
Submission to the Commission on Taxation

Establishing Ireland as an Innovation Island – A Key Objective in Ireland’s Plan for Economic Recovery

The Higher Education ‘Green Shoot’ Enterprise Development Programme.

Key determinants of the success of Irish HE institutions in driving the creation of a successful innovation ecosystem and Smart Economy will be:

1. Establishing enterprise facilities on HE campuses to host and grow knowledge intensive business/industry:
 - a) ‘Spin-out’ companies harnessing intellectual property generated by Irish HE research programmes;
 - b) ‘Spin-in’ companies that are conceived/founded extramurally but which require access and proximity to HE-based expertise or technology platforms during their early stages of development;
 - c) Foreign knowledge- and technology-intensive companies which are attracted to Ireland because proximity to a high quality graduate pool, academic researchers and technology platforms offers a competitive advantage.
2. Fostering HE-industry partnerships and incentivisation of enterprise development:
 - a) The development of R&D capacity in Irish SMEs through partnership with Irish HE institutions;
 - b) The attraction of venture capital investment to support the development of Irish industry;
 - c) The willingness of successful entrepreneurs to roll-over/re-invest profits generated from successful enterprises into new start-up companies.
3. Scaling-up discovery research facilities on HE campuses to host:
 - a) ‘Blue skies’ discovery research programmes generating knowledge or inventions with commercial potential;
 - b) Applied research partnerships between academia and industry (e.g. SFI Centres for Science, Engineering and Technology)
 - c) Research contracted to HE institutions by Irish SMEs and/or foreign multinational companies.
4. Attracting high quality international 4th level students and early career researchers to supplement indigenous talent.
5. Creation of designated HE *Enterprise Zones*.

None of these key conditions are optimal in Ireland and as a result the impact of Ireland’s Strategy for Science, Technology and Innovation (SSTI) on enterprise development and job creation is being significantly limited. In the following sections we set-out briefly the current barriers to HE-supported enterprise development in Ireland and the changes in the Irish taxation system that could overcome these barriers.

If implemented together as part of a HE ‘Green Shoot’ Enterprise Development Programme these measures could both send a strong signal nationally and internationally of Ireland’s seriousness of intent to create a world-class innovation ecosystem and kick-start the development of Ireland’s Smart Economy.

Specific Measures

1. Establishing enterprise facilities on Irish HE institutions to host and grow knowledge-intensive business/industry

Tax Incentive: Introduce scheme to facilitate the construction of enterprise facilities on HE campuses.

Need: The government's Smart Economy document articulates a central role for HE institutions in innovation and enterprise development that would see an increasing number of spin-out and spin-in companies, applied research and design facilities, and R&D facilities located on HE institution land. Some HE institutions have the capacity and indeed dedicated zones/facilities to accommodate knowledge and technology-intensive industry which would view proximity to HE graduates, expertise and technology platforms as a competitive advantage and which would locate their businesses in competitor countries if this ecosystem was not available. A recent report by Biggar Consulting commissioned by the IDA and Enterprise Ireland three years ago identified an immediate need for 50,000 sq.m of life sciences enterprise space in Ireland. None has been constructed yet; however, life sciences continue to be the main technology-intensive growth area worldwide and a major source of recent foreign direct investment in Ireland. Given the current economic circumstances it is unlikely that such facilities will be built unless a tax scheme is introduced to encourage financial institutions, companies and commercial operators to partner with HE institutions in the financing and operation of enterprise facilities on HE campuses with significant long-term benefits for HE institutions and for Irish economy.

The provision of tax scheme to incentivise the development of such facilities would (a) enhance a HE institution's chances of developing a viable funding model with a combination of developers and financial institutions with consequent benefits for the university and Smart Economy and (b) where a commercial partnership or major external financing is involved, it would shorten the lease and/or mortgage period thereby allowing the HE institution to derive maximum benefit from the development faster.

Curbing Abuses: The scheme would be limited to enterprise facilities on HE campuses. The NTMA/NDFFA would be required to approve HE projects as being beneficial to the achievement of SSTI/NDP objectives. The scheme would be limited to five years.

[UCD as a Case Study: Consistent with the Biggar Report referred to above, UCD has been unable to accommodate the space needs of four Irish-owned knowledge-intensive companies over the past two years – of which, one was accommodated subsequently by TCD, one was forced to move to the UK because of lack of suitable facilities elsewhere, one was sold to a foreign company and one has sourced a site elsewhere in Ireland. In addition, UCD was unable to accommodate a major R&D facility of a foreign multinational which then turned down a non-campus based site in the South-East and is basing its R&D on mainland Europe.

UCD is at an advanced stage of planning of its mixed use Gateway Complex at the N11 entrance to the Belfield campus. The Gateway facility can accommodate up to 50,000 sq.m of knowledge-intensive industry and R&D. An adjacent 6 acre site, designated Belfield Innovation Park, has capacity for larger free standing R&D and enterprise development units. A formal 'market soundings' process and experience with similar sites abroad both indicate that there is both national and international demand for such an on-campus enterprise facility. While originally designed under NDFFA guidelines as a design-build-operate partnership with a commercial partner it is highly unlikely that this model is viable in the current climate. Dun Laoghaire Rathdown Council's Development Plan, just

issued in draft form for final approval later this year, includes the Gateway precinct as a specific local objective within the plan. The provision of a tax incentive scheme for this zone would enhance UCD's chances of developing a viable funding model with a combination of developers and financial institutions with consequent benefits for the university and Smart Economy.

UCD and TCD have recently formed an *Innovation Alliance* which will include a joint venture in enterprise development to maximise the impact of UCD Belfield, Trinity Pearse Street and potentially other TCD/UCD sites on job creation. The plan is supported by Government and includes as an objective the development of a suite of policies and incentives to create a world-class innovation ecosystem that will nurture the growth of home grown enterprises and attract international start-ups and multinationals to Ireland]

2. Fostering HE-industry R&D partnerships and incentivisation of investment in enterprise development

Scheme: Introduce measures to incentivise Irish companies to grow their R&D programmes in partnership with HE institutions and for successful entrepreneurs to roll-over profits from successful enterprises into new start-ups.

Need: It is generally recognised that Irish SMEs require R&D capability to innovate, grow and compete – yet many cannot afford to establish R&D programmes of sufficient scale to meaningfully enhance their competitiveness. HE institutions have established expertise and technologies that could be a major resource in this regard. The State should ensure that the tax incentives for companies partnering with or contracting their R&D to HE institutions are at the very least equivalent to the incentives for in-house R&D.

With regard to investment of venture capital in enterprise development, the government's 'Smart Economy' document states that 'more favourable tax treatment of the carried interest of venture capital is being introduced at a rate of 15% for partnerships and 12.5% for companies to encourage the availability of so called 'smart capital' for investing in start-up innovative companies who will be the employers of the future'. It is important that this measure is implemented.

Entrepreneurs who sell start-up companies have, by definition, been successful establishing new enterprises. Tax incentives should be considered to encourage these successful individuals to roll these profits over into new Irish start-ups rather than retaining the profits as private wealth or investing the profits in enterprises based abroad.

Curbing Abuses: While it may be appropriate to introduce these measures nationwide, an alternative possibility would be to restrict them to activity on HE campuses or to approved Enterprise Zones (see below) on HE campuses.

[UCD as a Case Study: The incentives described above were suggested by entrepreneurs and venture capital fund managers as being potential positive contributors to the development of Ireland's innovation ecosystem during a recent consultation process undertaken by UCD and TCD.]

3. Enhancing the ability of Irish HE institutions to recruit high quality international 4th level masters and PhD students – key role of on-campus accommodation

Tax Incentive: Introduce scheme similar to old Section 50 to incentivise construction of on-campus accommodation specifically for 4th level students.

Need: Ireland's Strategy for Science, Technology and Innovation (SSTI) has set the target of doubling the number of PhD students by 2013. In the context of the EU Bologna Process these students progress to PhD training via a 4th level masters degree. International experience indicates that the availability of on-campus accommodation is a significant advantage in the global competition for the best students. This is particularly true for Asian students where the safety and pastoral care associated with on-campus living are important considerations for students and their parents. These students are not only essential for delivery of SSTI but contribute to the Irish economy. The population is mobile and will go elsewhere if Ireland cannot offer a suitable high quality experience. Section 23 and Section 50 were successful in facilitating the construction of undergraduate accommodation. It is highly unlikely that HE institutions will establish the capacity required to meet SSTI targets without incentivisation.

Curbing Abuses: Unlike the former Section 50, this scheme would be limited to on-campus accommodation that would be required to remain in use as student residences for at least 20 years (unless conversion to other uses was approved by the Higher Education Authority). The scheme would be limited to five years to cover the anticipated duration of the recession and early recovery period.

[UCD as a Case Study: UCD has the largest cohort of 4th level students in Ireland with over 1,700 PhD students and over 2000 masters students. It plans to double these numbers over the next 5 years to deliver on SSTI objectives. Government does not have the resources to invest in such facilities. Some developers may be able to invest with tax incentivisation. However the most likely scenario is that UCD will build residences with loans from the European Investment Bank serviced by the rental revenues. A tax incentive would shorten the length of the lifetime of such loans].

4. Scaling-up discover research infrastructure on HE campuses

Tax Incentive: Remove the cap on tax relief for philanthropic giving to HE institutions and extend the relief to stocks, shares and properties.

Need: A recent survey by the IUA estimated that the current infrastructure requirements of Irish HE institutions amount to over €1bn. This estimate is consistent with calculations based on space norms per researcher that are required to deliver SSTI. It is highly unlikely that this essential infrastructure will be provided from exchequer sources given the current recession. Philanthropy is the only likely alternative source of funding. Indeed government is already explicitly seeking philanthropic contributions to capital development in the current cycle of the Programme for Research in Third Level Institutions (PRTL). However the current cap of tax relief on philanthropic donations is repeatedly stated as a major disincentive by well disposed high net worth tax residents and disadvantages Irish HE institutions by comparison with UK or US competitors. Furthermore, many high net worth individuals are currently asset rich but cash poor and are more likely to donate stocks, shares or property to HE institutions if appropriately incentivised. The removal of the cap for Irish tax residents will release funds into the HE sector that would otherwise be locked into private wealth for generations.

Curbing Abuses: The NTMA/NDFFA would be required to approve HE projects as being beneficial to the achievement of SSTI/NDP objectives. The scheme would be limited to five years.

[UCD as a Case Study: Current tax policy is repeatedly cited as a major disincentive to giving by potential tax resident donors to UCD and virtually all major donations to UCD's capital programme have come from tax exiles or foreign philanthropic foundations (specifically Atlantic Philanthropies)].

5. Creation of HE-based Enterprise Zones

Scheme: Designate entire HE campuses or specific areas on HE campuses as Enterprise Zones to which ass of the above incentives would apply.

Need: Two complementary approaches could be taken: (a) Specific tax incentives would be applied to pre-approved projects on a project-by-project basis, including measures for monitoring impact and for limiting abuse where similar incentives existed before or (b) the designation of specific enterprise zones on HE campuses, agreed with the relevant local authorities, to which the full package would apply. Where there is clear capacity for enterprise development of major scale, the latter would be preferable as it would give the relevant HE institution and its local authority maximum flexibility to introduce the most appropriate mix of facilities and activities to drive job creation.

Curbing Abuses: As with individual measures listed above a pre-approval step could be required, for example involving the relevant local authority and NTMA, and the scheme could be time-limited (e.g. 5-7 years).

[UCD as a Case Study: Here again the UCD Gateway facility is a highly relevant example. The Gateway facility can accommodate up to 50,000 sq.m of knowledge-intensive industry and R&D. An adjacent 6 acre site, designated Belfield Innovation Park, has capacity for larger free standing R&D and enterprise development units. A formal 'market soundings' process and experience with similar sites abroad both indicate that there is both national and international demand for such an on-campus enterprise facility. While originally designed under NDFA guidelines as a design-build-operate partnership with a commercial partner it is highly unlikely that this model is viable in the current climate. Dun Laoghaire Rathdown Council's Development Plan, just issued in draft form for final approval later this year, includes the Gateway precinct as a specific local objective within the plan. The provision of a tax incentive package for this zone would (a) enhance UCD's chances of developing a viable funding model with a combination of developers and financial institutions with consequent benefits for the university and Smart Economy and (b) where a commercial partnership or major external financing is involved, it would shorten the lease and/or mortgage period thereby allowing the HE institution to derive maximum benefit from the development faster.]