

Research and Development - a Driver for Jobs and Growth
Sinn Féin response to the
Department of Finance Review of R&D Tax Credits

Introduction

Sinn Féin welcomes the consultation exercise by the Department of Finance into the review of Research and Development Tax Credits.

The economy of the island has been under considerable stress for the last six years with the global down turn, the banking crisis and the policy decision of successive governments in Dublin.

Economic growth is flat, public spending reduced, unemployment and emigration unacceptably high and businesses are closing due to lack of demand and access to credit.

The crisis has had a differential impact across economic sectors and regions. Construction, industry and retail have been greatly impacted on while regions such as the Border, South east and Midlands have experienced levels of job lost and unemployment in excess of the average.

In terms of competitiveness the World Economic Forum ranked this state 29th (no figures are available for the North) behind other European counties that offer high or higher levels of social protection such as Germany, Netherlands, Norway, Denmark and France.

The reason they identified for our low rank was underinvestment in education, research, infrastructure and broadband connectivity.

In 2010 1.79% of our GDP was invested in R&D ranked 14th out of the OECD 28 rankings. However this is well short of the Horizon 20/20 investment target of 3% of GDP by 2020.

We are at a pivotal strategic moment in the economic life of our nation. We can continue with the same polices and approaches, and continue the cycle of austerity and low growth or we can begin to plan, invest and support sustainable jobs and economic and business growth for the benefit of all.

Sinn Féin believes that innovation, new technologies and research and development can become significant economic drivers for growth.

It is clear government investment and policy must promote innovation, skills development, employment and research and development.

Towards an Innovation, Research and Development Ecosystem.

Sinn Féin believes that to realise the full potential of innovation, new technologies and research and development will require a whole government response to put in place a comprehensive set of inventions to ensure all sections of our nation and economy benefits.

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Sinn Féin believes in investing in and supporting an innovation ecosystem that addresses; regional and class disparities, that promotes new technologies, develops critical thinking and skills from primary to third level education, makes available high speed broad band infrastructure regardless of location, ensures available credit to SME's and supports industry and enterprises to invest in Research and Development.

While we welcome this consultation we also recognise the limits of broad based taxation measures on R&D will have without investment in other sectors of an innovation ecosystem.

We want to ensure that a child growing up in Donegal, Waterford or Westmeath can have the skills and access to infrastructure to become our next wave of entrepreneurs, developers and researchers

The issue cannot solely be left to broad taxation measures.

Sinn Féin proposed to fully develop a sustainable innovation ecosystem linking together physical infrastructure, skills and education, collaborative networks, research and development with the goal of promoting employment, business growth and economic growth for the benefit of all our people.

Evidence Based Tax Policy

To date there has been progressive support for enterprises to increase investment in Research and Development, with 8 significant policy changes coming into effect since introduction of R&D Tax credits in 2004.

It should be noted that tax credits of €82 million was accessed in 2004 by less than 50 companies to €224 million in 2010 being accessed by 1,200 companies.

Sinn Féin welcome the broadening of the access to this scheme and would welcome a further detailed analysis by the department on the spread of access to these tax credit.

It has been anecdotally stated that the bulk of these tax credits are being claimed by a small number of Multinational Corporations. Given the need for transparency on tax matters, before developing a new approach the Department of Finance should report on the access to these credits.

Sinn Fein would also welcome an analysis of the tax credit drawn downs by region to ensure that all regions are access in the funds equally.

In addition Sinn Féin would welcome an analysis of the operation of the tax credit scheme and the impact on employment, taxation and profit on companies that have availed of the scheme on a year on year basis to ensure that these supports are going for reinvestment and

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employment creation and not taken in profit.

This information is essential if we are to have an evidenced base approach to developing a tax measure that has been in place for 8 years.

R&D Taxation Policy to Address Market Failure and Promote Government Objectives

It is accepted that business taxation measures are required to address market failure and promote government objectives.

Given the lack of available capital and in some cases a business culture that mediates against investment in Research and Development there is a clear case for government action.

Sinn Féin fully supports the need for R&D taxation policy to promote and enhance investment in Research and Development.

However we believe that this should incentivise R&D investment in SME sector, enhance economic growth, deliver employment and tackle regional disparities.

Sinn Féin believe that consideration should be made of refining the current broad based relief to incentivise investment by SME's and incentivise investment within regions with below state-wide levels of investment or employment.

Such incentives should reflect differential tax rates of tax credit in order to balance growth and support SME's.

At present the expenditure for consideration for R&D tax credits is in excess of that invested in R&D by a qualifying company in 2003. For newer companies it is set against a full volume basis up to €200,000 with 25% of eligible expenditure thereafter,

Sinn Féin supports the continuation of the €200,000 threshold but believe the continued use of 2003 base year no longer is relevant. Sinn Féin believes that consideration should be given to establishing a baseline investment of R&D expenditure on an annualised basis of the proceeding 5 years for each enterprise in excess of €200,000.

Further to this consideration should also be given to offsetting previous expenditure on R&D against increases in employment ie enterprises that demonstrate that they have increased employment through investment in R&D should receive a discount on their baseline investment.

In 2012 the government provided setting aside part of the Tax Credit against a key employees wage. This in effect provided a Tax free bonus to an employee. Sinn Féin is concerned that

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this scheme is open to abuse and believes that the tax credit should be reinvested in the business and not given to an employee as a tax free lump sum.

Further to this Sinn Féin would request that the Department of Finance provides information relating to the take up of this benefit, the number of employees benefiting, the size of the tax free lump sum awarded and the rates of pay of those receiving such a benefit.

Lastly Sinn Féin believes that more could and should be done to inform enterprises and particularly SME's of the potential benefits of R&D investment and access to governmental supports and Tax Credits.

IBEC found that there were over 30 specific supports available to enhance and resource R&D development.

Many companies are unaware of these ranging from EU wide programmes, Enterprise Ireland programmes and tax credits. Businesses require a guide to navigate and avail of supports for R&D and support the call from IBEC for a single portal for this advice. Further to this it is essential that all business support advisors are fully aware of these supports and advise businesses accordingly.

Sinn Féin calls for the development of a single point of contact for information for all levels of R&D support and for the promotion of this information through Enterprise Ireland, County Enterprise Board and Local Enterprise Offices.