

Research and development (R&D) tax credit

The R&D tax credit is a very significant tax break given that it represents a potential 25% refund of costs incurred.

Combined with the standard corporate tax deduction for R&D (valued at 12.5%), it means that companies incurring qualifying R&D can claim a refund from the taxman of €37.50 for every €100 expenditure.

However, in our experience, while many companies are carrying out R&D work that qualifies for a tax credit, only a minority are actively claiming the credit.

The main reason for companies not claiming the credit is the persisting misconception that it relates solely to “men in white coats”.

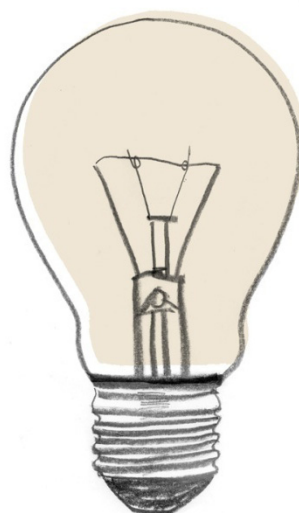
In reality, nothing could be further from the truth. Most companies across all sectors are involved in some form of innovation or process improvement. In many cases, the related costs will qualify for the R&D tax credit.

Recent changes have made the tax credit even more attractive. In particular, for accounting periods beginning on or after 1 January 2009, the tax credit can not only be offset against the corporate tax liability but can also be received as a direct cash refund from Revenue over a three year period, regardless of the corporate tax position. The only restriction is that the R&D credit refund cannot exceed the PAYE/PRSI remitted by the company to

Revenue in the year, which will rarely cause a reduction in the credit available (it can be carried forward to future periods regardless).

The R&D credit is available in respect of expenditure such as salaries, consumables used in the R&D process and plant and machinery used wholly or partly for R&D purposes. The credit is also available in respect of buildings used wholly or partly for R&D purposes, subject to certain conditions.

The range of activities that the R&D credit can apply to is extremely wide. Improvements to plant performance, production output and existing processes are examples of activities carried out by many companies, which can qualify for the R&D tax credit.



It is worth noting that R&D activity can often indicate the existence of potential patents. Patent royalty income can be received tax free, subject to certain conditions. It can be worth reviewing the scope for tax efficient patent planning at the time of the R&D review.

The R&D credit claim must be filed within 12 months of year end, thus there is an incentive to consider whether any immediate action is required. At Grant Thornton, we can meet with you to discuss the scope of the tax credit for your company, at no cost or obligation.

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