

Research & Development Tax Credit Review 2019

Response to Public Consultation

Table of Contents

Institute recommendations on the R&D tax credit	4
The importance of innovation	5
Innovation for SMEs	6
Governments play an important role in fostering innovation	7
How innovative are Irish businesses?	7
The role of multinationals	9
Irish Government policy on innovation	10
The critical role of tax policy in R&D and innovation	11
The R&D tax credit	11
Ireland's R&D tax credit is vital to innovation	12
Ireland's R&D tax credit encourages job creation	14
Outsourcing and collaboration is restricted	14
The two Revenue tests that apply to the R&D tax credit	16
The claims process	17
Revenue guidance	19
The verification process by Revenue	20
Refund of the R&D tax credit	24
The UK SME friendly R&D regime	25
Conclusion	30

About the Irish Tax Institute



The Irish Tax Institute is the leading representative and educational body for Ireland's Chartered Tax Advisers (CTA) and is the only professional body exclusively dedicated to tax.

The Chartered Tax Adviser (CTA) qualification is the gold standard in tax and the international mark of excellence in tax advice. With over 5,000 members in Ireland, along with the Chartered Institute of Taxation UK and The Tax Institute of Australia, we are part of the 30,000-strong international CTA network and a member of *CFE Tax Advisers Europe*, the European umbrella body for tax professionals.

Our members provide tax education and expertise to thousands of businesses, multinationals, and individuals in Ireland and internationally. In addition, many hold senior roles within professional service firms, global companies, Government, Revenue, state bodies and the European Commission.

After 50 years, the Institute remains deeply committed to the role it can play in education, tax administration and tax policy in Ireland and in building an efficient and innovative tax system that contributes to a successful economy and society. We are also committed to the future of the tax profession, our members and our role in serving Ireland's taxpayers and best interests in a new international world order. Our *Irish Tax Series* publications and online database *TaxFind* are respected and recognised as Ireland's most extensive tax information sources.

Irish Tax Institute - Leading through tax education.

Institute recommendations on the R&D tax credit

1. **A pre-approval process for first-time R&D tax credit claims by small/micro companies** should be introduced to bring much needed certainty for taxpayers. While some of these companies, in receipt of IDA/Enterprise Ireland R&D grants, may qualify for Revenue’s simplified validation process for the science test, this does not alleviate the uncertainty over Revenue subsequently challenging the claim on the accounting test.

The UK, for example, allows small companies, claiming R&D relief for the first time to avail of ‘advance assurance’. This means they can apply to HMRC for relief, without the need for HMRC to carry out any further checks on the claim for the first three accounting periods.

If a small company satisfies the pre-clearance of the science element and provides a standard template document of costs that qualify, it should not have to undergo further checks on the claim in the first two/three years, similar to the approach taken in the UK. Appropriate and adequate resourcing would be essential to ensure the effectiveness of such a process.

2. Different business sectors have different challenges with the R&D claims process, which must be recognised and dealt with through **sector specific guidance**, starting with food production, software and med-tech industries, all of which engage in very different R&D processes.

The guidance could address practical issues for each sector, for example, on the apportionment of staff time and costs to R&D activities, given differing industry practices and norms.

Naturally, all guidance should apply on a prospective basis, to provide business with certainty on Revenue’s interpretation of the rules at that point in time.

3. **SME-friendly guidance**, with step-by-step instructions on the claims process and practical case studies, together with tips on how to avoid common errors in claims.
4. **Condense the 3-year R&D tax credit refund to one year for SMEs.** Smaller companies that are carrying out R&D activities tend to be cash constrained and accelerating the refund for these businesses would be very beneficial to them, with only a timing cost for the Exchequer.
5. Limits in the R&D tax credit regime for outsourcing, restrict collaboration among Irish businesses and, crucially, between businesses and third-level institutions. No outsourcing restriction is required under the OECD Modified Nexus rules for the Knowledge Development Box (KDB). The **outsourcing restrictions in the R&D tax credit regime should be removed** or at the very least, the outsourcing limit for universities should be aligned with the limit for third parties (i.e. 15%). This would be in keeping with government policy to foster collaboration between academia and private business.
6. Many countries are currently improving or introducing new parts to their R&D incentive regimes. Given the mobility of R&D investment projects, we need to **ensure that Ireland’s R&D tax credit remains best in class**, if we want to continue to attract additional R&D investment in this country.

We know from feedback from our survey that there is a certain level of anxiety amongst companies over the potential for Revenue to subsequently challenge R&D tax credit claims. While verification of claims by taxpayers are an intrinsic part of a self-assessment system, it is important that Revenue audits and interventions are proportionate and conducted in a timely and efficient manner, in the interest of all parties.

In addition, it is vital that the technical experts tasked with opining on the science element of claims have the experience of the application of science in a business environment. Revenue should explore ways to expand the pool of experts undertaking this work to ensure it adequately reflects this expertise. We should continually review and reinforce both the policy and operational aspects of the R&D regime to ensure that it can remain best in class internationally.

The importance of innovation

Innovation plays a central role in driving productivity growth and fostering competitiveness in economies. Ireland is an economy where our competitiveness depends on innovation.

The consensus among international bodies is that governments must support research and development (R&D) activity because the costs and risks for business are so high but the benefits for the economy are proven and long term.

When we take a look at how Irish businesses are performing when it comes to R&D, we see that, in this country, the innovation undertaken leans heavily on companies that are:

1. Foreign owned;
2. Large (over 250 employees);
3. Established; and
4. Located in the east and midlands region of the country.

The Irish Government has the ambitious target of reaching R&D investment of 2.5% of GNP by 2020. Indications are at this stage that this target is unlikely to be met.¹ Given this target, together with the dependency on the four trends above and the challenges of Brexit, we must examine whether we are doing everything possible to provide a supportive tax regime for indigenous Irish businesses that urgently need to expand their innovation activity.

The role that innovation plays in economic growth has been recognised internationally by the OECD and the European Commission. The OECD has said that innovation provides the foundation for new businesses and new jobs.² It has noted that innovative economies are more productive, more resilient, more adaptable to change and better able to support higher living standards.³

R&D is a key driver of innovation and fiscal policies are important in fostering private R&D development. The European Commission has recognised the link between innovation and productivity through the impact of R&D investment on productivity.⁴ The Commission believes that investing in innovation would foster the productivity and exporting potential of Irish firms at a time when diversifying exports and export destinations could help stabilise the performance of Irish firms.⁵

In Ireland, the National Competitiveness Council (NCC) has also spoken of the need for innovation from a competitiveness perspective. The NCC regards innovation as a vital component to secure the diversification and broadening of the enterprise and exports base.⁶

In its Corporate Strategy 2017–2020⁷, Enterprise Ireland (EI) set out major strategic ambitions to increase client exports by €5bn to €26bn per annum by 2020 and to support their clients in the creation of 60,000 new jobs, as well as sustaining the existing 200,000 record level of jobs. Such is the importance of innovation that EI has made innovation one of the four pillars

1 According to Minister of State at the Department of Business, Enterprise and Innovation John Halligan TD <https://www.oireachtas.ie/en/debates/question/2019-01-17/127/>

2 OECD Innovation Strategy 2015 – An Agenda for Policy Action, page 2, <http://www.oecd.org/innovation/OECD-Innovation-Strategy-2015-CMIN2015-7.pdf>

3 OECD Innovation Strategy 2015 – An Agenda for Policy Action, page 2, <http://www.oecd.org/innovation/OECD-Innovation-Strategy-2015-CMIN2015-7.pdf>

4 European Commission, Better regulations for innovation-driven investment at EU level, page 8 https://ec.europa.eu/research/innovation-union/pdf/innovrefit_staff_working_document.pdf

5 European Commission Council Recommendation on the 2017 National Reform Programme of Ireland and delivering a Council opinion on the 2017 Stability Programme of Ireland, 22 May 2017

6 National Competitiveness Council Report, 'Benchmarking Competitiveness: Ireland and the United Kingdom 2017', page 67, <http://www.competitiveness.ie/Publications/2017/NCC-IE-UK.pdf>

7 Enterprise Ireland: Corporate Strategy 2017–2020 'Building Scale, Expanding Reach & Delivering Global Ambition', 15 May 2017

to reach its goals by “driving the innovation in Irish enterprise to record levels through new supports to reach the target of €1.25bn in R&D expenditure per annum by 2020.” EI intends to increase the levels of investment and spend in R&D and innovation by their client companies to help them to continue to develop products and services localised for Eurozone markets.

The ESRI, as part of the recommendations in its report⁸ on the manufactured exports of Irish-owned business, has said that support for innovation is a key policy takeaway for the success of exporting firms in manufacturing. The transformation of the global manufacturing landscape is now compelling businesses to rethink innovation.⁹

Innovation for SMEs

Innovation plays a particularly crucial role in the development of smaller companies and various bodies have highlighted this. Irish SMEs are not as export focused as in other countries and innovation can play a role in their strategy for growth.

Start-ups and SMEs are vital to innovation drives, as is evidenced by the IMF, who have said that many radical innovations result from small entrepreneurial ventures engaging in experimentation and that innovation depends on an efficient process of entrepreneurial entry, growth and exit.¹⁰

We know from research by the NCC that new start-ups, particularly in ICT, are more inclined to engage in more radical innovations, which enhance productivity, than incumbents who tend to adopt an incremental approach.¹¹ A continuous flow of new business start-ups that can survive and thrive in international markets strengthens the productivity base, not only through the creation of new businesses, products and services but also by stimulating improved performance in existing businesses. More than half of productivity growth at the industry level has been attributed to new entrants.

- Innovation plays a central role in driving growth and fostering competitiveness in economies.
- SMEs need to be innovative to develop and expand into new markets. This is particularly important post Brexit as some SMEs cannot be as reliant on the UK export market.

The NCC, building on the OECD’s research in the *Future of Productivity*¹² report, believes that the following factors are particularly important in relation to enhancing Irish productivity performance:

- Fostering innovative indigenous start-ups, scaling and improving survival rates.
- Deepening innovation capacity, capability and activity at firm level, particularly in indigenous SMEs (and Ireland’s non-exporting sectors).
- Developing and nurturing business, scientists and talented people – to which innovation is crucial.¹³

8 ESRI Report, ‘Expanding and diversifying the manufactured exports of Irish-owned enterprises, page 67, <http://www.esri.ie/pubs/BKMNEXT335.pdf>

9 Engineers Journal, ‘Manufacturing in Ireland: is the time right for a renaissance?’ 14 June 2016, <http://www.engineersjournal.ie/2016/06/14/irish-manufacturers-association/>

10 ‘Imagine what fiscal policy could do for Innovation’, Vitor Gaspar & Ruud de Mooij <https://blogs.imf.org/2016/03/31/imagine-what-fiscal-policy-could-do-for-innovation/>

11 National Competitiveness Council Report, ‘Benchmarking Ireland’s Productivity Performance 2004-2014’ page 12, <http://www.competitiveness.ie/Publications/2016/NCC-Benchmarking-Irelands-Productivity-2004-2014-report.pdf>

12 OECD Report, ‘The Future of Productivity’, <http://www.oecd.org/eco/OECD-2015-The-future-of-productivity-book.pdf>

13 National Competitiveness Council Report, ‘Benchmarking Competitiveness: Ireland and the United Kingdom 2017’, page 67, <http://www.competitiveness.ie/Publications/2017/NCC-IE-UK.pdf>

Governments play an important role in fostering innovation

Governments play a key role in fostering a sound environment for innovation. The OECD says that governments need to ensure innovation contributes to the key goals of public policy by investing in the foundations for innovation and helping overcome certain barriers to it.¹⁴

The OECD sets out five priorities for policymakers:

- i. Strengthen investment in innovation and foster business dynamism.
- ii. Invest in and shape an efficient system of knowledge creation and diffusion.
- iii. Seize the benefits of the digital economy.
- iv. Foster talent and skills and optimise their use.
- v. Improve the governance and implementation of policies for innovation.

The IMF has also indicated that fiscal incentives should reduce the cost of investing in R&D by 50% on average for businesses in advanced economies, to encourage businesses to carry out more R&D. The IMF believes this would reap the benefits for the wider economy, raising GDP in advanced economies by 5% in the long term.¹⁵

How innovative are Irish businesses?

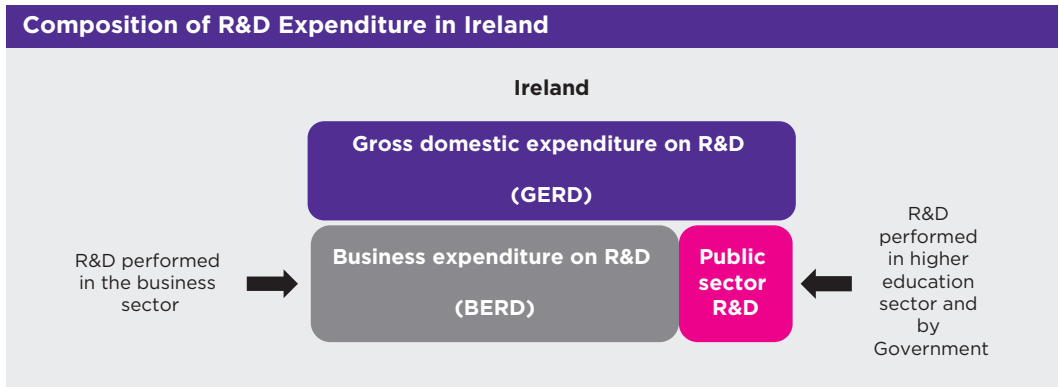
R&D expenditure by businesses has increased by 24% to €2.8bn in 2017 compared to 2015. However, GNP/GDP levels have increased at a faster rate and the level of expenditure in Ireland still falls some way short of the EU average of 2.03%, and the expenditure of countries such as Sweden (3.26%), Germany (2.87%), France (2.23%) and the UK (1.69%).

The international indicator used to measure R&D carried out in a country is gross domestic expenditure on R&D (GERD) expressed as a percentage of GDP. GERD includes expenditure on R&D by business enterprises (also known as BERD), higher-education institutions, as well as government and non-profit organisations.

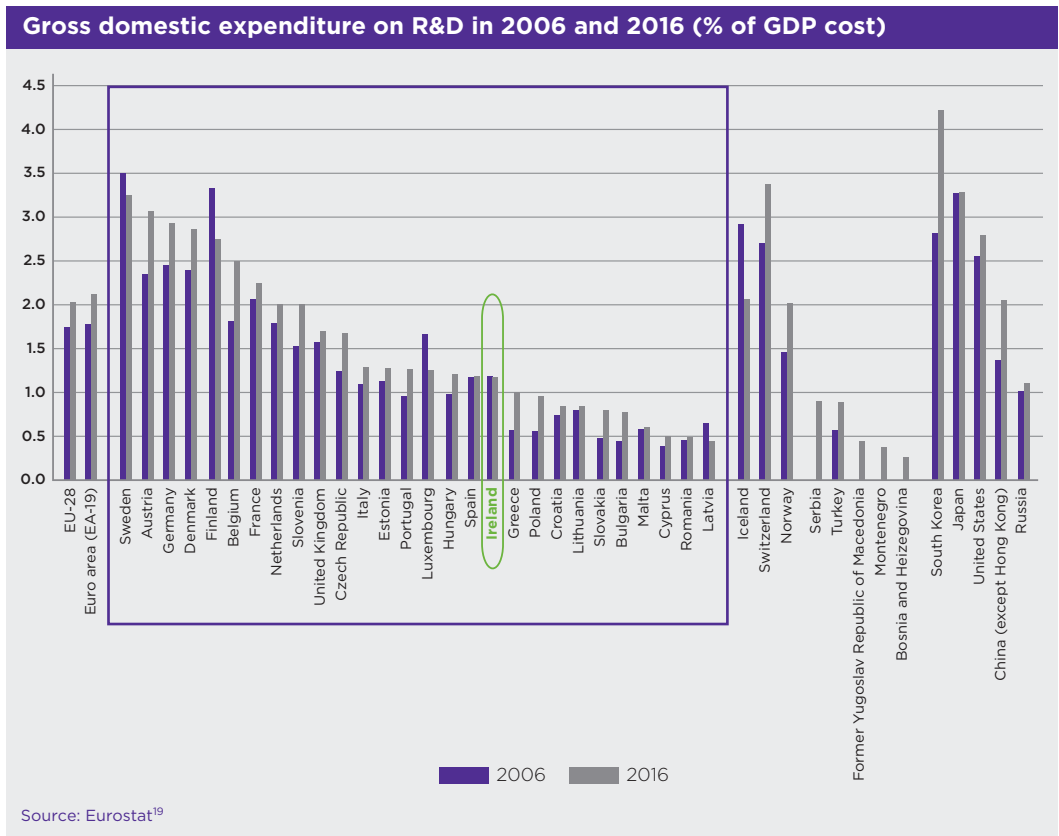
¹⁴ OECD Innovation Strategy 2015 – An Agenda for Policy Action.

¹⁵ Imagine what fiscal policy could do for Innovation", Vitor Gaspar & Ruud de Mooij <https://blogs.imf.org/2016/03/31/imagine-what-fiscal-policy-could-do-for-innovation/>



To create as full and as comprehensive a picture of the structure and shape of the Irish innovation landscape, we have used the most recently available data on GERD from Eurostat (2016)¹⁶ and the most recent CSO BERD Survey carried out on behalf of Eurostat (2017–2018).



GERD in Ireland in 2016 was 1.18%¹⁷ of GDP. To realise our goal of 2.5% of GNP¹⁸ (approximately 2% of GDP) spend on R&D by 2020 and to ensure we have a growing, exporting, indigenous enterprise base, we need to make sure that more small companies are innovating sooner.



16 https://ec.europa.eu/eurostat/statistics-explained/index.php/R_%26_D_expenditure#Gross_domestic_expenditure_on_R_%26_D
 17 Page 80 of <http://www.competitiveness.ie/Publications/2018/Ireland-s-Competitiveness-Scorecard-2018.pdf>
 18 Europe 2020 targets, http://ec.europa.eu/europe2020/pdf/targets_en.pdf
 19 https://ec.europa.eu/eurostat/statistics-explained/images/4/4e/Gross_domestic_expenditure_on_R_%26_D%2C_2006_and_2016_%28%25%2C_relative_to_GDP%29_FP18.png

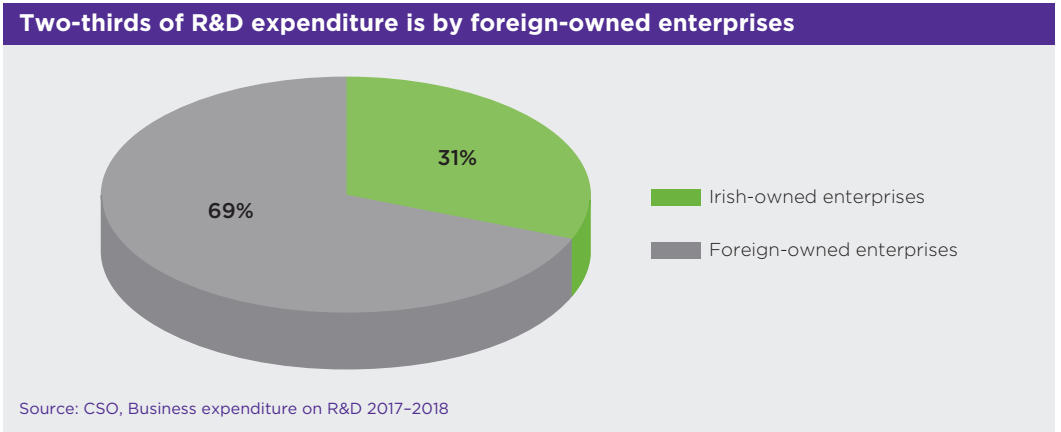
Some important statistics on Irish R&D spend		
		% of GDP
Government's Innovation 2020 Strategy GERD goal for R&D investment		2.0 (2.5% GNP)
Irish GERD in 2016		1.4
EU average of GERD in 2016		2.03
Leading EU country (Sweden) GERD in 2016		3.25

The largest component of GERD in Ireland is R&D expenditure by the business sector. The latest available figure for BERD in Ireland is 0.8% of GDP (2015 – 2016)²⁰.

The role of multinationals

When we examine the make-up of BERD in Ireland, it provides some interesting insights into the type of companies carrying out R&D and those making the largest investment in innovation activities.

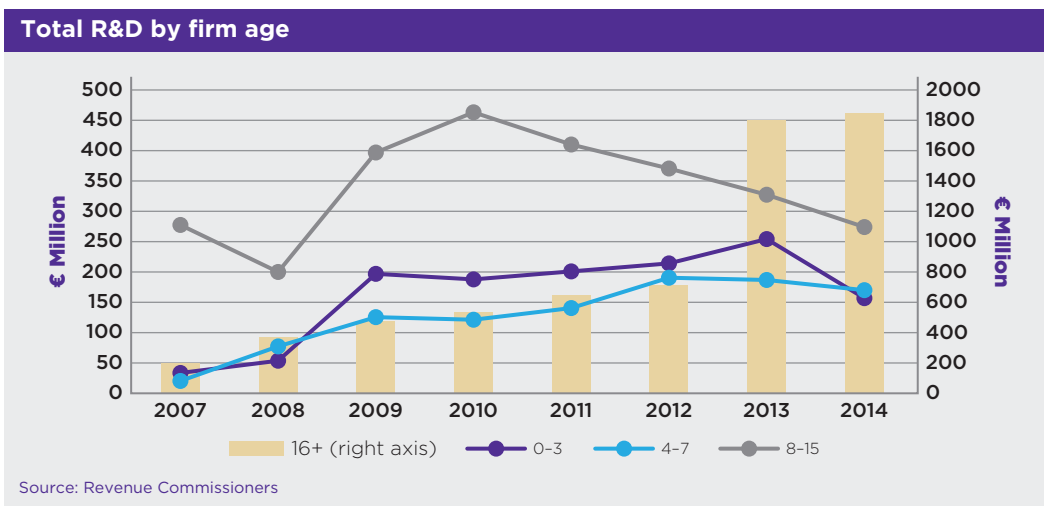
- Foreign-owned companies incur more than two-thirds of overall R&D expenditure.



- The largest 100 enterprises in terms of R&D, accounted for over €2.1bn, or 75%, of the total R&D expenditure in 2017. Of these top 100 enterprises, 82% of the spend can be attributed to foreign owned enterprises.²¹
- Only 22% of all Irish owned businesses spent over €500,000 on R&D in 2017, compared to 64% of all foreign owned businesses.²²
- When comparing BERD expenditure across the EU, the latest data available is from 2017.²³ The foreign-owned sector invested €1.9bn on R&D in Ireland in 2017. By contrast, domestic enterprises invested the equivalent of €859m in the same year.²⁴

20 <https://dbe.gov.ie/en/Publications/Publication-files/R-D-Budget-Survey-Report-2016-2017.pdf>
21 <https://www.cso.ie/en/releasesandpublications/er/berd/businessexpenditureonresearchdevelopment2017-2018/>
22 <https://www.cso.ie/en/releasesandpublications/er/berd/businessexpenditureonresearchdevelopment2017-2018/>
23 <https://rio.jrc.ec.europa.eu/en/stats/business-enterprise-rd-expenditure-berd-source-funds-value-or-intensityhttp://finance.gov.ie/sites/default/files/Economic%20Impact%20of%20the%20FDI%20sector.pdf>
24 https://pdf.cso.ie/www/pdf/20190418092640_Business_Expenditure_on_Research_amp_Development_2017_2018_full.pdf

- Ireland performs relatively well on the Innovation Output Indicator and on the Innovation Union Scoreboard. This is mainly due to high-tech manufacturing sectors and knowledge-intensive services. However, this R&D is largely carried out by foreign multinationals.²⁵
- Only 1% of all small companies consider themselves to be R&D active and 15% of medium companies consider themselves to be R&D active.
- Small companies account for 15% of total business expenditure on R&D in 2017; medium companies account for 22% and large companies are responsible for 63.2% of the spend.²⁶
- Companies based in the Eastern and Midland region incurred 67% of R&D expenditure, with the remainder in the Border, South and West regions.²⁷



Irish Government policy on innovation

The Irish Government plays an important role in developing an ecosystem to foster increased investment in R&D by companies of all sizes. The Government’s *Innovation 2020*²⁸ strategy is a five-year plan which seeks to make Ireland a “Global Innovation Leader”. The cornerstone of this strategy is a commitment to increasing total R&D investment to 2.5% of GNP.

The Government provides a range of supports for businesses engaging in R&D activity, many of which are administered through Enterprise Ireland and aimed at small companies, such as;

- Innovation Vouchers scheme
- R&D Fund (for both small and standard projects)
- Technical Feasibility Study grant
- Innovation Partnerships programme

State supports are available for SMEs in Ireland looking to fund innovation such as Enterprise Ireland (EI) vouchers that are worth €5,000 in R&D assistance from a third-level institution. EI also has business innovations grants for SMEs, which pay up to 50% of the cost of a business innovation programme to a maximum of €150,000. EI are also involved

25 T. Martin and P. Fákó, *RIO Country Report 2017: Ireland*, page 24.

26 https://pdf.cso.ie/www/pdf/20190418092640_Business_Expenditure_on_Research_amp_Development_2017_2018_full.pdf

27 <https://www.cso.ie/en/releasesandpublications/er/berd/businessexpenditureonresearchdevelopment2017-2018/>

28 Department of Jobs, Enterprise and Innovation Report: *Innovation 2020*, <https://www.djei.ie/en/Publications/Publication-files/Innovation-2020.pdf>

in Innovation Partnerships, which bring together industry and third level researchers across food, manufacturing, pharmaceutical and the technology sectors.

EI wants to drive access to research funding and partnership opportunities in Ireland as part of the EU’s €80bn Horizon 2020 strategy and also support market-led product, process and service innovation for companies across all sectors. The other objectives focus on competitiveness, diversification and global ambition.

The Department of Business, Enterprise and Innovation’s Disruptive Technologies Innovation Fund (DTIF), launched in 2018 is a €500m fund over the ten years of the National Development Plan. It aims to foster the development and deployment of innovative technologies for commercial use through collaborations between enterprises in Ireland. DTIF Call 1 (2018) saw 27 collaborative projects funded with over 100 partners involved and funding of €75m. DTIF Call 2 is due to be launched later this month.

The NCC has said that there should be increased emphasis on the promotion of R&D and innovation programmes to assist companies overcome the challenges posed by Brexit.²⁹

The critical role of tax policy in R&D and innovation

Fiscal policies have an important role to play in fostering R&D investment by the private sector.³⁰ The Department of Finance carried out an economic evaluation of the R&D tax credit in October 2016 to consider “*why R&D is important for economic growth and why government intervention may be warranted.*”³¹

The paper³² evaluated whether the tax credit resulted in additional R&D expenditure by firms, meaning R&D that would not have taken place without the availability of the tax credit. The Department’s analysis in 2016 indicated that the tax credit achieves reasonable additionality and estimated that, on average, the ‘bang for the buck’ ratio for the Irish R&D tax credit is 2.4.

We welcome the Department’s current review of the R&D tax credit, as part of its series of rolling tax expenditure evaluations.

The R&D tax credit

The R&D tax credit was introduced in 2004. It provides an additional 25% tax credit to companies engaged in R&D activity, thereby increasing the maximum relief they can claim on R&D costs to:

Claim on R&D costs to:	12.5
Additional R&D tax credit	<u>25.0</u>
Total relief available	<u>37.5</u>

The cost of the R&D tax credit to the State is very significant (€448m in 2017)³³ and therefore R&D claims are closely scrutinised by Revenue.

29 National Competitiveness Council: Ireland’s Competitiveness Challenge 2016, December 2016, p.91, <http://www.competitiveness.ie/Publications/2016/Competitiveness-Challenge-2016-NCC.pdf>

30 IMFBlog, Imagine what fiscal policy could do for Innovation, Vitor Gaspar & Ruud de Mooij <https://blogs.imf.org/2016/03/31/imagine-what-fiscal-policy-could-do-for-innovation/>

31 Department of Finance Report: Economic Evaluation of the R&D tax credit, October 2016, <http://www.finance.gov.ie/sites/default/files/170214%20R-and-D-Credit-Evaluation-2016.pdf>

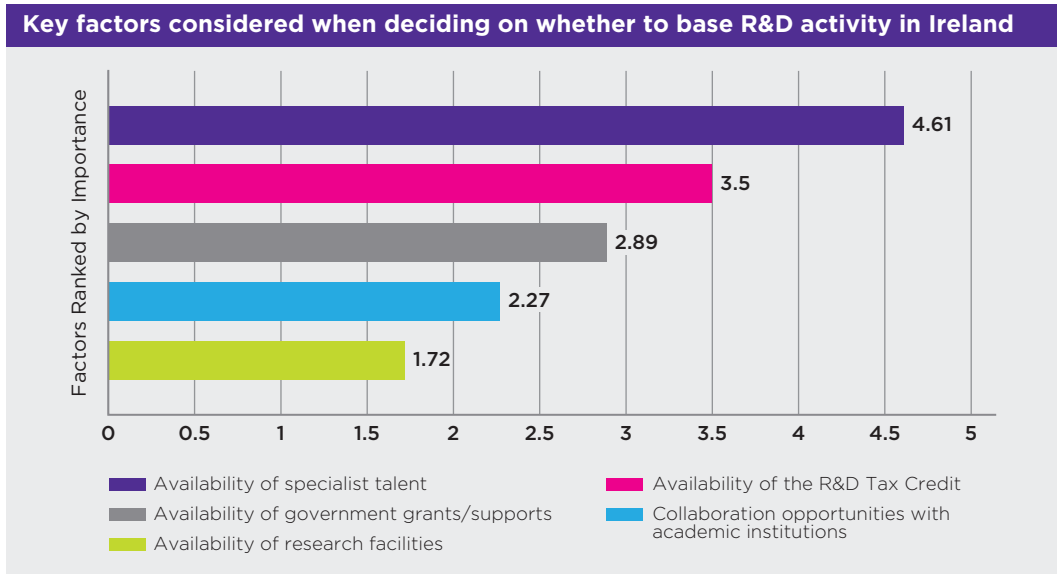
32 Department of Finance Report: Economic Evaluation of the R&D tax credit, October 2016, <http://www.finance.gov.ie/sites/default/files/170214%20R-and-D-Credit-Evaluation-2016.pdf>

33 <https://www.revenue.ie/en/corporate/documents/statistics/tax-expenditures/r-and-d-tax-credit-statistics.pdf>

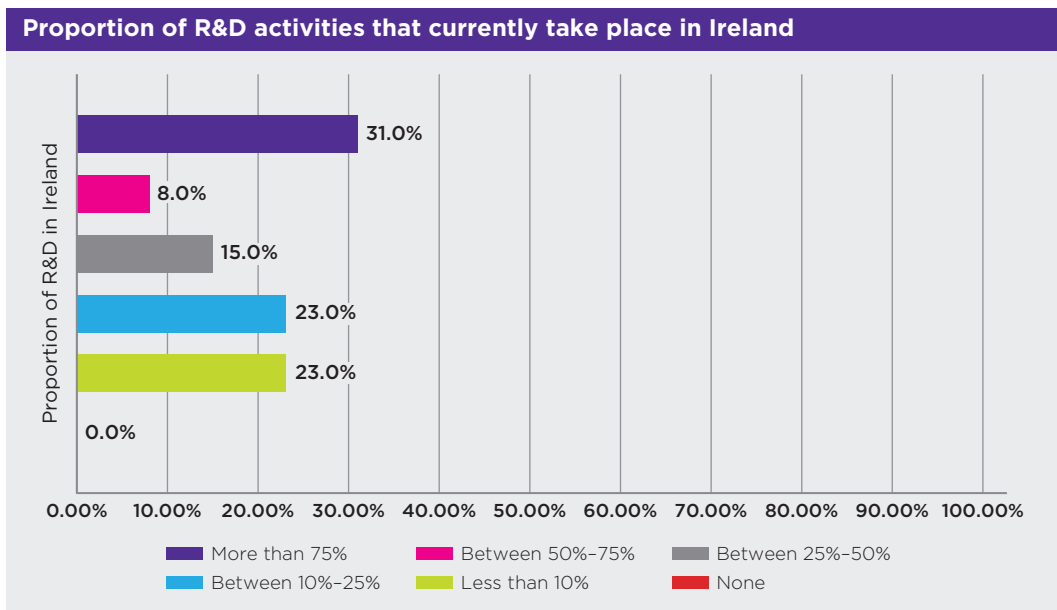
Ireland’s R&D tax credit is vital to innovation

The R&D tax credit regime is a very important benefit for all Irish companies carrying out R&D work and it has been improved in a number of ways over the past ten years.

In May 2019, the Irish Tax Institute carried out a survey of members and a sample of Irish businesses.³⁴ We asked businesses carrying on R&D activities to identify and rank in order of importance the key factors they consider when deciding on whether to base their R&D activity in Ireland. Availability of specialist talent was ranked as the most important (i.e. 4.61 out of 5), with the R&D tax credit as the second most important factor (i.e. ranked 3.5 out of 5).

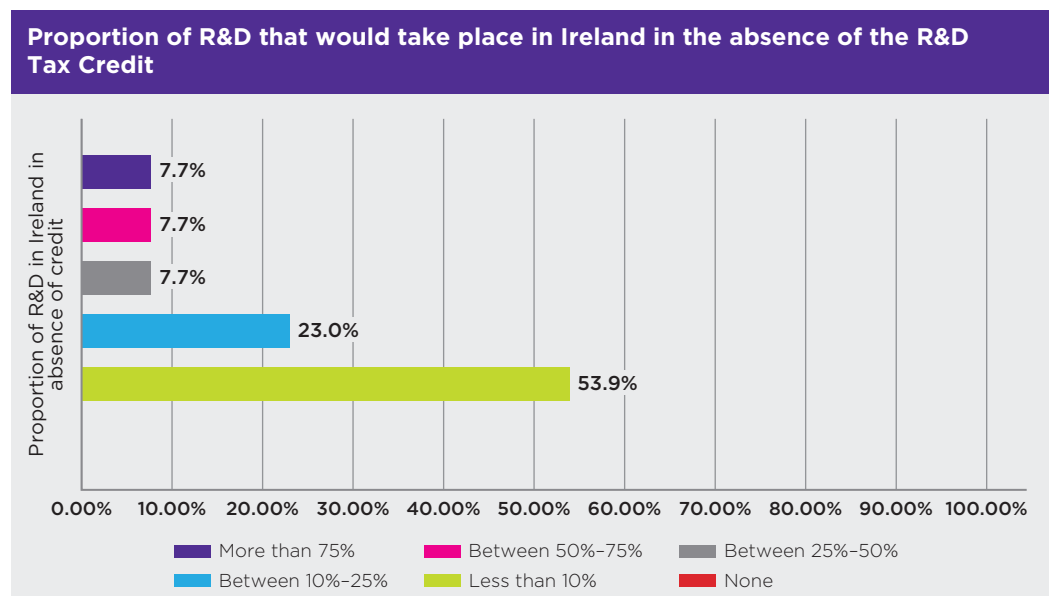


We asked survey respondents to indicate the proportion of their R&D activities that currently take place in Ireland and the proportion that would take place in Ireland in the absence of the R&D tax credit.

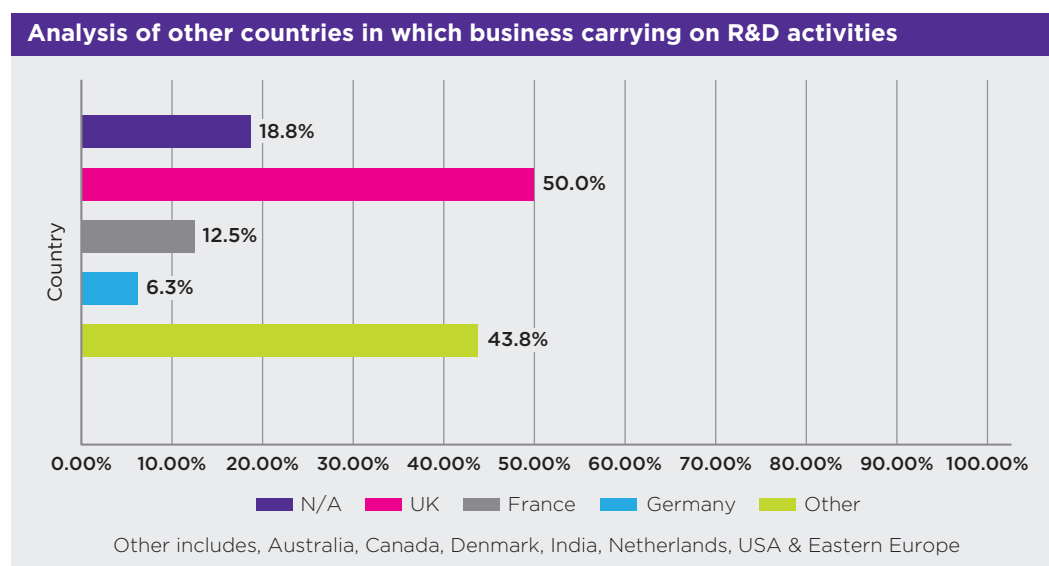


³⁴ Irish Tax Institute R&D Survey, May 2019, based on 93 respondents – 27 were companies based in Ireland and 66 were tax advisers who advise companies on making R&D tax credit claims.

Interestingly, there was a significant drop off in the amount of R&D activity that would take place across all businesses, in the absence of the R&D tax credit, further demonstrating the significance of the availability of the R&D tax credit in fostering and driving R&D investment in Ireland.



The findings of the Institute survey³⁵ also shows that Irish businesses are carrying on R&D activities in several jurisdictions that provide incentives for R&D, with the UK being the front-runner, followed by France and Germany. Other jurisdictions include Australia, Canada, Denmark, India, Netherlands, USA & Eastern Europe.



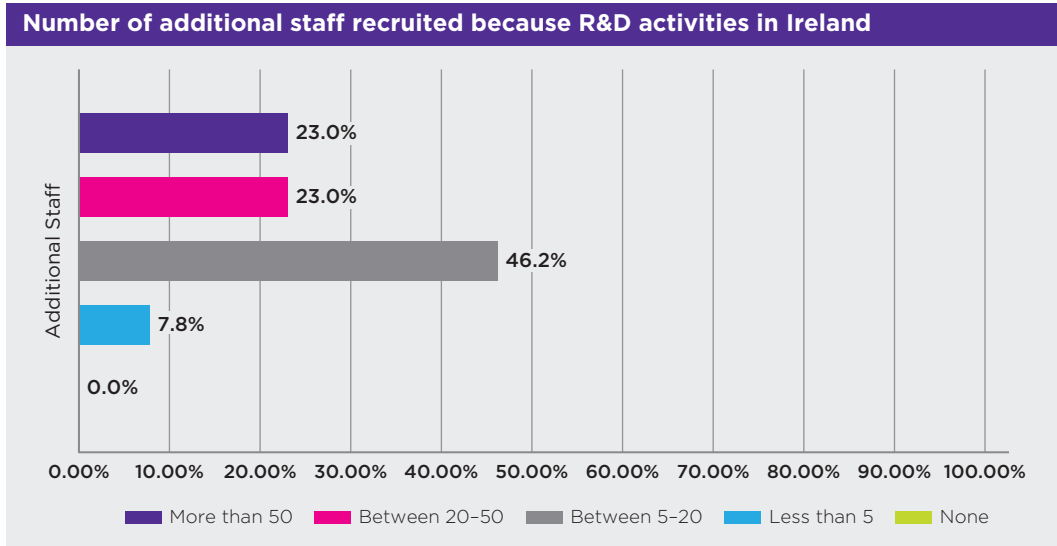
Indeed, an US-owned multinational company noted that the R&D tax credit was a key deciding factor for its US parent company to expand operations in the North West of Ireland. *“The presence of an existing and established operation in India would have been the natural choice, without the incentive of the R&D tax credit.”*³⁶

³⁵ Irish Tax Institute R&D Survey 2019, May 2019, based on 93 respondents - 27 were companies based in Ireland and 66 were tax advisers who advise companies on making R&D tax credit claims.

³⁶ Comment by a foreign-owned MNC in response to the Irish Tax Institute R&D Tax Credit Survey 2019, May 2019.

Ireland’s R&D tax credit encourages job creation

The purpose of the R&D tax credit is to promote jobs and investment in Ireland by encouraging companies to conduct their R&D activities through Ireland. All businesses that completed the Institute survey noted an increase in staff recruitment as a result of conducting R&D in Ireland.



“The R&D tax credit is a very valuable incentive to us in terms of attracting R&D investment to Ireland, which in turn allows us to recruit highly skilled talent, develop our pipeline and ultimately increase our commercial operations.” – Foreign-owned MNC³⁷

It is clear that the R&D tax credit is working well for certain companies. However, some limiting factors remain within the regime, which merit further consideration, given the lower level of take up by Irish SMEs and the focus that we need to place on innovation by the indigenous sector.

Outsourcing and collaboration is restricted

A R&D environment that supports collaboration with the university sector is regarded as the best practice model internationally. Furthermore, businesses carrying out R&D work will often find that some elements or stages of that work cannot be completed in-house and have to be outsourced. Yet in Ireland, we significantly limit tax relief on the cost of work outsourced or undertaken in collaboration with others.

The *Innovation Policy Platform*,³⁸ a joint endeavour between the OECD and World Bank explains the benefits of collaboration. Universities and public research institutes serve as important facilitators and promoters of the overall innovation process by sharing knowledge, expertise, innovation skills and technological applications. One of the major objectives of R&D collaboration between universities and industry is to ensure a smooth transfer of knowledge and technologies from scientists and engineers to entrepreneurs.

According to the NCC,³⁹ competitive economies need sufficient and effective investment in R&D by the private sector. High-quality scientific research institutions are also required, together with extensive research collaboration between universities and industry. However, overall levels of investment in R&D in Ireland remain below the best performing countries.

³⁷ Comment by a foreign-owned MNC in response to the Irish Tax Institute R&D Tax Credit Survey 2019, May 2019.
³⁸ <https://www.innovationpolicyplatform.org/content/rd-collaboration-universities-and-pris-firms?topic-filters=11976>
³⁹ National Competitiveness Council Report, 'Benchmarking Competitiveness: Ireland and the United Kingdom, 2017', page 67 <http://www.competitiveness.ie/Publications/2017/NCC-IE-UK.pdf>

Outsourcing to third parties is particularly common in certain industries such as the food, pharmaceutical and biotech sectors and can be of particular importance to the SME sector. Outsourcing can often result in quicker and more cost-effective completion of innovation projects. For example, the Tufts Center for the Study of Drug Development reports that clinical trials conducted by specialist third party clinical research organisations are completed on average 30% quicker than those conducted in-house.

Food testing is integral to the efficient production of safe, quality products. Outsourcing shelf-life testing, nutritional analysis and testing for allergens, residues and contaminants is common in the sector, especially in the case of smaller companies, who may not have the necessary technical expertise in-house.

In its *Innovation 2020*⁴⁰ report, the Department of Jobs, Enterprise and Innovation notes the importance of greater use by businesses of research assets of the Higher Education Institutes, by engaging with Research Centres and Technology Centres, to support Ireland's vision of becoming a Global Innovation Leader. According to the report, the most impactful science can come from international collaborations between academia and industry.⁴¹

However, the Irish R&D tax credit restricts collaboration with others, and this is unusual by international standards.

- Outsourcing R&D work to **third parties** is restricted to 15% of the in-house R&D expenditure or €100,000 (whichever is greater).
- Outsourcing R&D work to **universities** is restricted to 5% of the in-house R&D expenditure or €100,000 (whichever is greater).

Any outsourcing to a **related party** (such as another company in the group) prohibits a claim entirely.

As part of its Base Erosion and Profit Shifting (BEPS) project, the OECD developed a Modified Nexus approach for patent box regimes. They considered the treatment of outsourced R&D costs for the purpose of the patent box calculations and decided that it was not necessary to restrict them, as companies are unlikely to outsource the fundamental value-creating activities to an unrelated party.⁴²

When Ireland introduced the Knowledge Development Box (KDB) in 2015, it was the first OECD-compliant patent box in the world, applying these rules and adopting the "Modified Nexus Approach", which directly links the patent box (KDB) relief to the R&D incurred.

Feedback from our members is that these restrictions impact the decision to locate R&D in Ireland. We understand that they are very prohibitive, for example, for companies carrying out clinical trials. This can make Ireland far less attractive to R&D investment than the UK.⁴³

40 Department of Jobs, Enterprise and Innovation Report: Innovation 2020, <https://www.djei.ie/en/Publications/Publication-files/Innovation-2020.pdf>

41 Department of Jobs, Enterprise and Innovation Report: Innovation 2020, <https://www.djei.ie/en/Publications/Publication-files/Innovation-2020.pdf>

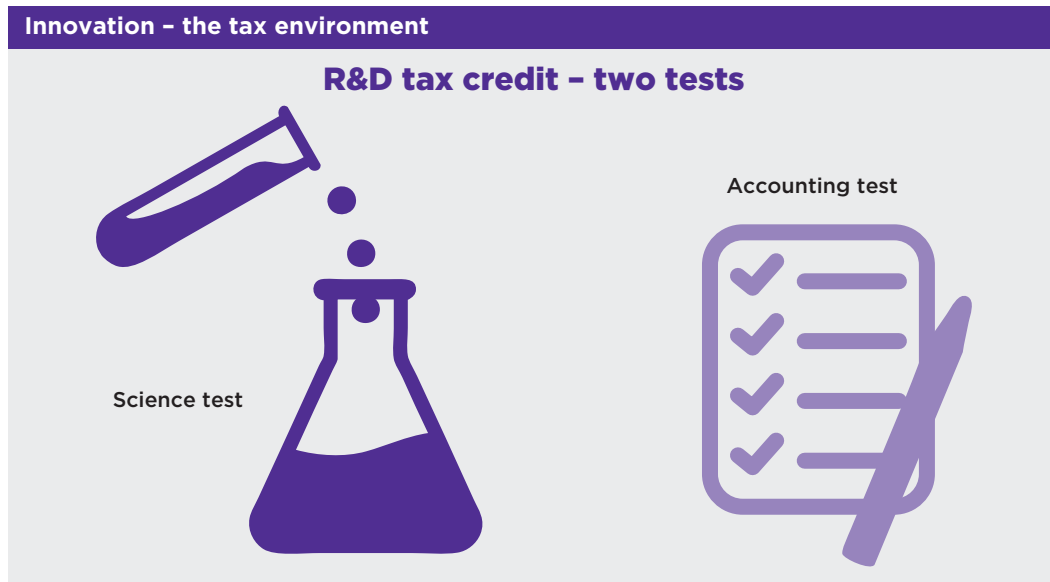
42 OECD (2014), Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing. <http://dx.doi.org/10.1787/9789264218970-en>

43 Irish Tax Institute R&D Survey May 2019 - 93 respondents; 27 respondents were companies based in Ireland and 66 respondents were tax advisers who advise companies on making R&D tax credit claims.

The two Revenue tests that apply to the R&D tax credit

Broadly speaking, any business that wants to claim the R&D tax credit must be able to satisfy two tests:

- a. The science test, which tests that the activities being carried on qualify as R&D; and
- b. The accounting test which tests that the costs being claimed relate to the R&D part of the business.



The conditions for both tests are explained in more detail below.

1. The science test

To qualify for the R&D tax credit, the activities must be:

- systematic, investigative or experimental activities;
- in a field of science or technology;
- involving one or more of the following categories of R&D:
 - basic research,
 - applied research, or
 - experimental development.

And the company must be:

- seeking to achieve scientific or technological advancement;
- involving the resolution of scientific or technological uncertainty.

Revenue will often ask the business to prove this science test in order to secure the R&D tax credit.

Revenue streamline the R&D validation process for small/micro companies

In February 2017, Revenue confirmed that, in certain circumstances, smaller companies do not have to undergo the science test as part of any validation checks on their R&D tax credit claims.

It applies to small or micro businesses where:

- an IDA / Enterprise Ireland R&D grant has already been approved for the project;
- the credit claim in any year is no more than €50,000; and
- the project is undertaken in a qualifying field of science or technology.⁴⁴

The accounting test (i.e. the record-keeping requirements) still must be passed by the company.

2. The accounting test

Only those revenue expenses that are incurred by the business wholly and exclusively **in the carrying on** of R&D activities can qualify for the R&D tax credit.

This includes:

- Salaries and wages of staff directly involved in the R&D activity.
- Cost of raw materials used in the R&D activity.
- Fuel, power, water, etc. used in the R&D process.

In many cases the company will have to carry out an allocation exercise to determine how much of their overall costs relate to their R&D activity and how much relate to other work they carry out. Proving this allocation of costs to Revenue is called the “accounting test” and can be complex.

The claims process

The processes and documentation needed to support an R&D claim can be daunting. This is a particular challenge for business sectors such as food, software and IT, which traditionally do not document their processes and costs to anything like the extent done in highly regulated sectors, such as pharma and financial services.

The time and resources required to prepare this documentation can deter some taxpayers, and particularly SMEs, from claiming the credit. For them, the compliance cost for the business is greater than the potential benefit of the tax credit.

A R&D tax credit claim must be made within 12 months of the year-end.

⁴⁴ Revenue eBrief No.17/17

There are 27 separate fields for a R&D tax credit claim on the tax return. However, completing the tax return form is sometimes the easiest part of the process.

Extract from Corporation Tax Return (Form CT1)

10 - RESEARCH & DEVELOPMENT CREDIT and ALLOWANCES

10.1 (a) Amount of credit claimed under Sec. 766 in this accounting period (include here any amounts surrendered under Sec. 766(2A)) 00
 (b) If any amount at Line 10.1(a) refers to expenditure on machinery & plant, enter that amount here 00

10.2 (a) Amount of credit included at Line 10.1(a) that has been surrendered in accordance with Sec. 766(2A) 00
 (b) In relation to the amount of credit surrendered, enter details of each employee receiving the credit

PPS Number	Amount	PPS Number	Amount
<input type="text" value="0000000000"/>	<input type="text" value="0000000000"/> 00	<input type="text" value="0000000000"/>	<input type="text" value="0000000000"/> 00
<input type="text" value="0000000000"/>	<input type="text" value="0000000000"/> 00	<input type="text" value="0000000000"/>	<input type="text" value="0000000000"/> 00
<input type="text" value="0000000000"/>	<input type="text" value="0000000000"/> 00	<input type="text" value="0000000000"/>	<input type="text" value="0000000000"/> 00
<input type="text" value="0000000000"/>	<input type="text" value="0000000000"/> 00	<input type="text" value="0000000000"/>	<input type="text" value="0000000000"/> 00
<input type="text" value="0000000000"/>	<input type="text" value="0000000000"/> 00	<input type="text" value="0000000000"/>	<input type="text" value="0000000000"/> 00

10.3 Amount of unused credit claimed under Sec. 766 carried forward from a previous accounting period excluding unused credit carried forward under Sec. 766(4B)(b)(i)(i) and Sec. 766(4B)(b)(i)(ii) 00

10.4 Amount of unused credit carried forward under Sec. 766(4B)(b)(i)(i) 00

10.5 Amount of unused credit carried forward under Sec. 766(4B)(b)(i)(ii) 00

10.6 Amount of credit claimed on the construction or refurbishment of a building under Sec. 766A in this accounting period 00

10.7 Amount of unused credit claimed on the construction or refurbishment of a building under Sec. 766A carried forward from a previous accounting period excluding unused credit carried forward under Sec. 766A(4B)(b)(i)(i) and Sec. 766A(4B)(b)(i)(ii) 00

10.8 Amount of unused credit carried forward under Sec. 766A(4B)(b)(i)(i) 00

10.9 Amount of unused credit carried forward under Sec. 766A(4B)(b)(i)(ii) 00

10.10 (a) Amount of unused credit carried forward under Sec. 766(4C) 00
 (b) Enter the Tax Reference Number of the predecessor company

Company 1

Company 2

Company 3

10.11 (a) Amount of unused credit carried forward under Sec. 766A(3A) 00
 (b) Insert 00 in the box to confirm that the building or structure, which was the subject of the claim by the predecessor company, has been transferred to the successor company in accordance with Sec. 766A(3A)

10.12 Amount of Group Relief claimed under Sec. 766A (excess credit claimed) 00

10.13 Amount of Group Relief surrendered under Sec. 766A(4)(b) (excess credit surrendered) 00

10.14 Excess Research & Development Credit claimed under Sec. 766(4A)(a) (carry back of R&D from succeeding accounting period) 00

10.15 Excess Research & Development Credit claimed under Sec. 766A(4A)(a) (carry back of R&D from succeeding accounting period) 00

10.16 Total Research & Development Credit claimed in this accounting period 00

10.17 Amount of Research & Development Credit being clawed back 00

10.18 Total Research and Development Credit now due in this accounting period 00

Claim for payment of excess Research & Development Tax Credit (subject to Sec. 766B(3)(a) and Sec. 766B(3)(b))

10.19 First instalment - amount of claim under Sec. 766(4B)(b)(i) 00

10.20 First instalment - amount of claim under Sec. 766A(4B)(b)(i) 00

10.21 Second instalment - amount of claim under Sec. 766(4B)(b)(i)(i) 00

10.22 Second instalment - amount of claim under Sec. 766A(4B)(b)(i)(i) 00

10.23 Third instalment - amount of claim under Sec. 766(4B)(b)(i)(ii) 00

10.24 Third instalment - amount of claim under Sec. 766A(4B)(b)(i)(ii) 00

10.25 (a) Research & Development expenditure on sub-contracted expenditure to universities (Sec. 766(1)(b)(vii)) 00
 (b) Research and Development expenditure on sub-contracted expenditure to other persons (Sec. 766(1)(b)(viii)) 00
 (c) Indicate, by inserting 00 in the appropriate box, if you have notified the 'other persons' that they may not claim the tax credit for such sub-contracted expenditure

Yes No

10.26 (a) Base year expenditure (2003) (Sec. 766) 00
 (b) If any amount at Line 10.26(a) refers to expenditure on machinery & plant, enter that amount here 00

Allowances

10.27 Allowance claimed for capital expenditure on scientific research (Sec. 765) 00

Revenue guidance


Revenue's guidance on the R&D tax credit runs to 55 pages.⁴⁵

Research and Development (R&D) Tax Credit

Part 29-02-03

This document should be read in conjunction with section 766, 766A and 766B of the Taxes Consolidation Act 1997.

Document last updated March 2019

 **Revenue**
Cain agus Custaim na hÉireann
Irish Tax and Customs

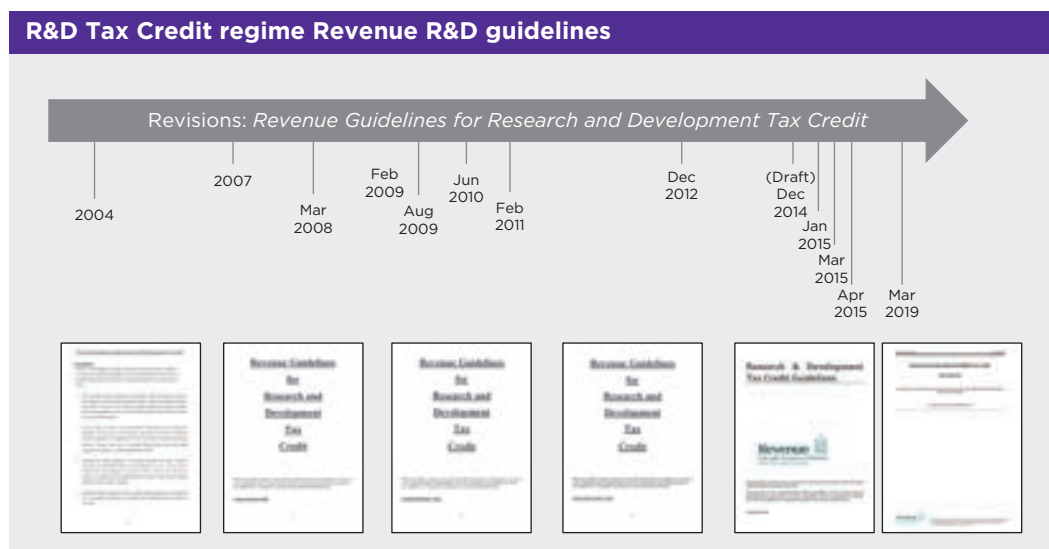
The information in this document is provided as a guide only and is not professional advice, including legal advice. It should not be assumed that the guidance is comprehensive or that it provides a definitive answer in every case.

⁴⁵ <https://www.revenue.ie/en/tax-professionals/tdm/income-tax-capital-gains-tax-corporation-tax/part-29/29-02-03.pdf>

On the front cover of the current Revenue manual on the R&D tax credit, it stipulates that *“The information in this document is provided as a guide only and is not professional advice, including legal advice. It should not be assumed that the guidance is comprehensive or that it provides a definitive answer in every case.”*

The guidelines previously contained a legal caveat, *“While every effort is made to ensure that the information given in this guide is accurate, it is not a legal document. Responsibility cannot be accepted for any liability incurred or loss suffered as a consequence of relying on any matter published herein.”*

Revenue guidance on the R&D tax credit has been updated and amended 13 times since the credit was first introduced.



Many of the updates have provided more clarity on various aspects of the credit. However, the combination of the volume of iterations and the change in emphasis to the extent to which a company may rely on the guidance, has added to the uncertainty, for small businesses in particular, regarding R&D tax credit claims. In addition, the latest version of the guidance proposes a suggested template of documentation to support an R&D tax credit claim⁴⁶, based on Revenue’s experiences of examining claims. While this was developed with a view to assisting businesses understand the requirements, the level of detail sought by the template and the use of academic and scientific terms that SMEs may be unfamiliar with, could potentially inhibit these businesses from proceeding with an R&D claim.

Feedback from our members is that having a ‘one size fits all’ approach, regardless of the size of the company is not fit for purpose and does not encourage engagement from the SME sector.

Industry specific guidance, with detailed practical instances of what qualifies and what does not qualify would be welcome. For example, starting with sector-specific guidance for food production, software and med-tech industries, all of which engage in very different R&D processes. The feedback we received from business to our survey would suggest that uncertainty surrounding what can qualify and how to document such processes, continues to persist in these sectors.⁴⁷

The verification process by Revenue

Added to this, experience from our members shows that a range of very detailed information is likely to be required by Revenue when it checks a claim.

⁴⁶ R&D Tax Credit Claims: Suggested File Layout, Revenue Research and Development (R&D) Tax Credit Manual, March 2019

⁴⁷ Irish Tax Institute R&D Survey May 2019 - 93 respondents; 27 respondents were companies based in Ireland and 66 respondents were tax advisers who advise companies on making R&D tax credit claims.

In most cases, a letter issues from Revenue to the business with at least 25 detailed questions, seeking the following types of information:

- A detailed project plan.
- Records on dozens of line items of expenditure.
- Comprehensive information on the science involved in the claim.

However, Revenue do not seek information on the science involved in claims from small or micro businesses⁴⁸ which qualify for Revenue’s streamlined validation process.⁴⁹

Example of an Aspect Query Letter from Revenue

www.revenue.ie

Reference: Office of the Revenue Commissioners Address Address Address Address Address	Oifig na gCoimisineirí Ioncaim Address Address Address Address Address	11 Was the solution already known and available to a competent professional in the field? 12 What were the qualifications of each project leader? 13 Please state the field of science or technology involved. 14 Please confirm which of the following categories do the activities fall under: <ul style="list-style-type: none"> • Basic research • Applied research • Experimental development. 15 Where did the R&D activities take place? 16 Please state the number of staff employed in R&D activities. 17 Confirm the amount of expenditure incurred (if any), in respect of third party contractors or service providers (excluding utilities). 18 Confirm the amount of expenditure incurred (if any), in respect of payments made to a university or institute. 19 In respect of (13) and (14) above, briefly outline the work carried out by the other parties. 20 Where expenditure has been allocated to R&D by apportionment, please state in respect of each item, the method and basis used. 21 If the claim includes expenditure on plant & machinery state the percentage used of such equipment on R&D over the useful economic life of the asset. 22 Please provide details of any grants received in respect of R&D. 23 Please also provide your computation of the tax credit claimed, showing an itemised analysis of each expenditure item. 24 Details of any R&D work carried out on behalf of other parties and details of payments received. 25 Please provide a computation of the R&D claimed, showing the figures as input in the CT Return taking into account the limits as applied if applicable as per Revenue Guidelines. Please also provide a copy of the unabridged financial statements and corporation tax computations for the company for the years ended X/X/20XX and X/X/20XX.
---	---	--

Date X/X/20XX

Mr/Mrs Name
Company Name
 Address
 Address
 Address

This matter is being dealt with by

Re:
 Your Ref:

Dear Sir/Madam,

I refer to claim for refund for corporation tax for year ended X/X/XX. Please supply the following information from the company in relation to its R&D claim for the year ended X/X/20XX and X/X/20XX:

- 1 State the number of R&D projects undertaken.
- 2 Please provide a summary of the R&D activities in relation to each project.
- 3 Confirm the date on which each project commenced.
- 4 Confirm the date on which each project ceased (if applicable).
- 5 Confirm whether the claim made is in respect of Section 766 or Section 766A of the Taxes Consolidation Act 1997.
- 6 Please state the amount of the 2003 expenditure threshold amount.
- 7 Confirm that **all** group expenditure has been included in the threshold amount.
- 8 Outline the specific scientific or technological advancement, which the company sought to achieve at the start of each project.
- 9 Outline the specific scientific or technological uncertainty, which the company sought to resolve at the start of each project.
- 10 Once the uncertainty was resolved confirm that no further expenditure has been attributed to the R&D claim.

Yours faithfully,

Name
Title

In fact, some recent Revenue information requests have been even more detailed and mirrored the 5-page *R&D Tax Credit Claim: Suggested File Layout* in the Revenue Manual on the R&D tax credit. Notwithstanding, this new file layout was only made available from March 2019 and it was designed to assist companies, by providing guidance on the documentation required to satisfy the science and the accounting test.

⁴⁸ A 'small business' is defined as an enterprise with less than 50 employees and whose annual turnover and/or annual balance sheet total does not exceed €10 million. A 'micro business' is defined as an enterprise with less than 10 employees and whose annual turnover and/or annual balance sheet total does not exceed €2 million.

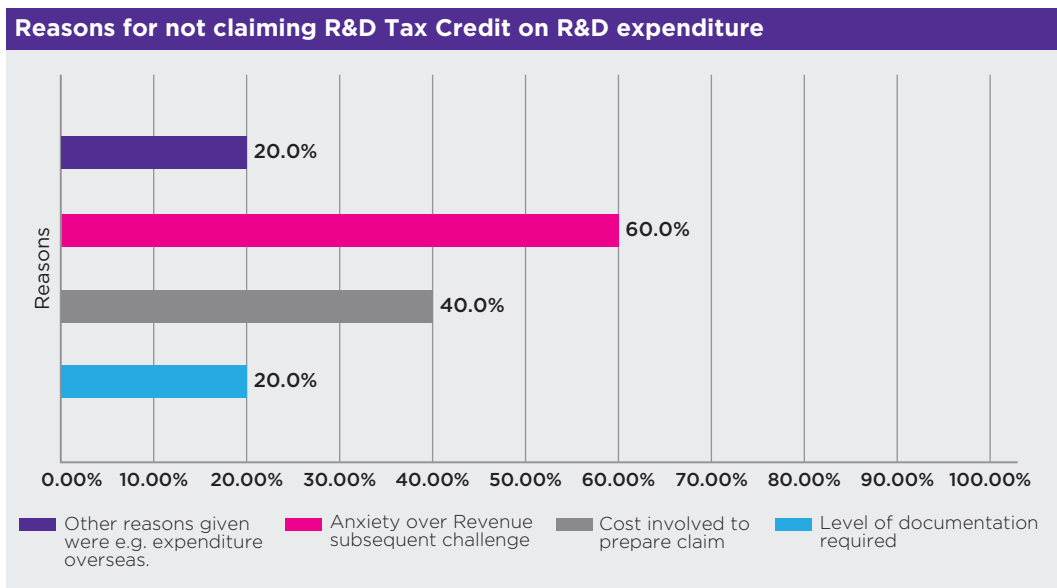
⁴⁹ Revenue eBrief No.17/17

Some more detail on the evidence that Revenue requires to answer these questions:

- a) Expense records:
 - ✓ A project plan with milestones and deliverables
 - ✓ A record of start dates, progress and completion dates
 - ✓ Records of staff working on each R&D project and their qualifications, as well as timesheets for each employee working on the R&D project
 - ✓ Itemised records of expenditure directly connected with each R&D project
 - ✓ The business’s methodology for apportioning overheads, e.g. light, heat etc.
 - ✓ Records of any outsourcing costs

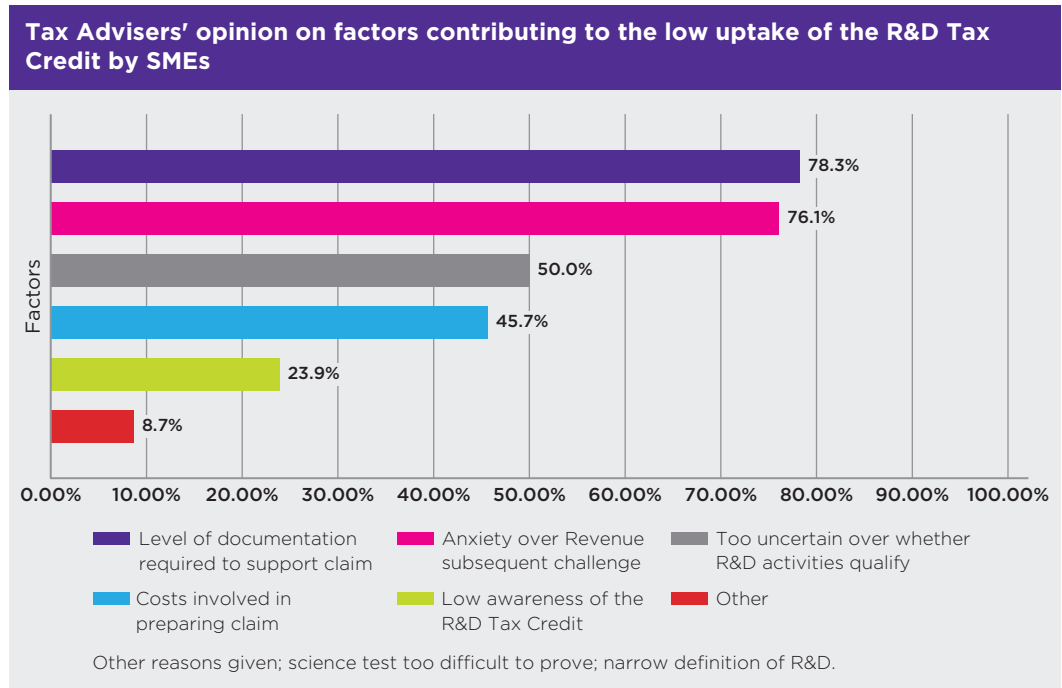
- b) Back-up information to prove that the science test has been met. For bigger projects, in particular, this usually involves a detailed report containing the following information:
 - ✓ A description of the R&D activities and methods, outlining what the business is trying to achieve with the R&D
 - ✓ Evidence that the uncertainty that the business is trying to resolve has not already been addressed or could be resolved currently
 - ✓ Detailed information on the science itself:
 - what you did
 - how you did it
 - what you found
 - your conclusions

There were a number of companies who completed the Irish Tax Institute survey⁵⁰ that were carrying on R&D activities but did not claim the R&D tax credit. The main reason given for not claiming the credit on their R&D expenditure was anxiety over Revenue subsequently challenging the claim (60% of respondents), followed by the cost involved in preparing a claim (40% of respondents).

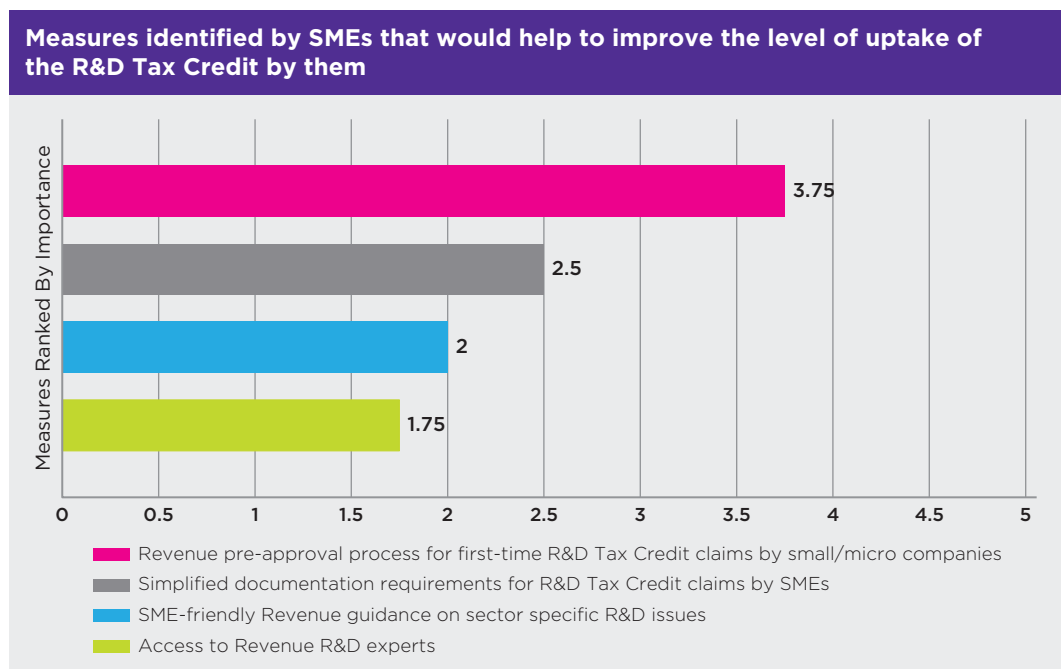


⁵⁰ Irish Tax Institute R&D Survey May 2019 - 93 respondents; 27 respondents were companies based in Ireland and 66 respondents were tax advisers who advise companies on making R&D tax credit claims.

We also asked members who completed the survey,⁵¹ to identify, based on their experience of advising companies on R&D tax credit claims, the factors they consider are contributing to the lower level of uptake of the R&D tax credit by SMEs. Similar to the companies that completed the survey, the level of documentation required to support a R&D tax credit claim (by 78.3% of respondents) and anxiety over Revenue subsequently challenging the claim (by 76.1% of respondents) were the key factors highlighted.



In addition, we asked SMEs, who completed the survey, to identify and rank in order of importance, measures they considered would help improve the level of uptake of the R&D tax credit by SMEs carrying on R&D activities. A pre-approval process for first-time R&D tax credit claims by small/micro companies was ranked the most important (i.e. 3.75 out of 5).



⁵¹ Ibid

Refund of the R&D tax credit

Many businesses carrying on R&D activities will be in a loss-making position, particularly in the early years of development. If the business is not paying enough tax in any year to offset the R&D tax credit in full, it has several options:

- The credit will be first offset against the corporation tax for the previous period;
- Any balance can either be carried forward indefinitely or can be allocated to another member of the group.

If the company exhausts all these options and there is still a surplus credit, it can make a claim to have that excess paid to it in cash by Revenue in three instalments over a period of 33 months. However, the cash refund is limited to:

- the total amount of corporation tax paid by the company in the previous ten years; or
- the total payroll taxes liability of the company in the period in which the R&D expenditure is incurred.

However, consideration should be given to condensing the 3-year refund to one year for SMEs. Smaller companies that are carrying out R&D activities tend to be cash constrained and accelerating the refund for these businesses would be very beneficial to them, with only a timing cost for the Exchequer.

The UK SME friendly R&D regime

The fundamentals of the UK R&D regime are similar to Ireland, but it has also introduced a separate “SME friendly” version of the regime for businesses with less than 500 staff. The SME regime has much more straightforward administrative conditions attached.

A number of steps have been taken in the UK to make it easier for SMEs to claim R&D tax relief:

R&D tax relief administrative supports in the UK



1. HMRC have written **separate guidelines**⁵² in plain English for SMEs with step-by-step instructions on the claims process and practical case studies.



⁵² HMRC guidelines: Research and development tax relief Making R&D easier for small companies <http://www.hmrc.gov.uk/gds/cird/attachments/rdsimpleguide.pdf>

HM Revenue & Customs – easy to follow guides

How to show that your project is R&D within the tax definition

When you submit a claim it helps if you give details of your project. The questions below will help you decide if your project is within our definition for R&D. If your claim clearly sets out how you approach these questions, it helps HMRC see that your company really is doing R&D.

1. What is the scientific or technological advance?

Concentrate on the science and technology
Rather than stating the product, process or functionality being developed, consider what scientific or technological advance is being sought. This focuses attention on the project's aim for an advance. This is important in judging whether or not R&D for tax relief purposes is being undertaken.

Some activities aren't science
Science doesn't include work in the arts, humanities and social sciences (including economics).

'Commercially innovative' isn't enough
It's not enough that a product is commercially innovative. You can't claim in respect of projects to develop innovative business products or services that don't incorporate any advance in science or technology.

2. What scientific or technological uncertainties were encountered?

Did you really encounter 'uncertainty'?
Scientific or technological uncertainty exists when knowledge of whether something is scientifically possible or technologically feasible, or how to achieve it in practice, isn't readily available or deducible by a competent professional working in the field.

Not every problem is an uncertainty
But uncertainties that can be resolved through relatively brief discussions with peers are routine uncertainties rather than technological uncertainties. Technical problems that have been overcome in previous projects on similar systems aren't likely to be technological uncertainties.

Set out what happened
In your claim, you should set out at a high level, in a way that can be understood by someone who's not an expert, what the uncertainties were and when they started and ended.

HM Revenue & Customs. Research and development tax relief: Making R&D easier for small companies

2. There is also guidance available on the UK Government’s websites about “Schemes to help your business innovate and grow”⁵³ which covers a range of topics including the R&D tax credit. The emphasis is on “making full use of the extensive range of government supports available.”

Schemes to help your business innovate and grow

From: Department for Business, Energy & Industrial Strategy
Part of: Science, research and development
Published: 12 December 2012
Last updated: 24 March 2016, see all updates

A guide to help companies find the practical support to invest in research and development (R&D).

Contents

- Help through the tax system
- R&D grants, contracts, help from universities and support for networking
- Design
- Protection of your intellectual property
- Loans
- Sources of advice

Company research and development (R&D) professionals and accountants will want to ensure that their businesses are making full use of the extensive range of government support available for businesses undertaking R&D and innovation. This support helps companies to develop the new products and services they need to remain competitive and grow.

Help through the tax system

R&D tax credits

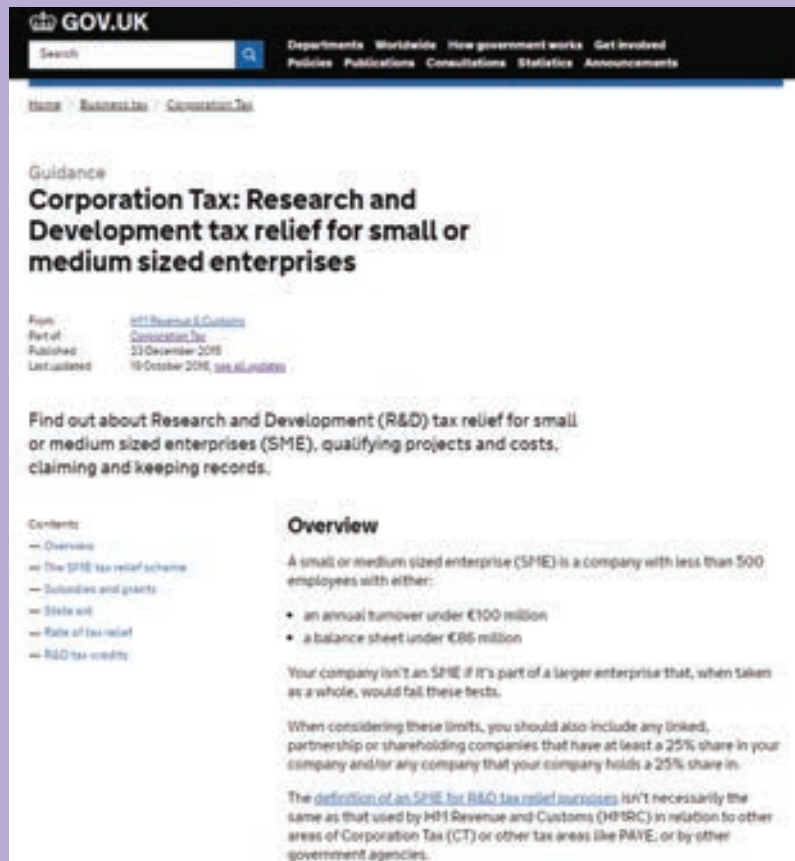
This is the single biggest government scheme supporting business investment in R&D and innovation. Claims totaled £1.2 billion in the financial year 2011 to 2012. Don't let your company miss out on claiming your share.

The small and medium-sized business relief is for companies with fewer than 500 full-time employees and is worth about 28p for every £1 spent. The large company scheme and the 'Above the Line' credit are both worth about 7p for every £1 spent.

R&D tax credits include enhanced relief from Corporation Tax on qualifying R&D expenditure, and in some cases payable credit. HMRC have specialist units that can advise companies on how to make a first claim. [Use information on R&D tax credits.](#)

⁵³ <https://www.gov.uk/guidance/research-and-development-in-the-business-sector>

3. The HMRC website guidance is published in “plain English”.



4. Small companies claiming R&D tax relief for the first time can avail of “**Advance Assurance**.”⁵⁴

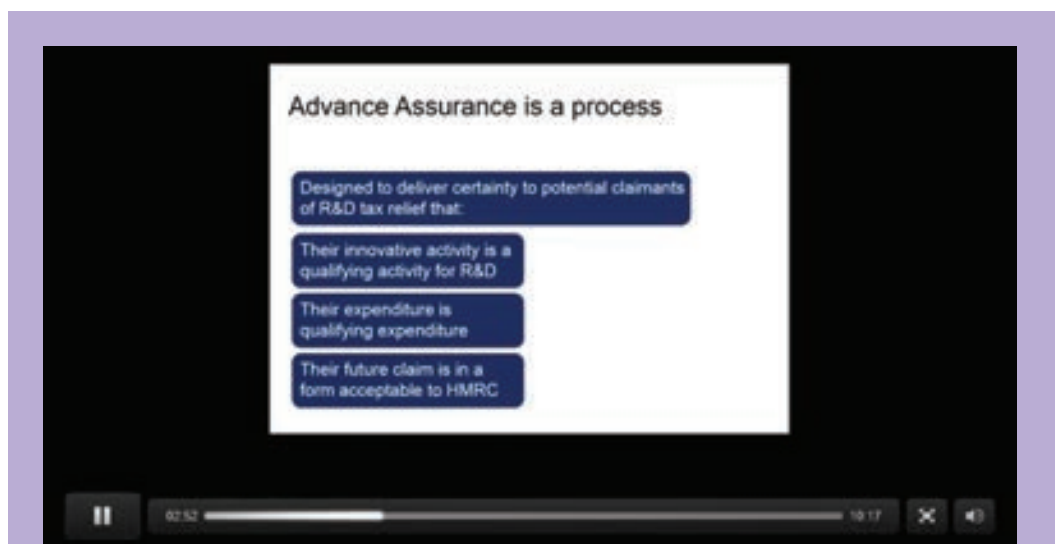
This means that when a company claims R&D relief for the first time it can apply to HMRC for the relief without the need for them to carry out any further checks on the claim for the first three accounting periods.

Advance Assurance allows a company to spend time concentrating on its business, rather than focusing on its R&D tax claims. It can be given as proof that a company will get R&D tax relief, which may help the company secure funding.

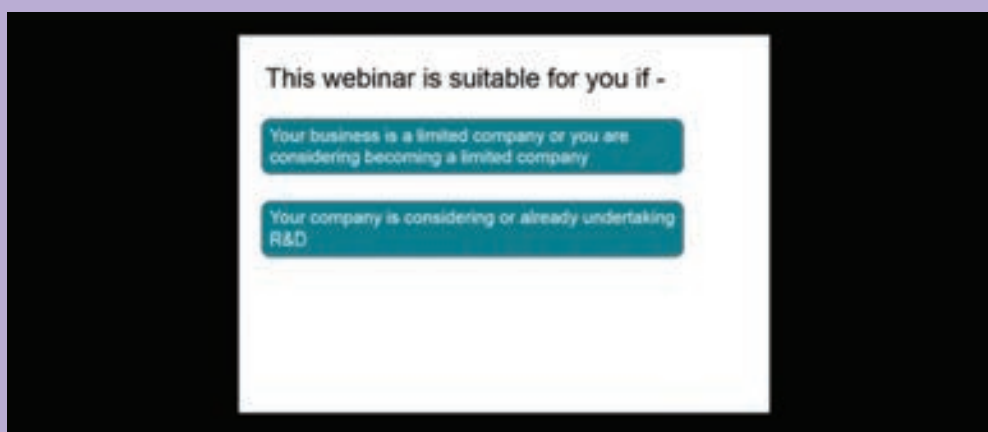
A company can apply for Advance Assurance if it is planning to carry out, or has previously carried out R&D. However, a company has to meet certain conditions which are that:

- a. It has not claimed R&D tax relief before.
- b. Its annual turnover is £2 million or less.
- c. It has less than 50 employees.

⁵⁴ <https://www.gov.uk/guidance/research-and-development-tax-relief-advance-assurance>



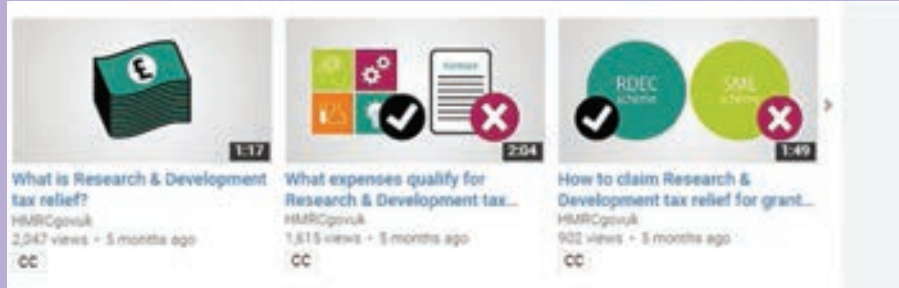
5. Specialist HMRC R&D units help taxpayers with their claims. There are three specialist R&D units⁵⁵ in the UK tasked with providing this help:
 - a. Leicester R&D Unit
 - b. Manchester R&D Unit
 - c. Portsmouth R&D Unit
6. Webinars have been recorded for taxpayers explaining the basics of the R&D and the patent box.



⁵⁵ HMRC Specialist R&D Units: <https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird80350>

7. Pre-recorded HMRC **videos** are available on YouTube which explain who is eligible to claim relief, how to make a claim and where to get further help for your business.

Videos are available on You Tube explaining what the credit is, what qualifies for relief and how to claim the credit.



Conclusion

The R&D tax credit is a very important element of Ireland's strategy to reach its intensity target of 2.5% of GNP by 2020.⁵⁶ The credit itself is very valuable, but there is undue cost and uncertainty involved in the claims process which significantly reduces its attractiveness to smaller businesses.

Removing the need for SMEs to pass a science test has helped to some extent. However, compliance costs need to be reduced and greater clarity and certainty should be provided to SMEs about whether, and to what extent, they qualify for the R&D tax credit.

⁵⁶ <https://www.djei.ie/en/Publications/Publication-files/Innovation-2020.pdf>