

Cash refunds for R&D expenditure

Energy and natural resources

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. The 'E' and 'Y' are connected at the top. A yellow triangle points towards the logo from the right.

Building a better
working world

Overview

To help foster Research and Development (R&D) growth in Ireland, the Irish Government has continued to enhance the R&D tax credit incentive by offering cash refunds for R&D work performed allowing companies to reduce their net R&D costs year-on-year and increase their cashflow.

This has also helped global multinational companies compete for further R&D investment as well as help indigenous companies reinvest cash back into their business to foster growth.

The definition of R&D is very broad, please see below for particular examples in the energy and natural resources sector.

To be performing R&D as defined by the legislation (section 766 of the Taxes Consolidation Act 1997) means satisfying certain conditions.

Qualifying activities must be:

- ▶ Systematic, investigative or experimental in nature
- ▶ Conducted in a Revenue approved field of science or technology
- ▶ Involve basic research, applied research and/or experimental development
- ▶ Seek to achieve scientific or technological advancement
- ▶ Involve the resolution of scientific or technological uncertainty

What is R&D?

Examples of potentially eligible R&D activity overlooked in your sector:

- ▶ The investigation and **development of novel technologies** to improve energy production, distribution, storage and utilisation.
- ▶ The investigation, development and the introduction of **novel materials/designs to existing systems** to significantly improve output, useful life or reduced costs.
- ▶ The **novel design and development of networks and systems** to monitor and communicate energy usage.
- ▶ **Modification to existing processes or systems** to improve throughput or increase efficiencies; establishing capacity, performance, scalability, availability, security.
- ▶ The design and development of new **fabrication, construction and material handling techniques to improve performance** and improve strength in the installation of energy generating equipment.
- ▶ Development of new or improved techniques or technologies in **response to changes in health, safety and environmental legislation** or regulatory requirements.
- ▶ The development of **pilot and industrial scale Bio-fuel production facilities** using a variety of feed materials.
- ▶ Investigative work and **technical problem solving** performed by engineers or technicians, that is, over and above routine troubleshooting.
- ▶ And many more...

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It's not just about people in white coats working in labs; eligible R&D can include producing new, or improving existing, materials, products, devices, processes, systems or services.

How does the R&D regime work?

Are you eligible for R&D tax credits?

Companies have 12 months from the end of the accounting period in which the R&D expenditure was incurred to submit their R&D claim to Irish Revenue.

Companies need to be aware that Irish Revenue has the right to audit claims for four years after the return has been submitted. Not surprisingly, as the level of claims for cash refunds has begun to escalate, so too has the level of Irish Revenue scrutiny, both in the form of formal audit notifications and requests for additional evidence to validate the R&D claims.

If adjustments arise during the course of an audit (such as overstated claims or insufficient supporting evidence), there may be a requirement to re-pay part or all of your credit previously claimed. In addition to this, in some cases Irish Revenue can seek interest and penalties.



How is it calculated?

The R&D regime provides for a tax credit/cash refund worth 25% of your R&D expenditure.

For small and micro sized companies, this is to increase to 30% of your R&D expenditure.*

This coupled with the availability of grant support can help companies significantly reduce their cost of doing R&D in Ireland, as illustrated below.

A qualifying project in receipt of 20% grant funding:

R&D spend of		100
Grant aid	(20)	
Net of grant aid		80
Tax deduction @ 12.5%	(10)	
R&D credit @ 25%	(20)	(30)
Net cost		50

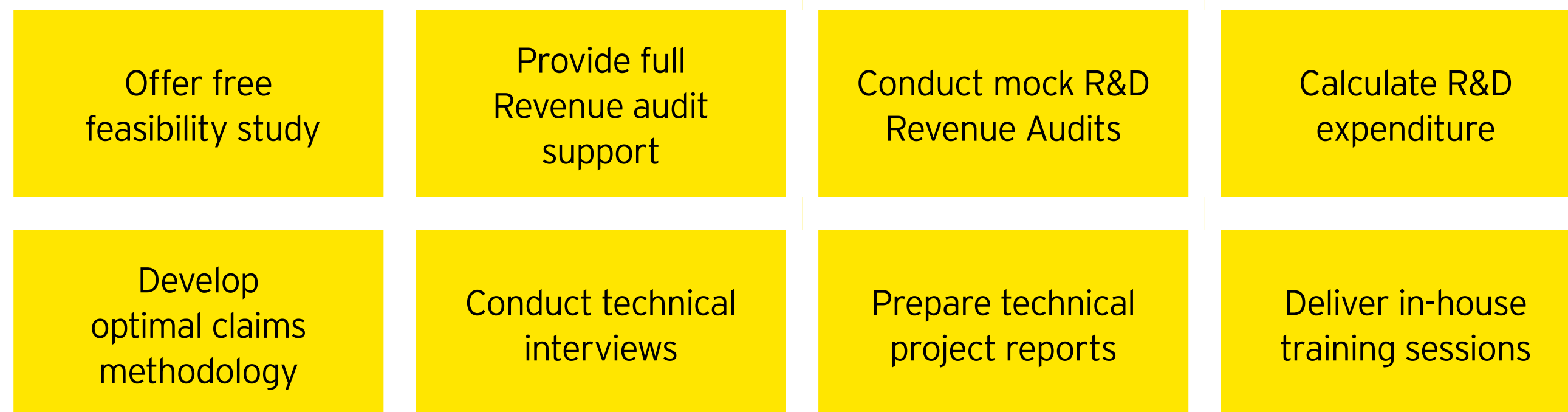
* The change for small and micro companies is subject to enactment by the Minister of Finance.

How does the R&D regime work?

How can EY assist you making a claim?

Our R&D team has a proven track record of offering a uniquely integrated service to clients by combining the skills of engineers, scientists and qualified tax advisors.

- ▶ We are a dedicated and highly specialised team focusing on assisting clients maximise their R&D tax claims.
- ▶ A multi-disciplinary team made up of engineers, scientists, industry specialists and tax professionals.
- ▶ We secured the first Irish Revenue pre-approval for a client in the software sector, which encompassed a technical review by an industry expert engaged by Irish Revenue.
- ▶ Our tailored approach can include delivering feasibility studies and R&D workshops, providing full Revenue audit support, calculating R&D expenditure and drafting detailed technical reports, among other services.



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Our team of engineers, scientists and industry experts can speak your language and draft your technical reports, allowing your R&D teams to focus on what they do best.



Ian Collins

Partner and Head of Innovation Incentives

How can EY assist you making a claim?

Our credentials

We have had a 100% success rate in Irish Revenue technical audits for clients who filed R&D tax credit claims.

We have a local specialised team that form part of a global network of industry specialists dedicated to R&D claims.

We liaise regularly with the Irish Revenue, Department of Finance, and Department of Jobs, Enterprise & Innovation on R&D tax credit matters including:

- ▶ Audit approach
- ▶ Application of Revenue guidelines

We have lobbied, and continue to lobby, for changes in law to improve the R&D tax credit regime such as:

- ▶ Increasing the rate for sub-contracting
- ▶ Reducing the administrative burden for small and medium sized enterprises making a R&D tax credit claim
- ▶ Seeking cash refunds for companies incurring tax losses

Qualifying spend: €1.2m
R&D Tax Credit: €300k

Client:
Global energy and renewable energy suppliers.

Project:
Assist with review and documenting R&D projects

FY19 to date

Qualifying spend: €600k
R&D Tax Credit: €125k

Client:
Energy technology company based in Ireland.

Project:
Assist with review and documenting R&D projects

FY17 to date

Qualifying spend: €311k
R&D Tax Credit: €78k

Client:
Global company that operates in four areas of business: aerospace, building technologies, performance materials and technologies, and safety and productivity solutions.

Project:
Assisted with a revenue query and R&D reviews.

FY13-15

Qualifying spend: €2.2m
R&D Tax Credit: €550k

Client:
Irish-based electricity supplier and renewable energy producer.

Project:
Assist with review and documenting R&D projects and how to optimize them.

FY18 to date

Find out more



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