**R&D Tax Incentives: Ireland, 2019**

**Design features**

Ireland provides R&D tax relief through an entirely volume-based R&D tax credit since January 2015. 
- In the case of insufficient tax liability, unused credits are refunded over 3 years (3 instalments) or can be carried-forward indefinitely in addition to a one-year carry-back option.
- Upper ceilings apply to the amount of eligible subcontracted R&D and refundable credits.

<table>
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<tr>
<th><strong>Table 1. Main design features of R&amp;D tax incentives in Ireland, 2019</strong>†</th>
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<tbody>
<tr>
<td><strong>Type of instrument</strong>*</td>
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<td><strong>Eligible expenditures</strong>†</td>
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<td><strong>Headline rates (%)</strong></td>
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<td><strong>Refund</strong></td>
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<tr>
<td><strong>Carry-over (years)</strong></td>
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<td><strong>Subcontracted R&amp;D</strong> - Greater of EUR** 100 000 and 15% of total qualifying expenditures on R&amp;D activities - Up to 5% if R&amp;D activities are contracted to a university or institute</td>
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<td><strong>Ceilings</strong></td>
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<td><strong>Refund-specific</strong></td>
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* Ireland also offers an accelerated depreciation of assets used in the process of R&D (immediate write-off for machinery and equipment, buildings). It also provides income-based tax incentive for outcomes of R&D activities. This incentive is beyond the scope of this note.


**Recent developments and trends**

Differences in the design of R&D tax incentives introduce significant variation in the expected generosity of tax relief per additional unit of R&D investment. In 2019, the marginal tax subsidy rate for profit-making (loss-making) SMEs in Ireland is estimated at 0.29 (0.23), well above the OECD median of 0.19 (0.17). The tax subsidy rate for large enterprises is equal to 0.29 (0.23) in the profit (loss)-making scenario, significantly larger than the OECD median of 0.14 (0.10). These estimates model the provisions for the R&D tax credit and the accelerated depreciation of R&D capital.

The generosity of R&D tax incentives increased in Ireland following the introduction of an incremental R&D tax credit in 2004, across the four scenarios considered. In 2009, the rate of the incremental tax credit was raised from 20% to 25% (keeping R&D expenditure in 2003 as base amount). In 2012, the R&D tax credit was converted into a hybrid tax credit with a 25% volume-based tax credit applicable to the first EUR 100 000 spend on R&D (increased to EUR 200 000 and EUR 300 000 in 2013 and 2014 respectively). In 2015, Ireland’s R&D tax credit became entirely volume-based, reflected in a significant increase in the implied marginal tax subsidy rates estimated for SMEs and large firms in both profit scenarios.

**Figure 1. Implied tax subsidy rates on R&D expenditures: Ireland, 2000-19**

1-B-index, by firm size and profit scenario


Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated (see methodology and country-specific notes) based on headline tax credit/allowance rates. Headline tax credit/allowance rates provide an upper bound value of the generosity of R&D tax incentives, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of R&D tax relief.
Public support for business R&D: the policy mix

In 2017, Ireland is above the OECD median in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.2% of GDP.

**Figure 2. Direct government funding of business R&D and tax incentives for R&D, 2017 (nearest year)**

As a percentage of GDP

- Direct government funding
- Tax incentive support
- Subnational tax incentive support
- Total 2006 (excl. subnational tax support)

* Data on tax support not available. ** Data on subnational tax support not available


- From 2006 to 2017, total government support for BERD as a percentage of GDP increased in Ireland by 0.12 pp, while the OECD median increased by 0.015 pp.
- During this period, business R&D intensity in Ireland increased from 0.79% to 0.94%.
- In 2017, R&D tax incentives accounted for 78% of total government support for BERD in Ireland.

Trends in government support for business R&D

Since the introduction of an R&D tax credit in 2004, the importance of R&D tax support has significantly increased in Ireland, both in absolute and relative terms.

**Figure 3. Direct government funding of business R&D and tax incentives for R&D, Ireland, 2000-17**

As a percentage of GDP, 2010 prices (right-hand scale)

The cost estimate of tax incentive support for Ireland covers the R&D tax credit


- The cost of tax relief rose (in 2010 prices) steadily from EUR 70 million in 2004 to EUR 649 million in 2015, with a sharp increase noticeable after 2012, when the R&D tax credit in Ireland became hybrid and began to include a volume-based tax relief component. This trend, reinforced through the increasing utilisation of unused credits following the financial crisis, comes to a halt in 2015, when the cost of R&D tax support declines sharply to reach EUR 412 million in 2017.
- As percentage of GDP, R&D tax support rose from 0.05% of GDP in 2004 to 0.15% in 2017.
- Direct funding of BERD increased during this period and reached 0.06% of GDP in 2014, and then declined to account for 0.04% of GDP in 2017.
- The share of tax incentives in total government support increased from 67% in 2004 to 78% in 2017.


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