Innovation and the Incentives Environment

Reducing the cost of your R&D

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• Overview of R&D spend in Ireland
• Ireland’s incentives supporting R&D
• Where Manufacturing and SC companies could take advantage
R&D Spend in Ireland

2013

- Business Expenditure on R&D: €2.0b
- Social Tax Income – R&D Employees: €0.53b
- Public Cost of Incentives**: €0.67b

*Figures taken from the CSO Data on Business Expenditure on Research and Development, 19 June 2015

** Figures from Department of Finance Report and EI/IDA Annual reports
Ireland’s R&D Incentives

1. **Ireland R&D Tax Credit**
   25% Tax credit deducted from corporate tax liability. Potential for excess credits to be paid out in cash.

2. **RD&I Grants (for Specific Projects)**
   Grants for regional investment in RD&I to support developmental projects which increase R&D capability within Ireland.

3. **Knowledge Development Box**
   Reduced corporate tax rate to 6.25% of profits generated by Irish patents or R&D activities. The Finance Act containing The Knowledge Development Box legislation was passed on 21 December 2015.
R&D Tax Credits

- **Effective reduction on costs**: $25\% + 12.5\% = 37.5\%$
- **Used against CT, paid in cash or carried forward**
- **Volume Incremental-based scheme**
- **Claim costs incurred in carrying out the R&D**
- **12 months to claim**
RD&I Grants

Awarding Bodies
- Enterprise Ireland
- IDA

Nature of The Grants
- Up to 25% of Project costs (50% of a feasibility study)
- Includes a broader range of qualifying costs compared to Tax Credits

Key Requirements
- Grant should be a factor in making the project take place in Ireland
- Innovation is core aspect of the project objectives
- Potential to make a contribution to a company’s (and Ireland’s) competitiveness
- Risk is present due to complexity/uncertainty technical challenges
- Strong scientific and technology focus

Application Process
- Engage with EI/IDA to discuss business case
- Preparation of application is crucial
- Application development often iterative
- Final application to Committee and Board
Knowledge Development Box

**Protected IP Asset**
- Invention protected by patent
- Copyrighted computer program

**€ to generate Asset**
- Costs incurred in performing R&D activities as defined by R&D tax credit rules
- Excludes cost of buying an IP asset and costs incurred by sister co.

**Income created by the Asset**
- Royalty income
- License income
- Sales income (or % of)
## Knowledge Development Box

<table>
<thead>
<tr>
<th>Acquisition of Qualifying IP</th>
<th>100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specified Trade</td>
<td></td>
</tr>
<tr>
<td>Royalty Income</td>
<td>750,000</td>
</tr>
<tr>
<td>COGS &amp; Operating Expenses</td>
<td>(100,000)</td>
</tr>
<tr>
<td>R&amp;D Exp incurred in developing IP</td>
<td>(200,000)</td>
</tr>
<tr>
<td>R&amp;D Exp incurred by sister co</td>
<td>(30,000)</td>
</tr>
<tr>
<td>Profits</td>
<td>420,000</td>
</tr>
</tbody>
</table>

\[
\text{QE} + \text{UE} \times \frac{\text{QA}}{\text{OE}} = \text{Qualifying Profits}
\]

\[
\frac{200,000 + (30\% \times 200k)}{420,000} = 330,909
\]

\[
\text{OE} = 330,000
\]

\[
\text{Tax Saving} = 330,909 \times 6.25\% = €20,682
\]
R&D in Manufacturing and Supply Chain

- Automation
- Adapting processes from other industries
- New software control systems
- Process new materials
- Tighter tolerances
- Route planning Software
- Technology transfer (with unique circumstances)
- Tool life extension
Case Study
Project aim – to have a continuous weeks production without changing production tools
Improved version
Conclusion

R&D is taking place in the manufacturing sector – but are companies taking full advantage of the incentives available?

R&D Tax Credits  RD&I Grants  KDB

Ensure your company is making the most of the financial supports available
Questions
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