

Ireland as a knowledge
economy
‘The Innovation Island’



Ireland: 'The Innovation Island'



Ireland has one of the world's most pro-business environments and its policy framework promotes a highly successful open and competitive business environment.

Ireland offers a competitive economy with low corporation tax, overall high productivity levels and a well educated and young workforce. Despite the global economic crises, Ireland continued to attract significant high end Foreign Direct Investment (FDI) in 2008, such as:

Industry	Example
High End Manufacturing	<ul style="list-style-type: none"> A large beverage company announced plans to build a €200 million facility.
Life Sciences Sector	<ul style="list-style-type: none"> A large producer of disposable contact lenses announced significant multi-million manufacturing investment. Global leader in health care announced €190 million investment in new biologics facility.
Global Services	<ul style="list-style-type: none"> Leading online networking site announced Dublin as the location for the company's international headquarters.

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

- Geographical location
- Membership of the EU and Eurozone
- Highly educated workforce and a magnet for top international talent
- High concentration of leading high-tech multinationals
- Pro-enterprise government
- A favourable tax environment
- Well organised set of agencies; Industrial Development Agency, 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 recently published "The First Report on the Strategy for Science, Technology and Innovation". The strategy 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 report shows that growth in research activity in third level institutions is paralleled by equally dynamic growth in business sector Research and Development ("R&D").

The Irish Government's commitment to implementing the strategy for Science, Technology

and Innovation (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 on 18 December 2008, when it launched a report entitled "Building Ireland's Smart Economy: A Framework for Sustainable Economic Renewal". Just as Ireland fashioned itself to become the destination of choice for multinational enterprises, the vision is to establish Ireland as 'The Innovation Island' by creating an exemplary research, innovation and commercialisation economic environment through:

- Continued substantial investment in science and technology infrastructure and research, including the highly incentivising R&D tax regime and incentives relating to intellectual property
- A substantial investment in early stage venture capital including the introduction of a favourable tax regime
- Attracting key researchers and highly skilled staff through fast track visa arrangements and eligibility for long term residency
- Encouraging high quality mobile entrepreneurs to set up businesses in Ireland by offering favourable tax regimes
- Provision of a range of financial supports from the Industrial Development Authority (IDA) to companies such as RDI grants, employment grants and capital grants.

The above together with the commitment by the Irish Government to establish Ireland as 'The Innovation Island' are certain to make Ireland the world's leading location for business innovation.

R&D tax regime

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 credit regime

The Irish R&D tax credit regime was introduced in 2004. On introduction a 20 percent tax credit was allowed against corporation tax on incremental qualifying R&D expenditure. A separate 20 percent

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 percent. 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 tax credit regime

A credit of 25 percent 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 percent 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 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.

Under the National Development Plan, the Irish Government committed €8.2 billion to research, technological development and innovation. There was a 22 percent increase in R&D projects in 2008¹ and business expenditure on R&D is targeted to grow to circa €3.8 billion per annum by 2013².



1 IDA Ireland End of Year Statement 2008. 6 January 2009

2 "Building Ireland's Smart Economy: A Framework for Sustainable Economic Renewal". 18 December 2008

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 with a 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.
- For US multinationals, there is also a book benefit on acquisition of intragroup intangible assets.

This new relief positions Ireland very competitively for new investment and is designed to positively address particular issues that may arise for existing Irish operations from the U.S. administration tax proposals.

Currently, Ireland is a key location for the exploitation and centralisation of IP and it is used as a favourable location within a wider structure to exploit IP in a tax efficient manner.

In addition to the above incentive, IP reliefs and incentives are available on:

- Patents
- Trademarks
- Scientific research
- "Know how"
- Research and development

The advantages of the above Irish reliefs and incentives include:

- Maximisation of cash flow of the company
- Minimisation of tax liability through effective tax planning
- Double tax relief
- Stamp duty relief
- 12.5 percent corporate tax rate
- No thin-capitalisation rules
- No CFC rules
- No capital duty
- Entry and exit costs minimised

Investment in early stage venture capital

Venture capital is described as money provided by investors to privately held companies with perceived long-term growth potential.

The Irish Government announced that up to €500 million will be invested in a new venture fund, known as 'Innovation Fund – Ireland', which will support early stage research and development.

In addition, Finance (No.2) Act 2008 provides a more favourable tax treatment with respect to the share of profits received by a partnership or company in respect of the management of a 'relevant investment'.

Where such profit is received by a partnership it will be deemed a chargeable capital gain and subject to a rate of capital gains tax of 15 percent. Where it is received by a company it will subject to a corporation tax rate of 12.5 percent.

A 'relevant investment' is broadly an investment in unquoted shares/securities of a private trading company, which remains in place for at least six years. The private trading company must carry on qualifying research and development or innovation activities and in addition satisfy certain conditions:

- It must be set up on or after 1 January 2009
- It must not have been owned or carried on by another entity/person prior to this
- The share of the profit is restricted to 20 percent of the total profit from the investment

Attracting key researchers/highly skilled staff - fast track visas

To ensure that Ireland continues as a magnet for top international talent and attracts key researchers and highly skilled staff and their spouses, fast track visa arrangements are available.

These arrangements will ensure timely processing of visa applications for said key researchers and highly skilled staff. Applicants in these categories will also be eligible for fast-track progression to long term residence under the Immigration Residence and Protection Bill 2008.

These processes operate within the Green Card permit scheme and allow for a multiple entry visa together with the removal of the 12 month waiting period previously imposed upon the family of the skilled worker.

In addition to the above, a specific Visa and Citizenship Programme to attract (and retain) first-class scientists to Ireland will be established.

Encouraging entrepreneurship, business start-ups & employment creation

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

Low corporation tax regime

Ireland's low corporation tax regime has been paramount to its historical economic success and the Irish Government has committed in Budget 2009 to maintaining a low corporation tax rate for the foreseeable future.

Exemption from corporation tax

Finance (No.2) Act 2008 introduces significant changes aimed at encouraging start-up trading companies. It provides for an exemption from corporation tax on income and gains up to specific limits for companies where the new trade commences in 2009. Relief is available for each of the first three years from commencement within the prescribed limits, ie. where the corporation tax does not exceed €40,000 per year. Marginal relief is also available where corporation tax payable is between €40,000 and €60,000 per year.

A tax abatement scheme for restricted shares/refund for forfeited shares

Where employees and directors acquire restricted shares in a company as a director or employee they are subject to income tax, at acquisition, on the market value of the shares acquired less any consideration paid for the shares.

- Previously, it was possible to reduce the amount subject to income tax where there was a genuine restriction on the shares (termed abatement), provided Revenue approval was obtained. Further to Finance (No.2) Act 2008, prior Revenue approval is no longer required to reduce the taxable amount. The level of abatement is related to the period of restriction, which must be at least one year.
- An employee or director is beneficially entitled to the shares at acquisition, even if there is a risk of forfeiture. Finance (No.2) Act 2008 provides that at acquisition, the employee or director is taxable on the market value of the shares, ignoring any forfeiture provisions. However, where the shares are forfeited the employee or director will be treated as if he/she had not acquired the shares. The employee or director can make a claim for a refund within four years of the end of the year of assessment in which the shares are forfeited.

A remittance basis of taxation scheme

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. It offers a system which will allow a refund of tax to be claimed in certain circumstances.

Where all conditions are satisfied, an employee may make a claim on their tax return for the appropriate year for their taxable income to 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 percent of the balance attributable to Irish duties

How we can help

Ireland continues to have one of the world's most highly successful open and competitive business environments. There are many excellent and valuable opportunities available for companies both currently located in Ireland and for future global foreign direct investment.

Deloitte offers a dedicated team from a number of service lines with extensive experience in many different industries, who can provide a comprehensive service to discuss any or all of the above with you.

Contacts

For more details on the above please contact:

Name: Joan O'Connor
Title: Partner, International Tax
T: +353 1 417 2476
E:joconnor@deloitte.ie

Name: Lorraine Griffin
Title: Partner, International Tax
T: + 353 1 417 2992
E: lorgriffin@deloitte.ie

Name: Mike Sheehan
Title: Partner, Tax
T: +353 21 490 7032
E:misheehan@deloitte.ie

Name: Dan O'Donovan
Title: Partner, Tax
T: + 353 61 43 5504
E:dodonovan@deloitte.ie

Name: Geraldine Duffy
Title: Manager, International Tax
T: +353 1 417 2569
E:gduffy@deloitte.ie

Deloitte profile

Deloitte's 1,100 people in Dublin, Cork and Limerick provide audit, tax, consulting, and corporate finance services to public and private clients spanning multiple industries. With a globally connected network of member firms in 145 locations, Deloitte brings world class capabilities and deep local expertise to help clients succeed wherever they operate.

Deloitte's 165,000 professionals are committed to becoming the standard of excellence. Deloitte's professionals are unified by a collaborative culture that fosters integrity, outstanding value to markets and clients, commitment to each other, and strength from diversity. They enjoy an environment of continuous learning, challenging experiences, and enriching career opportunities. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.

Dublin

Deloitte & Touche
Deloitte & Touche House
Earlsfort Terrace
Dublin 2
T: +353 1 417 2200
F: +353 1 417 2300

Cork

Deloitte & Touche
No.6 Lapp's Quay
Cork
T: +353 21 490 7000
F: +353 21 490 7001

Limerick

Deloitte & Touche
Deloitte & Touche House
Charlotte Quay
Limerick
T: +353 61 435500
F: +353 61 418310

www.deloitte.com/ie



For Seven Years Running

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its Member Firms.

These materials and the information contained herein are provided by Deloitte & Touche and are intended to provide general information on a particular subject or subjects and are not an exhaustive treatment of such subject(s). Accordingly, the information in these materials is not intended to constitute accounting, tax, legal, investment, consulting or other professional advice or services. The information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser. These materials and the information contained therein are provided as is, and Deloitte & Touche makes no express or implied representations or warranties regarding these materials or the information contained therein. Without limiting the foregoing, Deloitte & Touche does not warrant that the materials or information contained therein will be error-free or will meet any particular criteria of performance or quality. Deloitte & Touche expressly disclaims all implied warranties, including, without limitation, warranties of merchantability, title, fitness for a particular purpose, non-infringement, compatibility, security and accuracy.

Your use of these materials and information contained therein is at your own risk, and you assume full responsibility and risk of loss resulting from the use thereof. Deloitte & Touche will not be liable for any special, indirect, incidental, consequential or punitive damages or any other damages whatsoever, whether in an action of contract, statute, tort (including, without limitation, negligence) or otherwise, relating to the use of these materials or the information contained therein.

If any of the foregoing is not fully enforceable for any reason, the remainder shall nonetheless continue to apply.

© 2009 Deloitte & Touche. All rights reserved

Member of Deloitte Touche Tohmatsu