

Ireland as a  
knowledge  
economy  
*Availability of  
grant aid and  
incentives*



# Ireland

Ireland is a prime location for many of the world's leading businesses due to its focused pro-business policy framework which promotes a highly successful open and competitive business environment.

Despite the global economic crises, Ireland continued to attract significant high end Foreign Direct Investment (FDI) throughout 2008 and to date in 2009. FDI investment in Ireland is twofold, being continued investment and first-time investment. Many of the world's leading companies demonstrate their commitment to remaining established in Ireland by continuing to invest, such as:

Industry	Example
High end manufacturing	A large beverage company announced plans to build a €200 million facility. One of the world's leading information technology companies announced a €18 million Research & Development (R&D) investment in Ireland.
Life sciences sector	Global leader in health care announced a €25 million expansion to their manufacturing facility. A large pharmaceutical company confirmed plans to establish a €13 million centre of excellence in R&D in Ireland.

Additionally, Ireland continues to attract first-time FDI investment from many of the world's leading companies, such as:

Industry	Example
Global Services	Leading online networking site announced Dublin as the location for the company's international headquarters. One of the world's leading online games and entertainment companies is establishing its European headquarters in Ireland.

Ireland's attractive features making it a prime business location are;

- Geographical location
- Membership of the EU and Eurozone
- Highly ambitious, educated workforce and a magnet for top international talent
- High concentration of leading high-tech multinationals
- Highly developed IT sector and telecommunications network
- Political stability and a pro-enterprise government
- A favourable and transparent tax regime
- Well organised set of agencies; Industrial Development Agency (IDA), Enterprise Ireland and Science Foundation Ireland, to co-ordinate the building of an innovative environment
- Low start-up regulations and relative ease to establish a business
- High proportion of early stage entrepreneurs and an attractive location for entrepreneurs and innovators
- Forward looking investments in infrastructure and research and development

The Irish Government's Strategy for Science, Technology and Innovation (STI) aims to further elevate Ireland's status among the elite as an attractive location to do business. The strategy is based on a vision of placing Ireland firmly on the global map in terms of the excellence of our research and its application for the benefit of society.

The Irish Government's commitment to implementing the strategy for STI was demonstrated in Budget 2009 whereby they provided €265 million for overall capital funding in third level institutions, €135 million to enable Enterprise Ireland to assist R&D intensive companies and €179 million to Science Foundation Ireland to support R&D.

The above commitment by the Irish Government was again reiterated when it launched a report at the end of 2008 entitled "Building Ireland's Smart Economy: A Framework for Sustainable Economic Renewal". This commitment has continued throughout 2009. The vision is to establish Ireland as "The Innovation Island" by creating an exemplary research, innovation and commercialisation economic environment.

Outlined below is a summary of the range of financial supports which the Industrial Development Agency (IDA) provides to companies,

# Availability of grant aid

in particular to companies that focus on R&D and high end manufacturing, together with an overview of the many tax incentives available.

The type of grant aid available from the IDA includes:

- Research, Development and Innovation (RD&I) grants
- Employment grants
- Capital grants

These are offered by IDA to both first-time FDI and companies currently located in Ireland.

## RD&I incentives for businesses

As highlighted above, investment in RD&I is a key pillar of Irish National Government policy. Multinational companies based in Ireland can apply through the IDA for a range of supports that are available depending upon what stage they are at in the RD&I process. A summary overview of the three support programmes in the RD&I process is set out below.

### Service innovation programme

IDA's new Services Innovation Programme (SIP) is partially grant-supported under the IDA's training grant scheme and is only available to companies already operating in Ireland. Clients will hire a consultant with relevant expertise who will provide structured management consultancy in services innovation. Where appropriate, this programme can be used as the platform to assist companies in developing projects for submission to the IDA's Feasibility and RD&I programmes (as described below).

A maximum of €100,000 of consultancy expenditure can be grant aided per proposal (i.e. a maximum grant of €60,000 at a grant rate of 60%). Companies availing of the SIP are wholly responsible for the selection of the consultant although submissions need to clearly demonstrate that the service provider has the relevant experience and expertise to address the specifics of services innovation. As an option, the IDA has available a pre-qualifying panel of consultants who meet their requirements for the programme, of which Deloitte is a member.

### Feasibility and training support

The feasibility and training support combines two key elements; the feasibility study grant designed

to enable companies investigate potential RD&I project initiatives that would be undertaken within Ireland and the training grant, the purpose of which is to up-skill company staff, as appropriate, to undertake a small RD&I project pilot.

Where successful in identifying either a qualifying RD&I Project Initiative or a programme, a company would then subsequently progress to the full RD&I grant application.

### Grant levels and eligible activities

A grant of up to €250,000 is available up to an overall maximum rate of 50% of eligible costs, a summary of which is set out below:

Costs directly related to feasibility studies	Costs directly related to R&D training	Costs directly related to small RD&I pilot project
Salary costs	Trainers Salary costs	Salary costs
Overheads	Trainers travel and subsistence	Overheads
Travel costs	Trainee salary Costs	Travel costs
Consultancy	Trainee travel and subsistence	Consultancy
Materials	Costs of external courses/ materials	Materials

### Application process

The submission incorporates a short application that should outline the company's details, the areas of RD&I being investigated, the company's reasons for engaging in RD&I, the type of grant aid being sought and a breakdown of costs. IDA will undertake both a commercial and technical assessment of the application in determining whether or not it qualifies for full RD&I support.

### RD&I support

Different levels of grant aid are available depending upon the type of project/programme, with particular reference to the associated level of

innovation and risk:

- Industrial research - funding available up to a maximum level of 40%
- Experimental development - funding available up to a maximum level of 25% and
- Training - maximum level 25% for company specific training and 50% for general training (capped at €2m over the lifetime of the project).

### Application process and assessment

The RD&I application incorporates a more detailed submission of the information contained within the original feasibility study, a key element of which will include an overview of the nature and scope of the proposed Project Initiative/ Programme in terms of:

- Business and Technical objectives
- Collaboration with local third parties and/or third level institutes
- Resourcing and skills
- Implementation planning and milestones
- Benefits to the Irish operations as well as the Irish economy

The assessment undertaken by the IDA combines:

- **Strategic assessment** - level of fit with the company's overall corporate strategy, degree of technical innovation and advancement, the extent of collaboration with local entities, etc;
- **Commercial assessment** –market potential for the RD&I project initiative/programme, benefits to the Irish operation (up-skilling) and benefits to the Irish economy; and
- **Technical assessment** – degree of innovation and risk, technical feasibility, extent of technical challenge to local company, accuracy of project planning and costs, and the long term nature of the project.

### Approval and monitoring

The IDA approval process is as follows:

- Up to €5m – requires approval from IDA Board
- €5m - €7.49m - requires IDA and government approval and
- Above €7.5m - EU approval required

Once the grant has been approved, a formal legal contract will be signed between the company and the IDA. It is advised that the grant is drawn down on a quarterly basis, against which the company will be required to submit relevant financial and project documentation to substantiate progress made and the level of costs incurred.

### Employment grants

Employment grants are available where permanent full-time positions are created and are the most commonly used type of grant, particularly for international services companies.

Amounts paid depend on the location of the project, the level of investment involved, the activities undertaken and the skill level of the employee - typically the higher the skill level, the higher the grant.

Employment grants are now only effectively available for the Border, Midland and Western (BMW) region. However, there may still be some opportunities to avail of employment grants where there is a differential between the number of employees originally planned to be in Ireland versus actual number employed.

### Capital grants

Capital grants are available to subsidise expenditure on the purchase of land and buildings and new plant and equipment.

Estimated capital costs and eligible assets are agreed with the IDA and a rate of grant and payment schedule is then negotiated. The level of grant aid available varies and grants are awarded on the basis of a percentage of the eligible capital cost incurred.

As with employment grants, capital grants are now only effectively available for the BMW region.

### Taxation of grant aid

We have outlined above the various grants available by IDA to both first time FDI and companies currently located in Ireland.

The tax treatment of grants received depends on the nature of the grant involved.

Where a grant is of a capital nature it is not taken into account at arriving at trading profits but reduces the amount of expenditure which qualifies for capital allowances. Allowable costs for Capital Gains Tax purposes are also reduced by the amount of the capital grants.

Grants of a revenue nature should be included when calculating trading profits. Where a payment is received which increases a trader's income or reduces the trader's revenue expenditure, it is normally of a revenue nature and accordingly is liable to corporation tax, unless specifically exempted by legislation.

# Tax opportunities

## Research and development tax regime

In addition to availing of the low rate of corporation tax of 12.5%, many opportunities exist for companies to optimise their R&D tax relief in Ireland. If a company has overcome technological challenges to develop new products, processes, materials or certain services for its own use or its customers' use, then it may qualify for generous Irish R&D tax incentives.

### Background to R&D tax regime

The Irish R&D tax credit regime was introduced in 2004. On introduction a 20% tax credit was allowed against corporation tax on incremental qualifying R&D expenditure. A separate 20% R&D tax credit was also available for capital expenditure on R&D building facilities. Finance (No.2) Act 2008 provides for an increase of the rate to 25%. This applies to accounting periods commencing on or after 1 January 2009.

Finance (No.2) Act 2008 provides for the base year to remain as 2003 for all future accounting periods which greatly enhances the attractiveness of the regime.

Finance (No.2) Act 2008 also enhances the regime in order to provide a greater benefit to companies. Companies will now have the option to carry-back unused tax credits for set-off against corporation tax paid in the previous year and allow for any remaining unused credit to be refunded in cash repayments over a three year period. The regime also allows for a proportion of the qualifying expenditure on new or refurbished buildings used in part for R&D purposes to qualify for a tax credit.

### R&D regime

A credit of 25% of the qualifying incremental expenditure incurred in excess of the qualifying expenditure incurred in 2003 can be offset against a company's corporation tax liability in the year in which it is incurred.

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 percent of the building is used for these activities over a four year period. The credit available on the qualifying portion of the expenditure is deductible in full in the year the expenditure is incurred.

The R&D tax credit regime now assists, along with other incentives, in particular the new relief for acquisition of intangible assets, in making Ireland a very attractive location for companies to carry out R&D and also helps Ireland retain existing activities in an increasingly competitive international environment.

## Incentives to create and acquire intellectual property(IP)

In today's economic climate, the re-evaluation of a company's global business model is paramount in order to remain competitive and maximise overall efficiency. The majority of companies centralise some or all of their key, high-value-added activities into a smaller number of global or regional headquarters. A centralised model can maximise the efficiency and profitability of the operation.

Ireland is an ideal place for companies to centralise their activities from both a business and tax perspective. In particular, companies based in Ireland can own and exploit intangible assets and achieve a very low effective tax rate.

### Tax relief for capital expenditure

Finance Act 2009 introduced a new tax relief for capital expenditure incurred by companies on the provision or acquisition of intangible assets for the purposes of a trade. The new regime applies to expenditure incurred by a company after 7 May 2009.

- Specifically, it matches tax deductions with the amortisation or depreciation charge in the accounts. Alternatively, a company may elect to claim tax deductions over a period of 15 years.
- Under the legislation the aggregate amount of any allowances and related interest expense in an accounting period shall not exceed 80% of the trading income from the relevant trade. This restriction does not apply to software.
- For US multinationals, there is also a book benefit on acquisition of intragroup intangible assets.

### Stamp duty relief

Finance Act 2009 broadens the definition of 'intellectual property' for the purposes of giving an exemption from stamp duty on acquisition so that stamp duty is not a barrier to centralising intellectual property in Ireland.

The above new rules enhance Ireland's competitiveness as a location for centralisation, management and development of intellectual property and are in line with the government's policy on the "Smart" economy referred to above.

### Other IP reliefs and incentives

With the introduction of the new rules, Ireland has a comprehensive system of IP incentives which are available for:

- Intangible assets
- Patents
- Trademarks
- Scientific research
- “Know how”
- Research & Development expenditure

These incentives are supplemented by other features of the tax system such as:

- No thin-capitalisation rules
- No CFC rules
- No capital duty
- Entry and Exit Costs minimised and eliminated
- Favourable double tax relief
- Favourable stamp duty relief

### Other tax incentives

Entrepreneurship, business start-ups and employment creation is driven in Ireland by a number of highly favourable taxation measures.

- Budget 2009 includes a commitment to maintaining a low corporation tax rate of 12.5% for the foreseeable future.
- Finance (No. 2) Act 2008 includes a three year exemption from corporation tax for companies commencing to trade from 2009 onwards on income and gains up to specific limits.
- In addition, Finance (No.2) Act 2008 provides for reduced tax rates on the share of profits received by a partnership or a company, which invests broadly in unquoted shares/securities of a private trading company carrying on qualifying research and development or innovation activities.

- Finance (No.2) Act 2008 provides for a form of remittance basis of taxation for foreign employments where relevant employees perform all or part of their duties in Ireland. An employee’s taxable income can be determined based on the higher of the actual amount attributable to Irish duties that was remitted in that year or €100,000 plus 50% of the balance attributable to Irish duties.
- Finance (No.2) Act 2008 also provides where employees and directors acquire restricted shares in a company it is possible to reduce the amount subject to income tax where there was a genuine restriction on the shares, without Revenue approval. The Act also provides for a refund claim where forfeited shares are forfeited.

Many of the world’s leading companies demonstrate their commitment to remaining established in Ireland by continuing to invest.



# The Deloitte proposition

Deloitte has practical experience of assisting clients across all stages of the grant aid process and related tax incentives. For example, highlights of the key areas where we can bring value and expertise in relation to the RD&I process are set out below.

1. Concept and feasibility	2. Application	3. Drawdown and realisation
<ul style="list-style-type: none"> <li>• Develop the RD&amp;I concept;</li> <li>• Assess current/potential projects for fit;</li> <li>• Facilitate workshop to assess fit to IDA criteria and select concepts to pursue;</li> <li>• Review tax opportunity;</li> <li>• Socialise at group/HQ level and seek provisional approvals;</li> <li>• Address questions/clarifications arising;</li> <li>• Engage IDA formally on the concept and seek feasibility funding; and</li> <li>• Develop feasibility assessment</li> </ul>	<ul style="list-style-type: none"> <li>• Next stage approval from Group/HQ level;</li> <li>• Form project team to prepare application/design of concept/programme;</li> <li>• Develop draft detailed application (to IDA standards and template);</li> <li>• Facilitate technical, commercial and strategic assessment process with IDA/Enterprise Ireland Assessors. Address questions/clarifications arising; and</li> <li>• Finalise report based on feedback received. Submit to the IDA investment board for approval.</li> </ul>	<ul style="list-style-type: none"> <li>• Complete tax planning and Optimise proposal from tax perspective;</li> <li>• Implementation of project initiatives/programme;</li> <li>• Complete “drawdown” of funding and required reporting (quarterly); and</li> <li>• Submit further applications for additional projects, as agreed with IDA, under original RD&amp;I application.</li> </ul>
Tax and Business Case Management		
Project and Process Management		
On-going Engagement with IDA		

Our practical experience translates into:

- Expertise in both tax and IDA policy
- Health Sector and Pharma knowledge and experience to devise/identify concepts and feasibility
- Investment in initial concept development and assessment through workshop
- Expertise in project scoping, operations design and business case
- Support and speed in development of application
- Negotiation of grant agreement with IDA
- “Turn Key” solution to deliver immediate and tangible funding benefits
- Project and programme management expertise
- Resources available to facilitate the set-up and operation of individual projects and in supporting internal knowledge transfer until such time as suitable resources can be recruited or up-skilled; and
- Post grant support to draw down grant, including accounting/reporting assistance.

## Our experience

### Global eBusiness company

Deloitte worked with this global eBusiness company in co-ordinating its RD&I feasibility study and full RD&I grant application to the IDA for the development of a Customer Centre of Excellence.

The full RD&I application was completed over a six week period and funding was secured towards a €15m investment that would ultimately result in the creation of 35 new jobs, collaboration with local entities as well as the up-skilling of existing resource capability.

In addition to the support provided with the Feasibility and RD&I applications, we assisted with developing the innovation concept, the provision of tax advice as well as project/programme management support. We are currently providing financial management assistance in drawing down the grant and in complying with the IDA specifications in this regard.

### International telecoms company

As part of the objective to strengthen the Irish Operations of this international telecoms company, we have been working in close co-operation with the senior management team in identifying and assessing potential RD&I project initiatives. In parallel, we are facilitating on-going discussion and engagement with the IDA Executive as a means to completing a preliminary assessment of innovative concepts in addition to securing their support and buy-in at an early stage.

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