

Problem statement

Currently R&D tax credit is restricted to 10% of internal R&D expenditure or 100k for R&D subcontracted to an unconnected person.

For MNC's (Multinational Corporations) the above subcontracting restrictions offer limited tax saving which stifles the incentive to subcontract R&D. As a result MNC's are encouraged to use their existing in house resources which in many cases are carried on outside of Ireland.

Multinationals initially need local external support when they set-up an R&D function in their Irish sites. By using a local service provider they can incubate R&D work until their internal capability is more fully established. Additionally, once established, they would require on-going services and support from the local service provider as they build knowledge and expertise in their specific domain.

The restriction of 10% is a significant barrier to MNC's approving R&D projects as MNCs find it easier to obtain internal (corporate) budgetary approval for subcontracted projects to service providers than to increase staff in R&D roles.

R&D is a high cost overhead and, in general, it makes more sense for multinational companies (MNCs) to offset R&D against profits in a high corporation tax country (i.e. the USA) than in a low corporation tax country such as Ireland. Therefore to incentivise MNC's to subcontract R&D the tax benefit must be made more attractive at minimal, tax neutral to MNC's.

Solution

Surely the objective should be to increase employment in R&D activity in Ireland regardless of where the employment is given either by MNC's or indigenous technology companies.

Innovative tax legislation governing R&D tax credits could stimulate MNCs in Ireland to substantially increase their subcontract R&D related activity to Irish SME's thereby helping to strengthen and grow the indigenous technology sector.

To ensure that Irish indigenous technology companies' benefit by increased activity, there should be a removal of the 10% restriction entirely and let the market dictate what element of R&D is subcontracted and what R&D is carried out in house.

Benefits to MNC's

1. Improving MNC's R&D tax credit relief for outsourced R&D could result in greater partnership being forged with Irish SME's.
2. This partnership will provide cost effective results and increase the profile of Irish R&D internationally which could snowball further R&D development to take place in Ireland
3. Developing an R&D capability via an outsourced partner is a much safer route to take avoiding high initial investment costs of taking on staff especially in a country without an R&D heritage.

Benefits to Exchequer

The net effect is to make Ireland more attractive to commission R&D activity which will lead to increased Corporation Tax/PAYE/PRSI/USC/VAT from the indigenous technology sector which will filter to service industries etc. This will result in longer term benefits to society and industrial growth by having a stronger indigenous R&D sector.