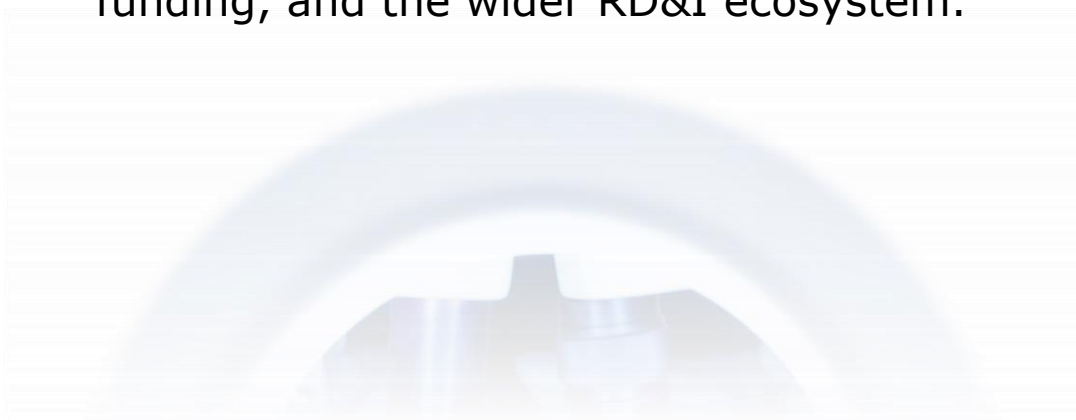


Deloitte.



Ireland, research and development funding, and the wider RD&I ecosystem.



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Ireland, research and development (R&D) funding and the wider R&D ecosystem.

For many years, Ireland has been punching above its weight with regard to foreign direct investment (FDI). This has been achieved through the efforts of IDA (Industrial Development Authority), which represents Ireland globally in a competitive FDI landscape. There are many aspects as to why a company will choose to locate in Ireland over competing global locations. The strands to Ireland's success in attracting FDI include of course its 12.5% corporate tax rate, but this is not the whole story. For R&D companies based in Ireland, whether they are FDI companies supported by the IDA or indigenous Irish businesses assisted by Enterprise Ireland (EI), there are many other potential benefits.

In this short article, I will attempt to de-mystify some of the funding mechanisms available, both nationally and at an EU funding level, with a particular focus on Research, Development and Innovation (RD&I) funding. Furthermore, I will outline two of the main legislative tools that support R&D in Ireland, namely the R&D tax credit and the new Knowledge Development Box (KDB). This article will not attempt to provide a comprehensive listing of all available funding mechanisms, but rather a reasonable pointer as to where to go and what to look for if you are in the business of conducting R&D.

A brief note on the *Gi³* team at Deloitte. We are a specialist team that assists companies with all aspects of R&D investment and funding. We have the largest global team dealing specifically with this area. Our global network is very valuable to our Irish clients, as the lessons we have learned over time in more mature R&D markets benefit our Irish clients every day: whether through technology use, process and methodology of approach or simply security in the knowledge that they are in safe hands. Our specialist team is made up of scientists and engineers from multiple disciplines who work with our client companies in a very hands on, consultative manner. We can help, and we'd like to meet with you.

RD&I national grant aid and supports

Both IDA and EI provide a wide and varied range of assistance to client companies, including RD&I funding programs. The body that a company deals with will depend on whether they are home grown (EI) or foreign (IDA). For both Irish and international clients, the remit is simple: to help companies grow and assist them in gaining market share, particularly in export markets.

EI

For Irish R&D-performing companies, EI offers feasibility studies that help businesses develop detailed plans for R&D projects. This feasibility study has dual focus, namely, potential for technical success, and good commerciality once the project is completed. For more details, see [Technical Feasibility Study](#).

EI's RD&I fund supports Irish business in new product development or significantly improving pre-existing products or services, again with a focus on export potential and growing market share. Ultimately, the goal is job creation in high worth areas. R&D in its nature requires human endeavor and problem solving, and as an added bonus, new knowledge is a byproduct of quality R&D activity. It is very often this additional knowledge that provides a competitive advantage for a business over its market rivals. It can be clearly seen how this leads to positive reinforcement, more R&D, additional new product development and so the cycle grows, all the time adding to a high-value economic model of R&D reliance.

Development Advisors, are EI employees who are assigned to assist client companies. They will help greatly with project assessment and the application process. Typically, projects performed by competent professionals in their field that involve the resolution of some technical challenges will qualify. For more information, see [EI Advisors](#)

Companies seeking RD&I funding must be Irish, manufacturing or internationally-traded service entities. Importantly, they must demonstrate that they have the fiscal capability to deliver on the project plans. There are R&D project funds for small, medium and large EI client companies. Details of available funding can be found on the EI website [here](#) and are summarized in the table below. Note: The maximum funding amount for any project is €650,000

Company size	Small	Medium	Large
% Project funding	45%	35%	25%

IDA

Ireland has long had a very clear strategy for attracting FDI, and IDA has been the spearhead of that strategy for over 50 years. IDA was founded in 1949 and is now one of the most successful FDI development agencies on the planet. Its current goals are very R&D-centric, focusing on attracting investors from a range of industry sectors who are seeking the best location for advanced manufacturing, global business services and R&D operations. For more information on IDA, see its [website](#).

RD&I funding from IDA aims to ensure that Ireland keeps its good position on international scorecards for R&D activities and high value jobs. The qualifying criteria for IDA RD&I grant aid are not significantly different from those outlined for EI above, so I will not reiterate. However, I will stress that the numbers tend to be higher for larger projects and that companies qualifying for RD&I funding from IDA are expected to increase their international R&D competitiveness within their own company corporate structure, thus winning more R&D projects for the Irish operation, delivering positive economic impact and securing jobs, etc. A key expectation is that funded entities will assign a significant, ongoing/established R&D budget, again showing commitment to the Irish operation and its continued development. The company will also be expected to show a demonstrable connection between R&D activity and commercial outputs, to have an established, highly skilled R&D team, to provide quality facilities for R&D and to form robust R&D quality management systems. There is a requirement to develop a culture of innovative thinking throughout the company, which aims to harness the creativity of all the staff towards defined business goals.

The ultimate prize for Ireland, Inc. is jobs—boots on the ground conducting high-value activities.

Final grant aid amounts are negotiated between IDA and the company. They will be significantly weighted on the technical challenges that the projects seek to overcome. This, combined with the employment growth expected and the total economic value to the both the company and Ireland, will determine the agreed funding.

The maximum published rates are quoted at 40% for industrial research and 25% for experimental development, but effective negotiation is a vital component in securing a high-value grant for good quality RD&I activities. Preparation is vital.

International (EU) funding mechanisms.

The EU funding instruments that are available are wide and varied, but are often complex and administratively burdensome. For companies to fully understand the types of funding that are available, it is advisable to seek professional assistance in this complex and always changing area.

Horizon 2020 (H2020)

H2020 is the primary European funding program for research and innovation up to 2020. Its goal is to provide research organisations and companies with access to a budget of almost €80 billion

over the course of its existence. H2020 is focused on real scientific challenges that will deliver immediate benefits within Europe and beyond. It has been designed with the end user in mind, and participation is simpler than previous EU funding mechanisms.

H2020 has identified three research priorities:

- **Excellent Science:** There are a number of funds specifically set aside to support the development of new knowledge, basic and applied scientific research. Supporting frontier research (ERC fund) €13,095 million. Development of emerging and future technologies (FET fund) €2,696 Million, EU research Infrastructure €2,488 million. A further €6,162 million is set aside for scientific personnel training and career development (Marie Curie fund).for more click [here](#)
- **Societal challenges:** As the name suggests, there is a broad spectrum of available calls for research in key areas affecting today's society. These include food security and bioeconomic issues, secure clean energy, smart transport (green and integrated), resource security and availability, climate control and improvement.
- **Industrial leadership:** Leadership in enabling industrial tech (LEIT's) providing €13,557 Million. Access to risk finance and a genuine focus on small and medium business (SME) participation. To this end, 20% of total societal and LEIT funding will go to SMEs. Primarily focused on sectors like ICT, nanotechnologies, materials, manufacturing and processing industry, biotechnology and space.

So, how do Irish companies go about proposal submission? In short, H2020 is very substantial, yet, they have tried very hard to simplify the process and the website is actually quite user friendly. Essentially, a company needs to identify a call in which it can participate, find partners, create an account, register the organisation and submit to the call for funding.

- Proposals must be submitted electronically using the H2020 portal
- Proposals must be created and submitted by a representative/contact person within the lead or coordinating organisation
- There are two main sections in each proposal
 1. Administrative form, outlining, for example, who is involved, basic administrative data, declarations, organisation outlines and involvement levels. Technical goals of planned research/innovation project.
 2. Further mandatory or optional information may be requested by the specific call. This can vary from project call to call.

For more general information on the H2020 portal, visit [here](#)

Other Noteworthy EU funds.

- **SME Instrument:** This is a part of the H2020 programme that is specifically for small and medium sized businesses, providing a €3 million fund
- **LIFE Programme:** This instrument funds large-scale environmental and climate-change projects. A large fund is available for both individual entities and collaborations.
- **COST:** The COST programme provides research-specific funding for cross-border European networks involving a minimum of five countries.
- **EuroStars:** This programme is open to SMEs with R&D activities that are working on cross-border projects involving at least one other European entity.
- **Connecting Europe Facility:** This programme offers large funding for European transport, integration and interconnectivity, particularly projects that assist with the interoperability and security of transport systems in Europe.

Home grown help for R&D-performing companies.

The R&D tax credit and KDB.

Ireland maintains a 25% tax credit on expenditure incurred on qualifying R&D activities undertaken by companies in Ireland that are subject to corporation tax. These businesses have witnessed an increase in the level and intensity of Revenue inspection in the last few years. This is true for all companies, large or small. With Revenue audits on the increase and technical specialists in attendance, how should companies prepare and what is expected?

In Deloitte's experience, it is common for claimant companies to misunderstand aspects of the scientific test, or worse, to completely fail to understand the qualifying criteria. For a company to qualify for R&D tax credits, the activities being claimed for must adhere to the following criteria, as set out in Revenue's guidelines (April 2015):

- Activities must be systematic. That is, they must form part of a planned approach to achieve a specifically desired outcome. They must also be investigative or experimental in nature, and contemporaneous documentation related to the activities must be maintained.
- Activities must be undertaken in a recognised field of science/technology.
- A claimant's activities must be either Basic Research, Applied Research or Experimental Development where - **Basic research** is experimental or theoretical work undertaken to acquire new knowledge, **Applied research** is work undertaken to acquire scientific or technological knowledge with a specific application in mind and **Experimental development** is systematic work, drawing on existing knowledge gained from research and/or practical experience, that is directed to producing new materials, products or devices; installing new processes, systems and services or improving substantially those already produced or installed.)
- A claimant must seek to achieve a scientific advancement and in doing so seek to resolve scientific uncertainty.

Many companies that are involved in technical activities, by virtue of the way they manage projects, costs and time, will feel that they meet the first three criteria. With regard to the last requirement, some useful questions to ask of your technical and scientific project leads are:

- Are your development teams pushing the boundaries of science/technology beyond the normal expectations and capabilities of competent professionals within their field?
- Are the activities being carried out not only difficult, but require experimentation to deliver a successful result, perhaps with some failures along the way?
- Have you achieved an output of new knowledge in the field of science or technology within which your teams are working?
- Are the project activities being claimed evidenced by supporting documentation?

Each technical project that is undertaken by a company should be examined under its own merits to make a reasonable determination as to its eligibility for R&D tax credits. Once this has been done, a claimant needs to use the legislation to identify the allowable costs. Once a calculation has been made, it is filed as part of the company's Corporation Tax return.

Knowledge development box (KDB)

This incentive was introduced in the Finance Act of 2015, and is still very much in its infancy.

Who can claim KDB?

Irish-resident companies with qualifying R&D activity (as above) that results in the creation of qualifying assets. That is, copyrighted software, patented or similarly protected inventions and, in the case of smaller companies, registered inventions that are certified by the Controller of Patents to be novel, non-obvious and useful. "Small" companies for the purposes of KDB are companies with income arising from IP/qualifying assets of less than €7.5 million

When can I claim KDB?

KDB becomes relevant to claimant companies for accounting periods that commence on or after 1 January 2016 and before 1 January 2021. The KDB calculation forms part of the Corporation Tax return and is now firmly on the radar of CEOs CFO's and FD's.

Evidencing expenditure on qualifying assets.

Claimant companies will need to be familiar with the qualifying criteria for the R&D tax credit as outlined above. If KDB claims are scrutinised by Revenue, the documentary evidence that will be required to defend them will be substantial. A company will have to demonstrate the overall income from the qualifying asset, the qualifying expenditure (R&D) in the development of the qualifying asset, as well as the total overall expenditure to develop the asset. Again, this clearly shows the necessity for good systems and controls around R&D project management, to minimise cost, time and effort. Importantly, it will also be necessary to demonstrate a clear link between these expenditures and the profit derived from them. For more detail from me on KDB click

Bringing it all together

For companies in Ireland that are involved in technical and scientific endeavour, with staff who are specialist in their fields, it is important to explore all the available funding mechanisms, both nationally and at an EU level. There are wonderful opportunities for Irish companies, both large and small, to benefit from the substantial RD&I funding that is available. The team at Deloitte will be happy to help you or your teams to navigate this complex RD&I funding landscape.

Please feel free to reach out to me or the team here at Deloitte *Gi³*