

R&D Tax Incentives: Ireland, 2020

Design of R&D tax relief provisions

Ireland provides R&D tax relief through an entirely volume-based R&D tax credit since January 2015.

Table 1. Main design features of R&D tax incentives in Ireland, 2020

Research and development tax credit	
Type of instrument*	Volume-based
Eligible expenditures†	Current, machinery & equipment, buildings
Headline rates (%)	25 (large firms), 30 (SMEs)
Refund	Over 3 years (3 instalments)
Carry-over (years)	Indefinite (carry-forward). 1 (carry-back)
Subcontracted R&D	- Greater of EUR** 100 000 and 15% of total qualifying expenditures on R&D activities - Up to 5% if R&D activities are contracted to a university or institute
Ceilings	Limited to the greater of: ▪ the aggregate amount of Corporate Income Tax paid in the ten preceding fiscal years, reduced by Payable R&D Credit claimed in respect of prior periods; OR ▪ the aggregate of current and preceding accounting periods payroll liabilities reduced by the lesser of: - any excess of aggregate payable R&D credit over aggregate payroll liabilities for all periods in respect of which a payable credit was claimed prior to the period in question; - the payroll liabilities for the preceding period.
Refund-specific	

* 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.

Note: For more details, see [OECD R&D Tax Incentive Compendium](#) and [Eligibility of current and capital expenditure for R&D tax relief](#)

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Key features:

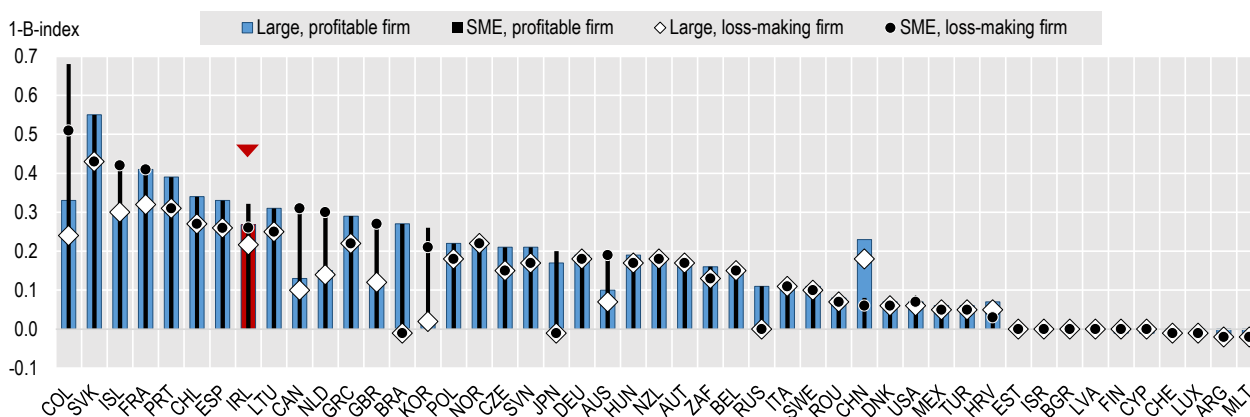
- In the case of insufficient tax liability, unused credits are refunded over 3 years (3 instalments) or can be carried-forward indefinitely in addition to a one-year carry-back option.
- Upper ceilings apply to the amount of eligible subcontracted R&D and refundable credits.

Generosity of R&D tax support in 2020

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 2020, the marginal tax subsidy rate for profit-making (loss-making) SMEs in Ireland is estimated at 0.32 (0.26), well above the OECD median of 0.20 (0.18). The tax subsidy rate for large enterprises is equal to 0.27 (0.22) in the profit (loss)-making scenario, significantly larger than the OECD median of 0.17 (0.15). These estimates model the provisions for the R&D tax credit which, as of 2020, is incompatible in its use with the accelerated depreciation provision of R&D capital.

Figure 1. Implied tax subsidy rates on R&D expenditures: Ireland, 2020

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 based on headline tax credit/allowance rates (see [methodology](#) and [country-specific notes](#)), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Recent developments in R&D tax relief provisions

Regular reforms of R&D tax incentives lead to continuous changes in the availability, scope and generosity of R&D tax incentives. Such reforms relate to the launch of new tax incentives, the R&D definition adopted for tax purposes, changes in tax credit and allowance rates, adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts, or changes in the terms and availability of refunds.

In 2020, changes in the availability and scope of R&D tax incentives represented the most frequent type of policy reform ([OECD, 2020](#)), along with adjustments to the headline R&D tax credit/allowance rates and adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts. In response to the COVID-19 pandemic, several countries increased the generosity of R&D tax relief or introduced modifications to the administration of R&D tax incentives to facilitate and accelerate R&D funding.

In 2020, **Ireland** undertook **five changes** in its R&D tax relief provisions:

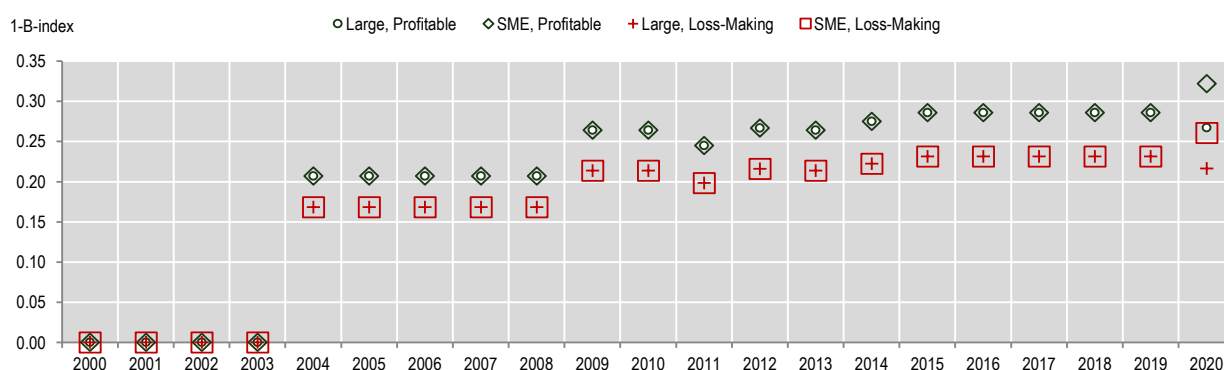
- The R&D tax credit rate for small and micro companies has been increased from the standard rate of 25% to 30%.
- The methodology used to calculate the refundable R&D tax credit amount for small and micro companies has also been enhanced. Inter alia, the limit applying to the cash refundable R&D tax credit that can be received has been increased to the aggregate of twice the payroll tax liabilities for the relevant accounting period.
- The outsourcing limit to third-level institutes has been increased to a maximum of 15% (previously 5%) or EUR 100,000 (whichever is higher) of a company's "in-house" R&D expenditure.
- **In response to the COVID-19 crisis**, instalment payments of excess tax credits have been expedited.
- Finance Act 2019 enacted changes to the accelerated depreciation provision for R&D capital, the so-called Scientific Research Allowance (SRA). The updated legislation sets out that buildings and structures will not qualify for tax relief under the section unless the construction or development of the building or structure is itself regarded as being "scientific research". Additionally, if a company is claiming the Scientific Research Allowance, it is prohibited from also claiming the R&D tax credit.

Trends in the generosity of R&D tax support

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. In 2020, Ireland raised the R&D tax credit rate for micro and small companies (modelled in the case of SMEs) from 25% to 30%, leading to an increase in the R&D tax subsidy rate of SMEs from 0.29 to 0.32. With the incompatibility of the R&D tax credit and accelerated depreciation provision from 2020 onwards, the R&D tax subsidy rate for large firms decreased slightly from 0.29 (0.23) in 2019 to 0.27 (0.22) in 2020 in the profit (loss) case.

Figure 2. Implied tax subsidy rates on R&D expenditures: Ireland, 2000-20

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 based on headline tax credit/allowance rates (see [methodology](#) and [country-specific notes](#)), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

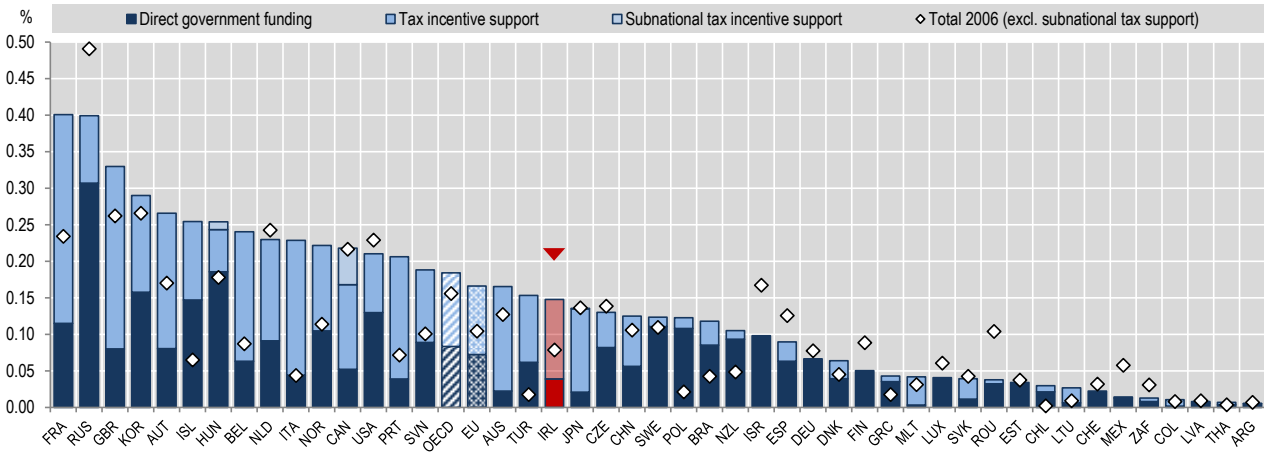
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rntax>, March 2021.

Policy support for business R&D: the policy mix

In 2018, **Ireland** is placed below the OECD average in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.15% of GDP.

Figure 3. Direct government funding of business R&D and tax incentives for R&D, 2018 (nearest year)

As a percentage of GDP



Note: Data on subnational tax support are only available for a group of countries.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

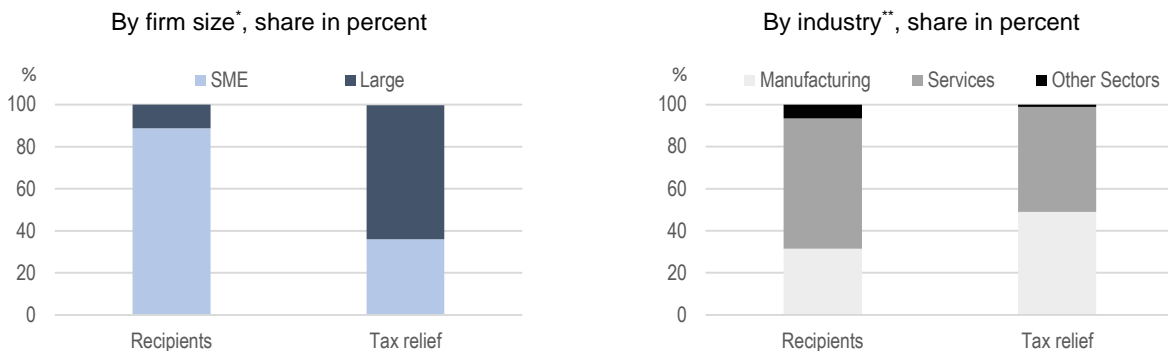
Key points:

- From 2006 to 2018, total government support for BERD as a percentage of GDP increased in **Ireland** by 0.07 percentage point (pp), while the OECD average increased by 0.03 pp.
- During this period, business R&D intensity in **Ireland** increased from 0.79% to 0.85%.
- In 2018, R&D tax incentives accounted for 74% of total government support for BERD in **Ireland**.

Distribution of R&D tax relief recipients and government tax relief for R&D

The distribution of R&D tax relief recipients and government tax relief for R&D expenditures (GTARD) provide insights into what types of firms claim and benefit from tax relief.

Figure 4. Number of R&D tax relief recipients and value of government tax relief for R&D, 2017



Note: Figures refer to the R&D tax credit. *SMEs are defined as firms with 1-249 employees. **Economic activity is defined based on NACE classification (Manufacturing: no details available; Services: Wholesale and retail trade/Repair of motor vehicles and motorcycles, Information and Communication, Financial and Insurance Activities, Professional Scientific and Technical Activities and Administrative and Support Service Activities; Other Sectors: no details available)

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

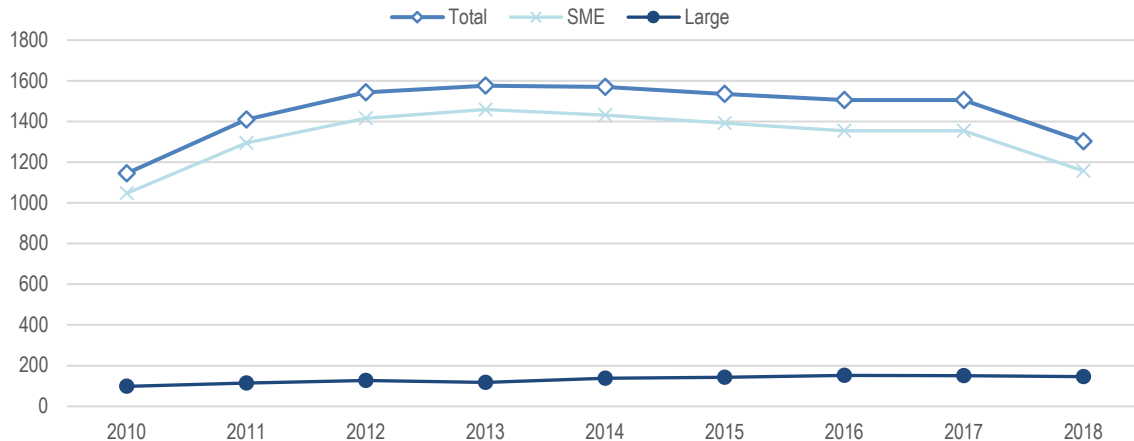
Key points:

- In **Ireland**, SMEs accounted for 89% of R&D tax relief recipients in 2018, while the share of R&D tax support accounted for by SMEs amounted to around 36% in this year. 64% of R&D tax benefits were allocated to large firms, comprising 11% of the population of R&D tax relief recipients in 2018.
- In 2018, firms in services represented around 62% of R&D tax relief recipients in **Ireland**, followed by firms in manufacturing with a share of 31%. The share of R&D tax benefits accounted for by the latter amounted to 49% in that year, while this share amounted to 50% in the case of firms in services.

Trends in the uptake of R&D tax incentives

Over the period 2010-2018 (the period for which relevant data are available), the number of R&D tax relief recipients in **Ireland** increased by around 15%, reaching close to 1 300 recipients in 2018. While the number of SMEs receiving R&D tax support increased by around 10% from around 1 050 to 1 160, the number of large firms receiving tax support increased by nearly 50% from around 100 to 146. Over the 2010-18 period, SMEs accounted for around 90% of R&D tax relief recipients in **Ireland**.

Figure 5. Number of R&D tax relief recipients, Ireland, 2010-2018



Note: Figures refer to the R&D tax credit.

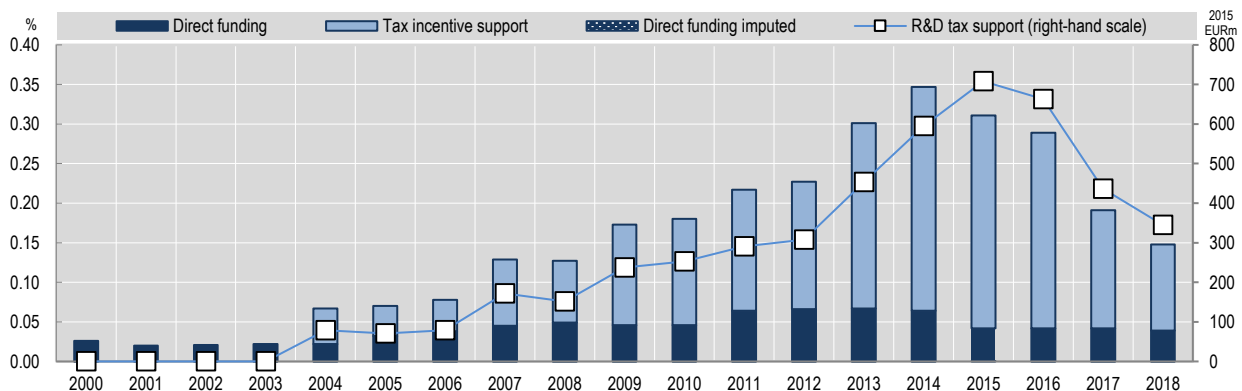
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Trends in government support for business R&D

Since the launch of an R&D tax credit in 2004, the importance of R&D tax relief has significantly increased in **Ireland**, both in absolute and relative terms, with a reversion to pre-crisis levels observable from 2015 onwards.

Figure 6. Direct funding of business R&D and tax incentives for R&D, Ireland, 2000-18

As a percentage of GDP, 2015 prices (right-hand scale)



Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

- The cost of government tax relief for R&D rose (in 2015 prices) steadily from EUR 79 million in 2004 to EUR 708 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 345 million in 2018.
- As percentage of GDP, R&D tax support rose from 0.05% of GDP in 2004 to 0.11% in 2018.
- Direct funding of BERD increased during this period and reached 0.07% of GDP in 2014, and then declined to account for 0.04% of GDP in 2018.
- The share of tax incentives in total government support increased from 67% in 2004 to 74% in 2018.

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