA, any payments made to the university up to an amount of 5% of the company's own R&D costs will qualify for the relief.

## Is your company currently maximising R&D tax credits?

### Does your company participate in any of the following activities?

- Setting up a new factory or production line where new technology is employed or new manufacturing techniques are used
- Design and development of production processes for new products, including FDA qualification, validation, and clinical testing during Phase I-IV clinical trials
- Improvements in the efficiency of the manufacturing process of existing products to increase yield as well as reduce waste, by-products, or environmental impact
- Manufacture of experimental qualification lots and clinical trial lots
- Manufacturing process scale-up design and development efforts
- Experimental production runs, including related labour and materials

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- Development of new products and processes
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- The development of sophisticated financial modelling and valuation techniques
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- Design and development of innovative integrated hardware and software systems
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- The mathematical modelling for the development of new financial products, financial engineering, spread betting or life industry products
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## How we can help

Deloitte offers a dedicated team working with client teams on R&D claims. Based on our extensive experience over many different industries and companies of all sizes, Deloitte has developed a methodology which facilitates the claim preparation process in a seamless manner, underpinned by effective procedures to ensure a robust claim for submission to the Irish Revenue.

The Deloitte Research & Development Group is a team of research and development credit specialists dedicated to providing comprehensive research and development tax incentive services spanning over 35 locations including Ireland, the United Kingdom, the United States, Canada, Europe, and Australia.

Our team of experts has extensive experience in the software, telecommunications, biotechnology, pharmaceutical, financial services, manufacturing, petroleum, aerospace, chemical and utilities industries. Many of our Irish team members have graduate level science/maths/technology backgrounds.

This Irish team is further supported by specific science specialists from our London office, which has a team of nine experts who specialise purely in the science/technology aspects of R&D projects.

The R&D tax team, comprising of Irish specialists and supported by the UK specialists where necessary, will assist you by ensuring that all activities that could qualify for the relief are identified, assessed, documented and where appropriate claimed. Our established relationship with the Irish Revenue will allow for a smooth submission and review process allowing for minimal disruption of your core business.

The Deloitte global R&D network delivers an experienced team who provides insight on local regimes and the opportunities and risks which crossborder interactions bring for large multinational organisations.

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Improvements in the efficiency of the manufacturing process of existing products to increase yield as well as reduce waste, by-products, or environmental impact

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