

Irish Taxation Institute call for new approach to R&D in pre-Budget submission

“R&D is not solely about petri dishes and white coats” says ITI

Ireland will continue to lose out to other EU States on R&D investment unless we move away from the traditional understanding of what constitutes R&D. That was the message from the Irish Taxation Institute in its pre-Budget submission *“Tax and the next phase of Ireland’s economic development.”*

Speaking after an ITI delegation met with the Táiniste and Minister for Finance, Brian Cowen TD, ITI President, Ms Joan O’Connor said: “On R&D we have got to broaden both the mindset and the criteria. R&D is not solely about petri dishes and white coats. Innovation comes in many different forms and the lack of awareness of this fact is hurting our ability to benefit from R&D investment. Furthermore, we must recognise that R&D credits are part of the intellectual property infrastructure for the future.

“The current incremental based system, where companies get tax credits on some but not all R&D spend is forcing investors to look elsewhere. That is why ITI is proposing we change to a volume based system, where the entire amount of the R&D spend qualifies for tax credits.

“Moving to a volume based approach would represent progress. ITI has studied what is practiced in other countries. Other EU countries such as France, Belgium and the UK have continued to enhance their regimes. In the UK for example, not only is R&D volume based, but the credit can be as much as 30%. In addition, the UK is allowing SMEs to surrender their unusable credits. This means small companies are getting the equivalent amount of the credit in the form of a cash rebate. Meanwhile Ireland’s rate is 20% and because of the system we use, the whole amount of the R&D spend does not qualify for a tax credit. We need to freshen things up.”

Ms O’Connor said the changes suggested by ITI can make a valuable contribution to the knowledge economy.

She said: “There is widespread buy-in to the importance of the knowledge economy as well as a commitment to the development of the fourth level education sector. We are therefore of the view that at this key juncture for the economy, it is time to prioritise the incentivising of R&D activity if we are to compete in a credible manner in that arena. This could have significant positive implications for Irish indigenous businesses as well as for foreign direct investment”, she concluded.

ENDS

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Note for Editors

ITI's proposes the following measures to enhance R&D activity in Ireland:

- **Awareness and statistics**
 - Launch of awareness campaign on a collaborative basis across a wide range of industries.
 - Compilation of regular statistics on the number of companies claiming the credit, amounts claimed, types of research conducted, etc.
- **Narrow focus**

Drafting of promotional material to clarify that all types of research and development could potentially qualify for the credit assuming the basic criteria set out in the legislation have been fulfilled. We believe there is a wide variety of businesses whose research activities could qualify but for whom the options have never been explained and explored. Considering our very solid foundations in areas such as financial services, software, food processing and specialist manufacturing, there are many opportunities to encourage enterprise and innovation in these sectors.
- **Rate of credit**

Evaluation of our regime against those of our competitors to ensure we are remaining competitive and with the objective of leading the field. This may well necessitate the consideration of an increased rate of credit although that would be heavily influenced by any decision to move from a base year to a volume based approach.
- **Base year**

We would advocate moving to a volume based system which would be simpler to both market and administer than the current incremental approach. It recognises the long term nature of the investment process and sends the right signals to business as it would benefit companies with sustained research activity, those starting from a very low base and those with growing levels of expenditure. A volume based system would act as an incentive to continue research and development activity even if levels of expenditure are reduced in tighter economic times. Crucially, it would not penalise companies who reduce their expenditure for a year after a period of very significant investment.

We fully recognise that certain safeguards may be needed such as a tiered system to protect from excessive annual fluctuations. However, it is an area that needs to be addressed to ensure the credit is a real tool in our total competitiveness package.

- **Sub-contracted activities**

In recognition of the significant amounts of R&D that need to be outsourced, we would advocate increasing the % allowed to 25% over the life of the project. This would go some way to recognising the commercial realities of such activity.

- **Companies in start up situations**

We would advocate a form of surrender system as allowed in other jurisdictions whereby the start up company could get some immediate benefit. For example, the credit could be set off against some other non-corporation tax liability. Alternatively, some form of 'BES' type solution could be explored whereby the credits could be passed onto the investor group for as long as the entity has no tax liability. The UK regime allows for cash refunds for small businesses engaged in R&D.

- **Simplification of administrative procedures**

In line with our comments in relation to awareness and promotion, it is essential that the regime itself does not discourage companies from claiming the credit. This is particularly crucial for small entrepreneurial businesses where senior management time is at a premium. We would recommend the adoption of a more streamlined process for smaller entities particularly once they have come through the process once and many of their credentials will already have been verified.