BlueBridge Technologies Ltd.

3015 Lake Drive, Citywest Campus, Citywest, Dublin 24, Ireland.
Tel: +353 1 403 8477 Fax: +353 1 443 0715
info@bluebridgetech.com • www.bluebridgetechnologies.com

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23rd July 2013

RE: R&D Tax Credit Review

Dear John,

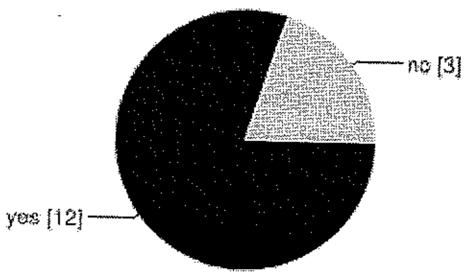
Following our recent dialogue on increasing the CAP on the R&D Tax credit in Ireland, we completed a survey of a select group of R&D outsourcers in Ireland to gather some market data points to support my case.

The survey was conducted online with some of the top R&D decision makers in Ireland [redacted]

The key findings in favour of increasing the CAP are as follows:

- 80% of respondents see the 10% CAP as inhibiting factor in their overall R&D spends.

Do you consider the 10% Cap a barrier to outsourcing and conducting R&D activity in Ireland



- 100% of respondents would increase their R&D spend with a lifting of the 10% CAP to a more appropriate level. Additional research is required to work out the appropriate level of the revised CAP.

- All respondents stated they would increase their R&D spend in Ireland with 80% of respondents stating they would increase their spend by up to 90% of their outsourced R&D budget in Ireland if the CAP was eliminated and criteria largely under Irelands control were addressed such as skills availability, larger partners and developed relationships.

We are happy to share the details of the survey with you and your team.

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Additionally IBEC recently conducted a survey of a similar nature and of the 185 companies who had claimed an R&D tax credit, 55% indicated that Agency/contract workers and/or Outsourcing to third party companies were the main areas that they would like to see new features and improvements to the existing R&D tax credit scheme.

There is sufficient evidence here to extend this research to a wider audience and to ultimately develop a business case for lifting the R&D grant in Ireland to > 10% of R&D spend.

Additionally we looked at three EU countries which have a heritage in product innovation to understand further their approach to R&D outsourcing.

The French & Germans seem to encourage subcontracting and, furthermore, don't seem to confine it to within the member state. The French in fact have applied a ceiling 300% (versus our 10%) and the Germans may apply a ceiling before legislation is finalised.

The Dutch are closer to Ireland in their thinking – keep R&D within the company but are now reviewing the reliefs.

Given that 2 of the 3 we sampled are changing the legislation and that the rules are so different a significant amount of autonomy must rest with the local legislator.

The benefits of lifting the cap include:

- Increased skills in true R&D activities
- Development of an expertise that will address a global market that includes tapping into countries like France where up to 300% of internal R&D spend can be outsourced.
- Development of an expertise that is less dependent on corporate tax incentives and position Ireland as a true centre of expertise in complex / highly skilled activities globally
- Increase in Irish workforce

We have included some additional information in the Appendix in relation to the approach in 3 of our European neighbours that are viewed as European leaders in product innovation.

Next Steps:

Department of Finance to conclude a broader survey and business case for increasing the CAP

Look forward to hearing from you

Kerry Naughton

Kerry Naughton

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Appendix

Details in relation to France, Germany and Netherlands:

France

- Subcontractors - Up to 3 times the amount of internal R&D expenses
- No mention that subcontractors spend had to be solely in France, the only mention was the level of restriction.

Germany

- Incentives given by way of Grants (not tax credits) in the past.
- However, all parties in Germany i.e. MNC's and policy makers changing to a Tax Credit incentive.
- No mention of restriction for subcontractors either In Germany or Member States.

Netherlands

- It has a historical system is known as "innovation box" which must be incurred by the company and not a third party. The incentive is by way of a reduction of projected future profits from the fruits of the companies R&D spend.
- They have in recent years introduced a tax credit against wages of staff engaged in R&D.
- As a consequence their system does not encourage subcontracting

Source: The OECD Tax incentives for Research & and Development: Trends and Issues – Science Technology Industry Tax and Global Guide to R&D Tax Incentives. Taxand-Global-Guide-to-R-D-Tax-Incentives-2011-2012.sflb.pdf