



## Managing the cost of doing R&D in Ireland

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- Available to companies only.
- Tax credit of 25% of qualifying R&D spend.
- Can be offset against corporation tax liability.
- Alternative – get in form of cash refund over 33-month period, subject to 'Employment Test'.
- Option to surrender credit to 'key employees' – rarely used.

- R&D activity must be in a field of science or technology.
- Must seek to either:
  - Make a technological/scientific advancement, OR
  - Resolve a scientific/technological uncertainty.
- Key is that you are discovering something that is new/unknown to the market/society as a whole.
- Key point – it is the spend on the ‘process’ that attracts the credit, so it is vital that the ‘process’ is documented.

- Two tests to be met:
  - Science test: the activity must be qualifying R&D.
  - Accounting test: ensure that the costs incurred have been properly tracked, accounted for and clearly linked to the R&D activity.
- Detailed records must be maintained to satisfy both tests.

- Set out clearly the uncertainty/advancement that you are seeking to resolve/make ('your goals').
- Document clearly what steps you have taken to establish the answer/solution is not already available in the market/public sphere ('current state-of-the art').
- Set out the process you intend to follow to achieve your goals.

- Set out skills/CV of project manager and key personnel.
- Describe the ongoing process – tests, results, progress etc.
- If you change approach, set out why and set out new approach.

- Set out dates of commencement and cessation of project.
- Set out clear project plan and match ongoing progress against it.
- Document/describe location of R&D activity and match overheads against that location.
- Detail methods of apportionment of all overheads.
- Document payments made to third parties (contractors and universities etc.)

- Get your systems set up at the outset.
- Document as you go along – not retrospectively.
- Maintain backup documents & linking papers to accounts in a clear order, matching them to the key expenditures.
- Process is key – this is what qualifies for the credit, not the success or end product.

- Claim credit on Form CT1 – but Revenue likely to follow up with aspect query and/or Revenue audit.
- Revenue will use an expert to assist with ‘Science Test’:
  - Usually third-level academic
  - You can appeal choice of expert, e.g. due to commercial sensitivity, conflict of interest etc.
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- They will focus not only on the underlying concept and whether it meets the definition of R&D but also on the costs attributed to the claim and their apportionment.

- Most claims will be selected for verification/audit.
- Revenue focus tends to be on:
  - Your work/research into current state-of-the-art.
  - When the qualifying R&D activity starts and ceases, i.e. the point where uncertainty is resolved.
  - Apportionment of expenditure.

- Outright rejection of claims not so common but Revenue attempts to reduce quantum of claims are.
- Revenue sceptical about claims all expenditure qualifies but we have successfully argued for 100% qualification on occasion.

- Pharmaceuticals, medical devices, clinical trials.
- Fruit juices – lower cost production or where reduced levels of sugar etc., i.e. innovation to improve product.
- Putting an accounting system in the cloud.
- Processes for reduction of waste materials.
- Design of certain wi-fi systems, electronic connectivity devices.
- In summary, potentially available for a wide range of activities, not just the stereotypical ‘white coat laboratory’.

- Requirement to maintain detailed file/documentation – does value of credit justify extra time/cost?
- Definition of R&D and matching it to what you are doing.
- Determining the start/end date of the process.
- Only 12 months to get the claim filed and finalised – can sometimes be challenging. No scope to amend subsequently.
- If not paying corporation tax, the cash refund process can be cumbersome (almost three years)....

- A key part of the tax package to encourage innovation.
- Detailed conditions to be met and not without its challenges and roadblocks.
- But it is more widely applicable than many appreciate
- Also, at 25% additional credit, can be quite valuable.
- An area that may be worth considering.

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