

Cash refunds for R&D expenditure

Manufacturing

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 manufacturing 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:

- ▶ Design, construction, testing and **trailing of prototypes** and/or pilot demonstration plants/processes resulting in higher production yields.
- ▶ **Scaling investigative work** from one off trials/pilot plants to full scale experimental trials on production processes.
- ▶ The design and development of new fabrication, construction, processing or material handling techniques to improve reliability, repeatability, increase production throughput, improve performance, improve strength or reduce weight, i.e., **lean manufacturing** including Six Sigma, Kaizen, etc.
- ▶ The design development and implementation of **unique software and hardware** to improve efficiency and reduce waste/reworks, i.e., the integration of automated or digital technology to remove manual tasks including product testing.
- ▶ The design and development of new or improved manufacturing techniques/processes in **response to changes in health, safety and environmental legislation** and increasingly challenging constraints.
- ▶ Investigative work **identifying causes of product failure** and development of solutions and improvements to correct unforeseen post release failures, i.e., root cause analysis.
- ▶ And many more...

“

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

“

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: €4.3m
R&D Tax Credit: €1.1m

Client:
Irish Global leader in manufacturing food ingredients, flavours and cheese.

Project:
Assist with writing and documenting R&D projects.

FY16 to date

Qualifying spend: €1.15m
R&D Tax Credit: €0.29m

Client:
Leading world manufacturer of gas valves and system components.

Project:
Assist with drafting, reviewing and documenting R&D projects.

FY15 to date

Qualifying spend: €7.2m
R&D Tax Credit: €1.8m

Client:
International leader in the development of engineering and technology for dairy & farming industry.

Project:
Assist the company with writing and quantifying its R&D tax credit claims. Also successfully assisted the company with Revenue Aspect queries.

FY14 to date

Qualifying spend: €300k
R&D Tax Credit: €75k

Client:
Irish manufacturer of flexible packaging solutions.

Project:
Assist with review and documenting R&D projects.

FY18 to date

Find out more



Ian Collins

Partner and Head of Innovation Incentives

+353 1 221 2638

ian.collins@ie.ey.com



Enda Kelly

R&D and Innovation Incentives Director

+353 9 186 4965

enda.kelly@ie.ey.com

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organisation, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organisation, please visit ey.com.

© 2022 Ernst & Young. Published in Ireland. All Rights Reserved.

140747.indd 02/22. Produced by Creative (Ireland)

The Irish firm Ernst & Young is a member practice of Ernst & Young Global Limited. It is authorised by the Institute of Chartered Accountants in Ireland to carry on investment business in the Republic of Ireland.

Ernst & Young, Harcourt Centre, Harcourt Street, Dublin 2, Ireland.

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

ey.com