

Review of R&D Tax Credit

Submission

Michael Hennigan

Founder Finfacts - - www.finfacts

The impact of the tax credit on innovation is likely marginal at best and while the failure to meet the 2006 target for Ireland to be recognised as a world class knowledge economy by 2013 was quietly buried, it merits questioning.

The delusion that commercialising university research could become a jobs engine remains at the heart of enterprise policy, despite the challenge of creating tens of thousands of sustainable jobs.

The internationally tradeable goods and services sectors in Ireland are dominated by foreign-owned firms who are responsible for about 90% of headline exports value.

The **foreign-owned firms do not do significant research in Ireland that results in patents** and the situation has not changed since the R&D tax credit was introduced.

Forfás, the Irish government's policy advisory agency, said in a report in 2004 that analysis of the profile of Irish-based companies engaged in patenting showed that none of the top 50 exporters were among the top ten foreign-owned patenting companies, and leading computer manufacturers were entirely absent. Only one of the top 15 pharmaceutical exporters (Abbot) appeared on the list. Analysis of top indigenous patentees showed that they were mainly SMEs operating in traditional sectors. "However, the omissions tell us more about the state of indigenous industry than those that are included. The Irish food sector contributes two-thirds of all indigenous industry exports but no major food company or co-operative appears on the list."

The situation was similar in 2011 when applications at the Irish Patents Office **were at the lowest since 1982**.

In December 2012, the European Commission published its ranking of the top 1000 R&D corporate spenders in the EU and a global top 1,500 ranking.

Among the top 1000, 15 are listed as Irish companies and there are 46 Finnish companies.

Three American companies headquartered in Ireland, on paper contributed 68% of Ireland's R&D investment: Seagate Technology (15.0%), Covidien (23.9%) and Accenture (31.2%). Annual rises are in brackets. Seagate spent €1bn while the 4th Irish rank, Ingersoll-Rand -- another American company, spent €199m.

However, very little of this spend may have been made in Ireland.

Bank of Ireland and AIB are included and Kerry Group has a 128th ranking with global R&D spend at 3.2% of revenues and Glanbia is at 669 with R&D spending of a measly 0.5% of revenues.

There were 7 foreign companies listed as Irish and among the actual Irish firms, Elan, the drugs company, which has sold its Athlone plant, likely does most of its R&D in the US.

Some key facts:

- In 2012, it took the Department of Jobs, Enterprise and Innovation about 6 weeks to supply 2010 data on the scheme to Finfacts as the Revenue had to prepare it. If ministers and policy

makers regarded the scheme as a crucial one, none of them were motivated to request data on the uptake;

- For IDA Ireland, the inward investment agency, the scheme is an inducement for potential new projects while for existing companies, it lowers the effective rate of tax. **The agency does not define what 'R&D component' means when it uses it in respect of new projects.** It appears that the term 'centre of excellence' can turn a call centre into an R&D project;
- The Forfás Annual Employment Survey 2011 shows that **total full time employment in the high-tech/ life sciences sectors only marginally changed** in the period 2002/2011;
- Claims are made via self-assessment on annual Corporation Tax Returns. While there is an official definition of 'R&D', in practice a wide range of spending can be put within the category and the incentive to do so is obvious. **The Revenue have no data on rejection of claims** that would only normally arise via a tax audit. Besides, given the dependence on foreign firms who are responsible for 90% of headline goods and services exports, the Revenue is unlikely to dispute R&D claims made by big US firms. It also wouldn't have the competence to do so;
- So prior to Budget 2013, when Minister Noonan was advised that proposed adjustments would cost at least €45m (as per Freedom of Information release) on top of an estimated cost in 2010 of €224m, there was no feedback on the scheme - - not even if one claim had ever been rejected;
- The World Intellectual Property Organisation (WIPO), a United Nations agency, says that the Patent Cooperation Treaty (PCT) facilitates the process of seeking patent protection in multiple countries. PCT applications from Irish residents amounted to 343 in 2005 and 346 in 2012. There was no significant exporter among the top filers in 2011;
- The OECD says that triadic patent families are a set of patents filed at three major patent offices: the European Patent Office (EPO), the Japan Patent Office (JPO) and the United States Patent and Trademark Office (USPTO). The number of Irish triadic patents issued in 1999, 2006 and 2009 was 74, 74 and 76;
- Patent applications at the Irish Patents Office from Irish residents amounted to 494 in 2011, 787 in 2004 and 789 in 2005. **The 2011 level was the lowest since 1982 when the total was 434;**
- Patent quality and commercialisation are issues which have received a lot of attention in recent years. The OECD says patents from inventors in the United States, Germany and Japan are the most highly cited, which suggests that true innovations are being used by many firms in their products to generate further innovations, according to a report (see Finfacts paper referred to below). However, while these countries produced about 70% of the top 1% of highly-cited patents between 1996 and 2000, their share fell 60% five years later. In recent years, the Nordic countries, China, India and Korea have seen their share increase of highly-cited patents. Denmark for has the highest quality patents in 'Wind energy,' 'Organic Chemistry,' 'Pharmaceuticals' and 'Biotechnology' while Finland leads in 'Polymers.' Ireland does not head any category.
- The number of IDA client companies investing more than €100,000 per annum in R&D in 2010 was 271 from a base of over 1,000, according to the 2011 Annual Report. **So less than a third of client companies claim;**
- The number of Enterprise Ireland client companies that invested more than €100,000 in R&D in 2012 was 731, according to the 2011 Annual Report;
- According to the CSO's Business Expenditure on Research and Development 2011/2012 survey, 1,192 Irish-owned firms were engaged in R&D in 2011 and 417 foreign-owned firms. Foreign firms spent €1.38bn and indigenous firms spent €578m. Of the total of €1.96bn spent on in-house research and development (R&D) activities in 2011, 86% of this spent on current expenditure (labour costs of R&D staff, etc) and 14% on capital expenditure (land and buildings, etc). In excess of 61% of total R&D expenditure was generated in the services sector. Provisional EU data indicates an average EU R&D spend for 2011 of 1.26% of Gross Domestic Product (GDP). Finland reported the highest spend at 2.67% of GDP while Ireland spent 1.17% of GDP on R&D. However, this comparison is of little use as the Irish indigenous sector is small.

References

Finfacts paper: [Ireland's doomed goal to become a world-class knowledge economy](#) [pdf]

Finfacts.ie

Related [presentation](#) at economics conference [pdf]

[Irish Economy: Innovation, a failed enterprise policy and inconvenient facts for 2013](#)

World Intellectual Property Organisation statistics

State agency reports

[The 2012 EU Industrial R&D Investment Scoreboard](#)

[Noonan's R&D tax breaks to cost at least €45m a year](#) - - Irish Independent Feb 2013