

Cash refunds for R&D expenditure

Financial services

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow diagonal line is positioned behind the 'Y', extending from the top right towards the bottom left.

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.

Our experience shows that the definition of R&D for tax purposes is broad enough to enable companies operating in the Financial Services sector make R&D tax credit claims. However, the challenge these companies tend to face relates to correctly identifying eligible R&D activity. Please see below for particular examples of potentially qualifying R&D activity in the financial services 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:

- ▶ Integration of **legacy and new systems**; integration of new platforms and products, including COTS and in-house developed software.
- ▶ Design of **high concurrency architectures** to deal with peak time activity; use of technology to maintain high service levels at maximum load.
- ▶ Improving **scalability, performance and interoperability of systems**, including COTS packages adapted to meet unique requirements.
- ▶ Building data warehouse and decision support systems; **data intensive activities**, including collection, storage and analysis, distribution and retrieval.
- ▶ Implementation of new or emerging **financial products into new or existing applications** and systems.
- ▶ **Compliance with new regulatory controls.**
- ▶ Financial modelling and simulation; **development of algorithms**, including the technical design and implementation of systems and processes to support efficient 'number crunching'.
- ▶ **Modification to existing processes or systems** to improve throughput or increase efficiencies, establishing capacity and improving performance, building scalability.
- ▶ 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.

Offer free feasibility study	Provide full Revenue audit support	Conduct mock R&D Revenue Audits	Calculate R&D expenditure
Develop optimal claims methodology	Conduct technical interviews	Prepare technical project reports	Deliver in-house training sessions

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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

Our credentials

Qualifying spend: €59m
R&D tax credits: €14.75m

Client:
World leader in global financial services management.

Project:
Assist with writing and documenting R&D projects

FY08 to date

Grant assistance

Client:
Worldwide insurance company that provides life insurance to over 60 countries worldwide.

Project:
Grant assistance from a strategic R&D perspective

FY16 to date

Qualifying spend: €1.7m
R&D Tax Credits: €0.43m

Client:
One of the top 10 largest multinational global banking networks in the world.

Project:
Assist with writing and documenting R&D projects

FY16 to date

Qualifying spend: €467k
R&D Tax Credits: €117k

Client:
World leader in investment solutions and retirement expertise to institutions and individuals around the globe.

Project:
Assist with writing and documenting R&D projects

FY19 to date

Find out more



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