Irish State Sponsored Research, Development and Innovation (RD&I) Support Ecosystem

From Enterprise Ireland RD&I grants to Revenue tax incentives, the Irish RD&I ecosystem is made up of an integrated suite of supports for innovation led Irish companies. However, the integration and consistency across the range of incentives is not always obvious which can inhibit companies’ ability to access them.

This guide aims to clarify the principles and practices that promote integration between the various incentives. It outlines the key qualification criteria and the recording and documentation requirements that enable efficient access by Irish companies.

How to use this guide
The schematics in the appendices are intended to be used as quick reference guides. They attempt to outline the main qualifying criteria and documentation requirements for each of the key State sponsored RD&I industry incentives. The main text provides background information on the key principles underpinning the continuum of Irish State Sponsored RD&I support.

It should be noted that it is not possible to provide an exhaustive guide that applies perfectly in every situation. Therefore, this guide aims to provide a complementary perspective to existing support guidelines available from different State agencies. It is presented as an additional aid to Irish companies and does not repeat the information provided in the official guidance documentation, which should be referenced in conjunction with this document.

Introduction
It is now well recognised that R&D active companies are the critical foundation for sustainable, innovation led, economic development and employment in the economy. Therefore, the Irish State provides a continuum of integrated funding and taxation-based supports with the shared aim of increasing the volume and quality of RD&I activity in Irish companies. In combination, these supports form a State sponsored ecosystem, providing favourable conditions for Irish based companies to carry out world class RD&I activity. Fostering an Irish ecosystem that can compete with the best in the world is a critical element of the Irish Government’s vision to make Ireland a global innovation leader.

The State aims to provide supports that are aligned with the with the evolving needs and challenges faced by Irish companies as their RD&I activities advance from concept through to market exploitation. Furthermore, the elements of the support ecosystem have been designed around a few key principles of successful RD&I. This means that, as far as possible, there is a high degree of consistency between incentives and supports in terms of eligibility, documentation and recording requirements.

However, in spite of this it can be difficult for companies to navigate the ecosystem to find and access the supports appropriate to the requirements at any particular stage of development. The aim of this guide, therefore, is clarify some of the main qualification requirements for key State supports and to explain how they relate to different stages in the RD&I cycle. It also describes the integration that exists between the various support incentives in order to highlight how this facilitates consistent documentation and records requirements across the system.
Context

As shown in figure 1, RD&I is a continuous process of creating solutions (R&D), capturing the results (IP) and commercialisation them in marketable products and services, thereby completing the Innovation cycle. The cyclical nature reflects how successful RD&I leads to sustainable growth through continuous value creation. However, it also demonstrates that RD&I is continuous, complex and dynamic with varying management challenges arising throughout the cycle.

In reality, there is considerable overlap between the phases outlined figure 1. As an RD&I project advances from concept to marketable product/service there is rarely a clean break between phases. Nor does it always move in only one direction. However, RD&I projects normally start with a high degree of technical and market uncertainty which are gradually reduced through a series of characteristic phases of RD&I as represented in figure 2.

Each of these ‘typical’ RD&I phases present their own challenges and demands on a company’s resources and capabilities. The process is defined by high risk and uncertainty but if successful, it may yield a high barrier-to-entry to competitors and significant potential for growth. In turn, the economy and society derive sustainable economic development of the back of this activity by Irish industry. Therefore, an aim of State sponsored support is to help companies to balance high commercial risk with high growth potential.
Structure of the Irish RD&I Support Ecosystem.

This guide focusses on State sponsored RD&I support incentives for Irish companies to undertake in-company RD&I activity in Ireland. While this is not the totality of the support ecosystem it is an important element, with relevance to the majority of Irish innovative exporters. As stated in the introduction the overall support ecosystem consists of a continuum of incentives that span the R&D cycle. Individual supports target the specific challenges faced by companies at the different stages in the cycle. Table 1 outlines the key individual supports that are the subject of this guide.

<table>
<thead>
<tr>
<th>Support or Incentive</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise Ireland RD&amp;I Grant aid*</td>
<td>To support a portion of the cost of undertaking in-company RD&amp;I activity.</td>
</tr>
<tr>
<td>R&amp;D Tax Credit</td>
<td>25% tax credit to offset some of the company expenditure R&amp;D.</td>
</tr>
<tr>
<td>Knowledge Development Box</td>
<td>50% reduction in corporation tax on profits attributable to IP that results from in-company R&amp;D.</td>
</tr>
</tbody>
</table>

Table 1. State supports and incentives for in-company RD&I

*Other State agencies including the IDA and Science Foundation Ireland also provide RD&I supports which are not covered here. However very similar principles apply.

The aim of the measures in Table 1, individually and in combination, is to incentivise Irish companies to undertake systematic RD&I, in Ireland, with a view to exploiting global market opportunities. There is a high degree of integration between them, which promotes consistency and aims to enable efficient access by companies. Figure 3 provides a schematic overview of the sequential yet overlapping nature of the supports and how they follow the typical RD&I cycle.

Figure 3 shows that the State provides supports tailored to each stage of the RD&I cycle. The integrated approach enables companies to move from one support to another, as their project advances. The integration is achieved by applying a consistent set of principles across all supports and using these principles to underpin the qualifying criteria for each incentive. These principles, outlined
in figure 1 and the following table, are relevant at all RD&I stages, however, their relevance changes as projects move from concept to marketable product/service.

<table>
<thead>
<tr>
<th>RD&amp;I underlying principles</th>
<th>Relevance</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D activity</td>
<td>All supports require there to be documented expenditure on qualifying R&amp;D project/activity, funded at least in part by the applicant company, supported by technical and other relevant financial documentation.</td>
</tr>
<tr>
<td>R&amp;D results and IP management</td>
<td>All supports require that R&amp;D results are documented. Some supports require that some R&amp;D results have qualifying IP protection in place.</td>
</tr>
<tr>
<td>Advancing the State-of-the-art and Market exploitation</td>
<td>All supports require that the R&amp;D activity focuses on adding new knowledge to the current state-of-the-art by resolving scientific/technical uncertainty. In some cases, it must also focus on commercial opportunities for which no (or less) satisfactory solutions exist. At the commercialisation phase applicants are required to provide documentary evidence of qualifying profits from trade based on the qualifying IP.</td>
</tr>
</tbody>
</table>

Table 2. Underlying principles of systematic RD&I and State support

As indicated in table 2 above, applicants for State support must provide documents and records to show that these principles underpin their RD&I activity. The following section provides some explanatory detail of each in the context of Irish Innovation support ecosystem.

Underlying Principles for State Support for RD&I.

Research and Development Activity

To access state incentives companies must be carrying on, and bearing at least some of the cost of, an R&D activity. However, not all research and not all development activities will constitute a qualifying R&D activity for these purposes. The State support ecosystem is focused on supporting scientific and technical R&D, as it represents the greatest potential for market disrupting innovation with high growth potential. Therefore, the State ecosystem adopts a consistent interpretation of the types of R&D activity that are eligible for support. The fundamental basis for this is provided by the Frascati Manual published by the OECD in 2015, which defines R&D as:

“Research and experimental development (R&D) comprise creative and systematic work undertaken in order to increase the stock of knowledge – including knowledge of humankind, culture and society – and to devise new applications of available knowledge.”

The Manual, and supplementary clarification in EU and Irish legislation, provides a greater level of detail on the different types of R&D which qualify for State support. Described briefly as follows:

‘Basic’ or ‘fundamental research’ – is experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying phenomena and observable facts, without any particular application in view.

‘Applied research’ - Is original investigation undertaken in order to acquire new knowledge. It is however, directed primarily towards a specific practical aim or objective. For the purposes of enabling state support EU and Irish legislation outline two types of applied research that are eligible for support:
‘Industrial research’ means planned research or critical investigation aimed at the acquisition of new knowledge and skills for developing new products, processes or services, or for bringing about a significant improvement in existing products, processes or services.

‘Experimental development’ means acquiring, combining, shaping and using existing scientific, technological, business and other relevant knowledge and skills with the aim of developing new or improved products, processes or services.

In order to access support from the State, companies must be able to identify their R&D activity with at least one of these categories. In addition, and to assist with determining whether an activity can be classed as eligible R&D, the Frascati Manual identifies 5 features that are common to all R&D projects.

- Novel (aimed at new findings)
- Creative (Based on original concepts, not obvious)
- Uncertain (outcome, cost, time allocation not known a priori)
- Systematic (planned and budgeted)
- Transferrable and/or reproducible (should be the potential to transfer the results)

It should be noted that there are also classes of activity that may exhibit similar characteristics to these and/or may support R&D but are not eligible R&D, for the purposes of State support, because they lack sufficient scientific and technical nature. This includes activities such as: research in the social sciences, market research, organisational/management studies, legal and administrative, testing for quality control, construction and rearrangement of facilities (inc. R&D equipment etc), prospecting, R&D administration and support services.

R&D results and IP management

A key characteristic of systematic RD&I is how well the R&D results are captured and made available for commercial exploitation. This will not always mean generating formal registered IP, e.g. patents. However, it does always mean documenting and recording R&D results, maintaining appropriate confidentiality and security and deploying of the full range of IP protections as appropriate. Furthermore, in-order to access the various state supports it is necessary for companies to be able to provide evidence of the R&D output. This can take the form of documented and recorded results and evidence of IP protection, where relevant.

The following table summarises a range of common outputs or results that can be generated from R&D and the relevant methods commonly used to document, record and protect them, (note: categories may overlap and other forms may exist, so the list is not intended to be exhaustive).

<table>
<thead>
<tr>
<th>R&amp;D result</th>
<th>Typical documents, software, records and physical items that record R&amp;D output</th>
<th>Intellectual assets, including Intellectual Property Rights.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experiment results</td>
<td>Lab note books, Invention Disclosure Forms (IDFs), Software version control systems, raw and compiled test data, databases, secure drives and media.</td>
<td>Copyright, Database rights. Trade Secrets.</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>--------------------------------------------------</td>
</tr>
<tr>
<td>Materials, substances, formulations, chemical compounds</td>
<td>Lab note books and IDF’s, ingredient lists, recipes, samples and inventory.</td>
<td>Patents. Supplementary Protection Certificates (SPCs). Trade Secrets. Copyright</td>
</tr>
<tr>
<td>Processes and procedures</td>
<td>PLC programmes, manuals, mathematical models/algorithms, recipes, operating procedures, lab note books, IDF’s, videos/recording, secure drives and media.</td>
<td>Trade Secrets. Copyright. Patents.</td>
</tr>
<tr>
<td>Mechanical/physical items</td>
<td>Prototypes, Jigs &amp; fixtures, 3D models, mock ups, prototype/model inventory, jigs and fixtures.</td>
<td>Trade Secrets. Registered designs. Patents. Utility models.</td>
</tr>
<tr>
<td>Trial Data</td>
<td>Clinical trial reports, user feedback, field trial data, secure drives and media, agreements, databases</td>
<td>Trade Secrets. Copyright. Database rights. Patents. Licensed IP rights. Certification/regulatory approval.</td>
</tr>
<tr>
<td>Licenses</td>
<td>License Agreements, Open Source agreements, General Purpose Licenses, Open source manifest/register.</td>
<td>IP right licenses.</td>
</tr>
<tr>
<td>Integrated circuits</td>
<td>2D &amp; 3D circuit designs, Circuit schematics, Chip designs, prototypes</td>
<td>Semiconductor topography. Copyright.</td>
</tr>
</tbody>
</table>

**Table 3. Common R&D output capture processes and IP protections**

The list provided in table 3 is not intended to be an exhaustive list of every possible type of R&D output. However, it does show that there are many potential categories of R&D results for which there are a range of processes that can be deployed to capture them in documented or recorded formats. This then gives companies the option to obtain IP rights by a combination of automatic protection (e.g. copyright) and by formal registration (e.g. patents and registered designs). In addition to these it is important to ensure that confidentiality and secrecy, data protection and third-party obligations are managed and by so doing companies can benefit from other unregistered IP such as trade-secrets and unregistered designs.
State supports are designed to incentivise companies to implement these systems and process because they greatly increase the potential for RD&I to lead to commercial success. Therefore, as a qualification criterion for the various supports, companies must be able to provide documents and records, such as these, as evidence that the R&D activities were undertaken and yielded a beneficial outcome for the company.

Advancing the State-of-the-Art and Market Exploitation

All State supports and incentives are focussed encouraging RD&I activities that aim to add to the existing body of knowledge (state-of-the-art). This is achieved by eliminating existing scientific and technical uncertainties through the process of R&D. This objective is closely related to advancing the potential for market exploitation as the advancement of knowledge often enables new market opportunities to be realised.

Therefore, in order to access State supports companies must document an RD&I plan that identifies scientific and technical uncertainties and R&D tasks which aim to systematically overcome them. The plan must also document how this may lead to the advancement of knowledge and, in some cases, outline the potential commercial opportunities that may result. This documentation provides the justification for embarking on the RD&I activity. Furthermore, it is an inherent quality of RD&I opportunities that both market and technical uncertainty are highest at the beginning and decrease as the R&D cycle advances. In other words, as a project advances new knowledge and exploitable market opportunities become increasingly clear as the technical and scientific uncertainty is incrementally reduced toward an ultimate solution or solutions.

The State support ecosystem mirrors this reality by focusing on incentivising companies to undertake projects with high uncertainty at the early stages and moving to a focus on maximising commercial exploitation at the latter stages, as shown in figure 4.

![Figure 4: Evolving State Support and Qualification Criteria throughout the RD&I cycle.](image)

Figure 4 also shows that the underlying qualification criteria for support from the State varies as project focus moves from tackling uncertainty toward maximising market adoption. Therefore, at the
early RD&I stages the criteria focusses on addressing the technical barrier while recognising that RD&I is risky and the perceived commercial opportunities may not materialise. Toward the latter stages, including actual exploitation, the criteria for State support move to a focus on incentivising companies to maximise profits from trading on the knowledge (IP) that’s been created.

**IP Strategy**

Although intellectual Property protection is not strictly an R&D activity it is key to realising the value created by R&D. New knowledge, in particular IP, that results from R&D can be of significant commercial value as it confers a competitive advantage to the company. Therefore, it is important to mention it’s role here without getting into too much detail.

The documentation and records deployed to capture the R&D output provide the information and data necessary to generate IP. Therefore, IP generation and management occurs throughout the whole R&D cycle. Furthermore, the lifetime of the IP and therefore IP management requirements, normally extends well beyond that of the R&D project. Also the IP can provide a foundation (state-of-the-art) for future R&D. Consequently, to ensure alignment between the R&D and IP companies should develop an appropriate IP Strategy that spans the R&D project and lifetime of the IP. To support this activity Enterprise Ireland, provides grant aid in the form of the IP Strategy Offer as a complement to the agency’s RD&I supports.

**Documentation requirements.**

The previous section outlined three characteristic features of systematic RD&I which enhance the potential for high value creation. These are:

- Well described R&D
- Well documented R&D results and IP
- Well defined Scientific/technical uncertainty

These also form the consistent underlying principles of the State RD&I support ecosystem. The application of these principles, as the basis for consistent eligibility criteria, ensures that companies applying to the State for support can expect a consistent evaluation of their application or claim across the different programmes and State agencies. Therefore, companies must provide documentary evidence that the RD&I activity was carried out and that it complies with the requirements for State support. Furthermore, as projects advance from one support mechanism to another, the system aims to ensure that the information and documentation provided are, as much as possible, carried over from one support to another.

The following section outlines the information and documentation required to access the state supports (outlined in table 1) as an RD&I project advances from initial concept to market adoption. The following information reflects the case of a company progressing through all state supports, which is only one possible scenario as companies will often not access all supports.
Enterprise Ireland RD&I Grant Aid

The ultimate aim of EI in-company RD&I grant funding is to support Irish Companies to grow their sales and employment through world class innovation and an export focussed business strategy. The EI schemes focus on industrial research and experimental development with a view to developing new or improved products, processes and services with global market potential, supported by strong IP. Basic research does not qualify for support under the EI schemes. RD&I support is provided as financial assistance (grants and investments) to cover a portion of the cost of undertaking RD&I activities and developing an appropriate IP strategy. More details on the application process, eligibility criteria, and general information are available at the EI RD&I web Page.

Figure 5 (see also Appendix 1) provides a schematic overview of the operation of the EI RD&I in-company grant scheme from the perspective of the relevant recording and documentation requirements.

As shown in figure 5, depending on the level of technical uncertainty companies may first conduct a ‘Exploring Innovation’ study, with a budget typically up to €70K, aimed at establishing technical feasibility. Alternatively, they may undertake a full scale R&D project with a budget typically up to €350K. Grants typically cover up to 50% of eligible expenditure.

Application documentation

The application process requires applicants to document the technical and commercial rationale and plan for the project. Both technical and financial documentation are required.

Technical Documentation
The technical information, contained in the project proposal, sets out the scientific and technical uncertainty and planned tasks and activities aimed at resolving it. Defining ‘uncertainty’ represents a significant challenge because, by definition, it means describing an unknown. Typically, it is not sufficient to define uncertainty based on experiential opinion, either technical or commercial, as this cannot be independently verified and documented. Also, as it is always possible to find a counter opinion on a perceived degree of uncertainty, it is not possible to weigh the validity of opposing opinions in assessing applications for State support.

Therefore, in order to provide verifiable and documented evidence in support of the case for scientific or technical uncertainty, it is necessary to reference the current publicly documented state-of-the-art. In other words, the evaluation of scientific and technical uncertainty can be supported by outlining it in terms of the limitations of the available scientific and technical state-of-the-art to deliver the perceived solution. Project proposals should, therefore, be supported by a detailed review of the current state-of-the-art, as published in the patent and technical literature, as supporting evidence of the existence of scientific and technical uncertainty. This should be updated throughout the RD&I cycle and will provide a useful foundation for subsequent R&D tax credit and KDB claims if necessary.

**Financial Documentation**

The financial application documents relate to the proposed budget for planned R&D expenditure and projected potential returns to the company if the project leads to successful commercial exploitation. The budget is documented in the project proposal and, as shown in figure 5, consists of a breakdown of categories of expenditure relating to carrying out the project tasks and activities. Financial projections, supported by current management accounts, are required in order to document the extra revenue and/or cost savings that the company expects to gain as a result of the RD&I project. The projections should be backed up with up-to-date market research data and presented in the business plan element of the project proposal.

The application documentation undergoes commercial and technical evaluation by Enterprise Ireland ahead of funding approval and before the company starts to incur expenditure on the project. This evaluation by EI aims to validate the project in terms of funding eligibility and the three fundamental principles outlined above. All documentations and evaluations can support a company’s application for other supports in the ecosystem at later stages.

**Documenting the RD&I Activity – Claim documentation**

As the RD&I project progresses the company must record the technical and financial data that is generated by carrying-on the project activities. As shown in figure 5 a range of documents and processes can be used to capture the technical information and expenditure relevant to each activity and RD&I cost category.

The technical records reflect the technical progress of the RD&I project by recording the R&D results (see table 3) and the technical/knowledge capital deployed. The information is then used as the source data for technical reports and IP protection. It is also the information used to support the final technical evaluation element of the claim process. In addition, any IP created reflects how the project adds to the state-of-the-art and can be useful to demonstrate the incremental resolution of uncertainty and the creation of knowledge.

The purpose of the financial records is to provide evidence of the actual expenditure for the grant drawdown claim, incurred under each of the budgeted categories in the RD&I plan. Other categories of cost may be incurred in support of the RD&I project, such as admin and market research, but as
these do not relate to advancing the technological goals they are not eligible RD&I expenditure for the purposes of the claim.

R&D Tax Credit
The 25% R&D Tax Credit is a Revenue incentive for companies to invest their own resources in in-company R&D. It is earned only in relation to company expenditure incurred in the carrying on of qualifying R&D. So grant aided expenditure is disallowed. More detailed guidelines are provided in the in the Tax and Duty Manual available from the Revenue Website. In a similar way to the EI RD&I grant support, the tax credit targets RD&I activities that seek to advance knowledge in a field of science or technology and involve the resolution of scientific or technical uncertainties. Therefore, there is considerable overlap between the documentation and records requirements between the two schemes. For example, in certain circumstances R&D tax credit claims in respect of grant aided R&D may rely on the grant technical evaluation to help meet the Science test. However, it is also important to be aware of difference between the schemes e.g. expenditure on basic research is eligible for the R&D Tax Credit but not for EI RD&I grant aid.

Figure 6 (see also Appendix 2) represents an overview of the documentation and record requirements of the R&D tax credit scheme. The figure reflects the context of a company undertaking an R&D project with grant aid in the initial phases followed by a phase of fully self-funded R&D.

It can be seen from Figure 6 that the relevance of the EI grant application and claim documentation carries forward to help the company make the case the project involves the resolution of scientific or technical uncertainty and the advancement of knowledge. The EI application documentation and technical records help to outline the state-of-the-art, as a basis for scientific and technical uncertainty. Together with the project plan these provide a foundation to meet the fundamental requirements to qualify for the R&D tax credit. In addition, the assessment of the RD&I activity by EI, prior to grant...
aid, provides a degree of independent validation of these criteria and can increase a company’s chance of qualifying for the tax credit. In-company R&D projects that do not receive grant aid must provide similar levels of contemporaneously generated and documented evidence of the state of the art, advancements, uncertainties and R&D activities undertaken, in order to qualify for the R&D tax credit.

On the output side, the purpose of the documents and records is to demonstrate how the activity qualifies for the scheme by passing the Science and Accountancy tests, (Ref. sections 8.1 and 8.2 of the R&D Tax Credit Guidelines).

**Technical Documentation**

The technical documents and records, similar to those required for RD&I grant aid, relate to the Science test and are required as evidence that the project activities followed the plan and contributed to the resolution of scientific/technical uncertainty and advancement of the state-of-the-art.

When supporting an R&D Tax Credit claim the technical records are used to represent the systematic progression of the project plan by providing a record of all R&D output, including unsuccessful attempts, and resource deployment. In other words, the technical records catalogue how resources were utilised for progressive resolution of technical uncertainty leading to new knowledge, including IP if appropriate.

While evidence of the creation of IP and market adoption are not required to make an R&D tax credit claim, the relevant documents and IP can provide useful evidence of the advancement of the state-of-the-art and the conclusion of R&D activities. They can, therefore, be useful sources of information in support of the R&D tax credit claim and audit processes.

**Financial Documentation**

The financial records relate to the Accountancy test and are required as evidence that the expenditure claimed relates to carrying on the qualifying R&D activity. These records must reflect the allocation of resources and costs to different project tasks, targets and deliverables in the project plan. As shown in figure 6, the financial records are linked to related technical records and thereby create a direct link between financial expenditure and the resolution of scientific/technical uncertainty and advancement of the state-of-the-art. Companies should therefore ensure that processes are in place to ensure that all documents are completed as the project progresses, i.e. contemporaneously with the R&D, and not leave it until the end of the project.

Grant aided expenditure is not eligible for the R&D tax credit claim, so it is necessary that the records contain a level of detail that enables grant aided expenditure to be separated out from the company’s own expenditure.

It is therefore important that applicants to the R&D tax credit employ accounting practices that facilitate the clear apportionment of expenditure on different activities and from different funding sources. Also, the accounting practice must ensure that the documents and records are dated and stored for a minimum of 6 years for audit purposes, as may be required by Revenue. For more detail please refer to the Revenue R&D Tax Credit Guidelines.
Knowledge Development Box

The Knowledge Development Box (KDB) is a Revenue measure designed to incentivise Irish Companies to exploit the results R&D activity carried out in Ireland. The initiative provides a 50% reduction on tax payable on trading profit that results for the exploitation of qualifying IP, which in turn is the result of R&D activity carried out by the Irish company. What constitutes ‘qualifying IP’ is limited to specific forms of IP that relate to R&D, as defined by Revenue as ‘Qualifying Assets’ in the Guidance Notes on the Knowledge Development Box. It should be noted that a range qualification criteria apply which are not outlined here, so the guidance notes should be referenced in conjunction with this guide.

The KDB adopts the same consistent definitions of qualifying R&D as the EI Grant and the R&D tax credit as outlined above. Also, the KDB requirement for documents and records that evidence the company’s expenditure on qualifying R&D are consistent with those required by the grant aid and tax credit supports. Therefore, the systematic management of records throughout the R&D cycle will enhance a company’s ability to avail of the KDB.

Figure 7 (see also Appendix 3) provides an overview of the qualification criteria and operation of the KDB, including the various sources of supporting documentation and records.

![Figure 7: Knowledge Development Box Documentation and Records](image)

The Key purpose of the documentation under the KDB is to provide ‘track and trace’ links between expenditure in R&D which lead to the creation of particular types of Intellectual Property assets and which, in turn, form the basis of profitable income from specified trade(s). This documentation-based approach to indicating the financial continuum from R&D to IP to market exploitation, is called the ‘modified nexus approach’. The Modified Nexus was specified by the OECD guidance for preferential tax regimes that focus on incentivising R&D/IP ‘substantial activity’ in claimant companies. (Ref: Agreement on the Modified Nexus Approach for IP Regimes Action 5 2015). More details on the
specific application of the OECD guidelines to the Knowledge Development Box are presented by Revenue in their Guidance Notes on Knowledge Development Box.

In terms of the documentation and records required to make a KDB claim more detail is provided in the Notes for Guidance – Tax Consolidation Act 1997 – Finance Act 2016 Edition – Part 29, Chapter 5: Taxation of Companies Engaged in Knowledge Development.

The official guidance materials do not identify specific documents or records that are required. Instead they stipulate that appropriate documents are to be made available that give evidence of the modified nexus between the elements that qualify for the KDB. This means that the documentation and records must provide a level of detail that allows qualifying elements to be separated from non-qualifying.

Technical Documentation

The supporting technical records are similar to those required by the grant and tax credit schemes with the exception that it is necessary to provide documented evidence of the qualifying IP. This is straightforward in terms of registered IP and copyright software as the actual asset i.e. patent or software code, can be provided. In terms of the SME class of IP asset (trade secrets) companies are not required to disclose the asset to Revenue. Instead an application is made to the Irish Patents Office for a KDB Certificate to certify that the asset exists and qualifies for the scheme. Qualifying assets are those with the features of a patentable invention (novel, inventive and useful) but are not patented. The technical records, outlined in relation to the RD&I grant and R&D tax credit, should be kept secret by the company and can be used to support the application for certification. The Patents Office will not disclose the detail or use them for any other purpose e.g. as prior art in the case of a later patent filing, more details are provided on the Irish Patents Office website.

Financial Documentation

The financial records must show the qualifying R&D expenditure, qualifying IP and qualifying income separate from the overall R&D expenditure, IP and revenue. It should be noted that once an IP asset is nominated for the KDB it cannot be removed and qualifying income from this asset must be identified in perpetuity. This can be complex but, as can be seen from figure 7, the adoption of good practice through the grant aid and R&D tax credit phases can provide critical supporting documentation for this purpose. Also, the development of a detailed IP Strategy from early in the RD&I cycle should help companies to be in a position to avail of the KDB when they enter the commercialisation phase.

In addition, the company’s management accounts must itemise expenditure and income so that they can be apportioned to specific R&D activities and IP respectively. In this way, the company can report qualifying expenditure and income separate to the organisation’s overall figures, including figures relating to brand value, i.e. relating to marketing IP as opposed to R&D based IP. This, together with supporting technical and financial records, allows the company to meet the ‘Track and Trace’ requirement and to calculate the KDB claim as per the formula in figure 8.
Where:
QE is the Qualifying Expenditure
OE is the Overall R&D Expenditure
STP is the Specified Trading Profit
QP is the Qualifying Profit

Maintaining Documents and Records.

In order to qualify for the State supports it is important that companies maintain all records on a continuous basis and that all linking documents to the company’s accounts are kept. All entries to documents and records should be made on a timely and consistent basis and the claimant company must be able to provide reliable assurances as to the integrity of the records, including the author/creator and date of creation of each record.

The dates of commencement and termination of RD&I projects should also be documented and maintained as a record. Similarly, the key dates of resolution of scientific or technological uncertainty, the registration or certification of IP can be determining factors when considering where an R&D activity ends and activity associated with commercial exploitation begins.

All records should be stored securely, confidentially and maintained for at least 6 years from the date the relevant expenditure was incurred.
Appendix 1: Enterprise Ireland RD&I Grant Aid - Documentation Requirements

### Supporting Documentation & Records

#### Technical Records
- Documentation and materials showing progress toward approved project objectives
- **Job Descriptions**
- **Key Person(s) CV**
- **Samples**
- **Models**
- **Design & Fixtures**
- **Waste/Disposal Records**
- **Subcontract Agreement**
- **Reports & IA Assignments**
- **NDAs**
- **IP Register**
- **License Agreement[s]**
- **Open Source Manifest**
- **Description & Purpose**
- **Specification**
- **Prior Art Reports**
- **IP Applications**
- **IP Policies & Terms**
- **Publications/Disclosures**
- **Lab notebooks**
- **Prototypes**
- **Databases**
- **Manuals**
- **Drawings**
- **R&Ds**

#### Financial Records
- Documentation showing expenditure on R&D activities approved for Grant aid.
- **Time Sheets**
- **Payroll**
- **Salary Info**
- **Purchase Orders**
- **Management Accounts – R&D Expenditure**
- **Invoices**
- **License Fee Payments**
- **Royalty Payments**
- **Quotations**
- **Invoices**
- **Asset Register**
- **Invoices – Advisor Fees**
- **Invoices – Office Fees**

#### EI Letter of Offer Conditions
- Technical Feasibility Report
- Final Technical report and IP Strategy
- EI R&D Post Grant Inspection
- Grant Claim Form

### Key:
- Documentation and info required for Grant Claim
- Other supporting R&D management documentation and records
Appendix 2: R&D Tax Credit Scheme – Documentation Requirements

R&D Tax Credit Documentation

Science Test
- Documentation and materials showing progress of R&D toward resolution of scientific uncertainty and technical challenges

- Key Personnel CV
- Job Descriptions
- Key Person(s) CV
- Reports & IP Assignments
- Subcontract Agreement
- Licence Agreement(s)
- Licence Agreement(s)
- Open Source License ManuFest
- Description & purpose
- Specification
- Prior Art Reports
- IP Applications
- IP Policies & Terms
- Publications/Disclaimers
- Lab notebooks
- Prototypes
- Databases
- Manuals
- Drawings
- CAD

Accounting Test
- Documentation of in-house expenditure on R&D, less grants

- Time Sheets
- Payroll
- Salary Info
- Purchase Orders
- Management Accounts
- R&D expenditure
- Time Sheets
- Invoices
- License Fee Payments
- Royalty Payments
- Quotations
- Invoices
- Invoices – Advisory Fees
- Patent Office Fees

Key:
- Documentation and info required for Tax Credit Claim
- Other supporting R&D management documentation and records

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Appendix 3: Knowledge Development Box - Documentation Requirements

Overall R&D Expenditure
- Disqualified R&D Expenditure
  - Group Expenditure
  - IP Acquisition
  - Royalty Payments
  - Building costs
- Qualifying R&D Expenditure
  - R&D Grant Aid
  - In-Company R&D expenditure

**R&D expenditure related to the creation, development or improvement of the qualifying Asset(s).**

All Intellectual Assets
- Disqualified Intellectual Assets
  - Unprotected R&D Results
  - Marketing IP
- Qualifying Intellectual Assets
  - R&D Based IP
  - Patents and IP functionally equivalent to Patents subject to legal protection and an approval process.

Profits from a Specified Trade
- Disqualified Profit
- Qualifying Profit
  - Profit apportioned to disqualified IP, e.g. brand.
  - Profit apportioned to Qualifying IP Assets
  - The fractions of the profit from the specified trade relevant to each qualifying asset, or family* of assets.

Sources of Documentation and records
- Grant Claim - Financial Records
  - Documentation showing expenditure on R&D activities approved for Grant aid.
- R&D Tax Credit Claim - Accounting Test
  - Documentation of in-house expenditure on R&D, less grants
- Company Management Accounts and Annual Returns

**Track and Trace**

- KDB Claim Documentation
  - Financial records that provide evidence of expenditure on R&D activities that led to the qualifying IP assets. (Ref Tax Consolidation Act 1997 (2016) Section 769G)
- Qualifying IP Resulting from R&D
  - Patents, subject to substantive examination
  - Copyright Software
  - Certified Trade Secrets (SMEs only)
  - Plant varieties
- Accounting and financial records of income from the qualifying IP assets, traceable to the associated R&D expenditure. (Ref Tax Consolidation act 1997 (2016) S. 769L)