Rialtas na hÉireann
Government of Ireland

Research and Development Tax Credit and Innovation Compass

April 2026 (Revised)

Prepared by the Tax Division, Department of Finance
gov.ie/finance

Contents

Revision note: Originally published 16 February 2026. Updated 28 April 2026 for revised 2023 Revenue data.

An Tánaiste's Foreword

Research and development activities are recognised as being a key driver for economic growth, creating high value employment and contributing to higher innovation and productivity. R&D-active companies are strongly rooted in the Irish economy, contributing significant corporation tax revenues and accounting for almost 253,000 employments in 2023.

The location of cutting-edge R&D activities in Ireland also has positive spillover benefits for the wider economy, including in supporting the continuing development of our skilled workforce and ensuring that the students of today can obtain the qualifications and experience necessary to become the business leaders of tomorrow.

The Programme for Government therefore made a commitment to review the R&D tax credit regime, to examine options to enhance the R&D tax credit, reward innovation and digitalisation. Research, development and innovation (RD&I) are central to many of the twenty-six priority actions contained in the Government's 'Action Plan on Competitiveness and Productivity'. The actions are broad ranging, including a focus on developing skills to strengthen national RD&I capacity, scaling Technology Centres that drive collaborative RD&I, and strengthening Ireland's position as a base for high-growth FDI companies.

The international economic landscape is undergoing a period of profound structural change, with the rise of geopolitical uncertainty and protectionism having an impact on global supply chains and undermining the certainty businesses need to make long-term investments. The need to be resilient, to provide stability, and to maintain and improve our competitiveness as a location for substantial and highly skilled operations, is central to Ireland's economic prospects.

The R&D tax credit is one of the most significant supports in the Irish corporation tax system. It enables Ireland to remain competitive in attracting quality foreign direct investment in R&D and supports the development of an innovation-driven domestic enterprise sector. The credit has been a cornerstone of our corporation tax policy since its introduction in 2004, providing continuing support for cutting-edge scientific and technological research for over two decades. The credit has evolved and been enhanced over that time, demonstrating the commitment of successive Governments to supporting companies engaged in R&D. It is important that the R&D tax credit continues to evolve, to ensure that Ireland's R&D supports remain competitive in a challenging global environment.

A review of the R&D tax credit regime was undertaken by my Department in 2025 and included a public consultation on the 'R&D Tax Credit and on Options to Support Innovation'. Respondents to the consultation included R&D-active companies, advisors, representative bodies and third level institutions, each providing different perspectives on the current and future landscape for RD&I activity in Ireland. In addition to informing policy considerations for Budget 2026, the consultation responses also helped to identify a wider range of options for the medium-term development of the R&D tax credit and for the design of a new tax-based support for innovation.

Recognising the investment by respondents into this consultation process, and the value for business and other stakeholders of knowing how policy consideration of issues they raised may continue, this document sets out a medium-term pathway for further work in respect of the R&D tax credit and tax supports for innovation. Some of the proposals received from stakeholders would envisage the credit developing in different directions. Therefore, this is a Compass setting out areas for future consideration, rather than a Roadmap of specific commitments. The Compass identifies areas that will be reviewed further over the term of this Government, with the specific direction of travel in each of those areas to be determined as relevant analysis is completed.

As my Department continues this work it is important to acknowledge that the current and ongoing challenges in the global economic backdrop will continue to dominate. These challenges have implications for the Government’s response to the ongoing uncertainty and have an impact on spending priorities. There is a need to approach spending in a careful, sensible and sustained manner, with due regard to the management of the public finances. Business incentives must deliver real additionality, supporting Ireland’s competitiveness and contributing to stable economic growth and high-quality employment. I look forward to the continuing engagement of business stakeholders, advisors and representatives, government bodies and educational and research institutes with my Department as the development of policy in this area continues.

Simon Harris T.D.

Tánaiste and Minister for Finance

1. Tax Supports for Business

Ireland has a reputation for providing a world-class environment in which to do business. In the area of taxation, the long-term policy has been to provide a corporation tax system centred around a low but substantive tax rate, a broad tax base, and a limited suite of incentives targeted at supporting value-added business activities. Primary among these is the Research & Development (R&D) tax credit. The policy objective underpinning the credit is to increase business R&D in Ireland, as R&D can contribute to higher innovation and productivity, thereby increasing economic activity and contributing to high value-add employment. R&D drives advancements in medicine, the digital transition and measures to address climate change, and has important spillover benefits for the wider economy, including in particular the education sector.

The R&D tax credit is linked to the attraction and retention of a high level of foreign direct investment (FDI) in recent decades, contributing to productivity gains and economic growth. The credit has supported claimant companies in increasing headcount and competing globally to attract new projects and linked facilities to be established in Ireland. The Department of Finance's 2025 R&D tax credit review noted that the R&D tax credit regime ranks among the most attractive OECD countries for R&D tax incentives.[1]

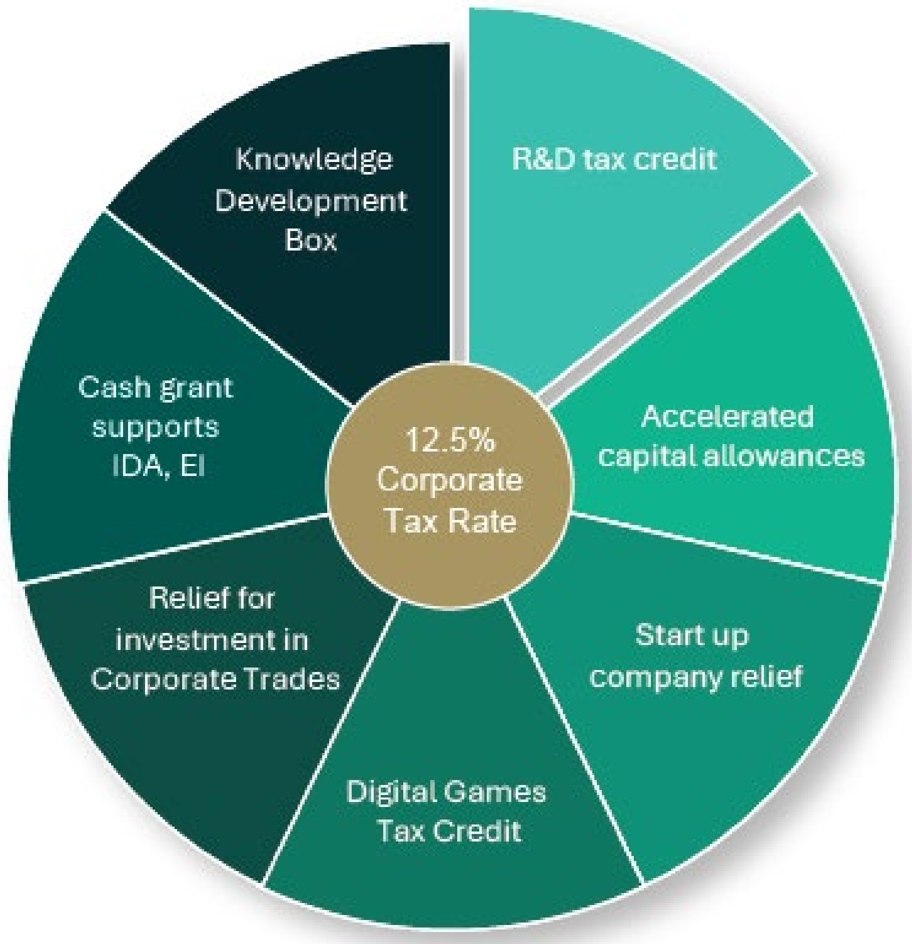
Small and medium enterprises (SMEs) are also a vital element of the Irish economy, and an objective of this Government is to promote Ireland's indigenous SME sector, including start-ups and micro-firms. The Government provides a range of supports and grant schemes which are designed for SMEs to help them grow, scale their operations, improve sustainability and enter new markets. The SMEs of today are potentially the Multi-National Enterprises (MNEs) of the future, and supporting their establishment and growth in Ireland can create strong roots in our domestic economy. The R&D tax credit regime has been enhanced with a view to encouraging greater uptake from new claimants and those undertaking smaller R&D projects, including amongst the SME sector.

The corporation tax system also includes a number of complementary supports for businesses engaged in innovative activity or investments. These include the Knowledge Development Box (KDB) which provides for a reduced tax rate for certain income derived from qualifying intellectual property assets, accelerated capital allowances for investment in energy efficient equipment, and a Digital Games Tax Credit for the development of games contributing to the expression of Irish or European culture. As set out below in Section 3.4. work is also under way to develop a new tax-based support for innovation.

Tax-based supports for businesses extend beyond the corporation tax system, to include measures which provide income tax relief for investment in new or growing businesses. These measures, such as the Employment Investment Incentive (EII), the Start-Up Capital Incentive (SCI) and Start-Up Relief for Entrepreneurs (SURE), seek to address the challenges faced by SMEs in attracting alternative risk-based sources of funding.[2]

These tax measures are complemented by a much wider range of Government business supports provided by State bodies (such as for example Enterprise Ireland and IDA). These include grant schemes, State equity investments, credit schemes and loan guarantees, advisory services, training programmes and networking facilitation for example.

[1] Research & Development Tax Credit 2025 Review
[2] Enterprise Tax Supports TSG Paper July 2025

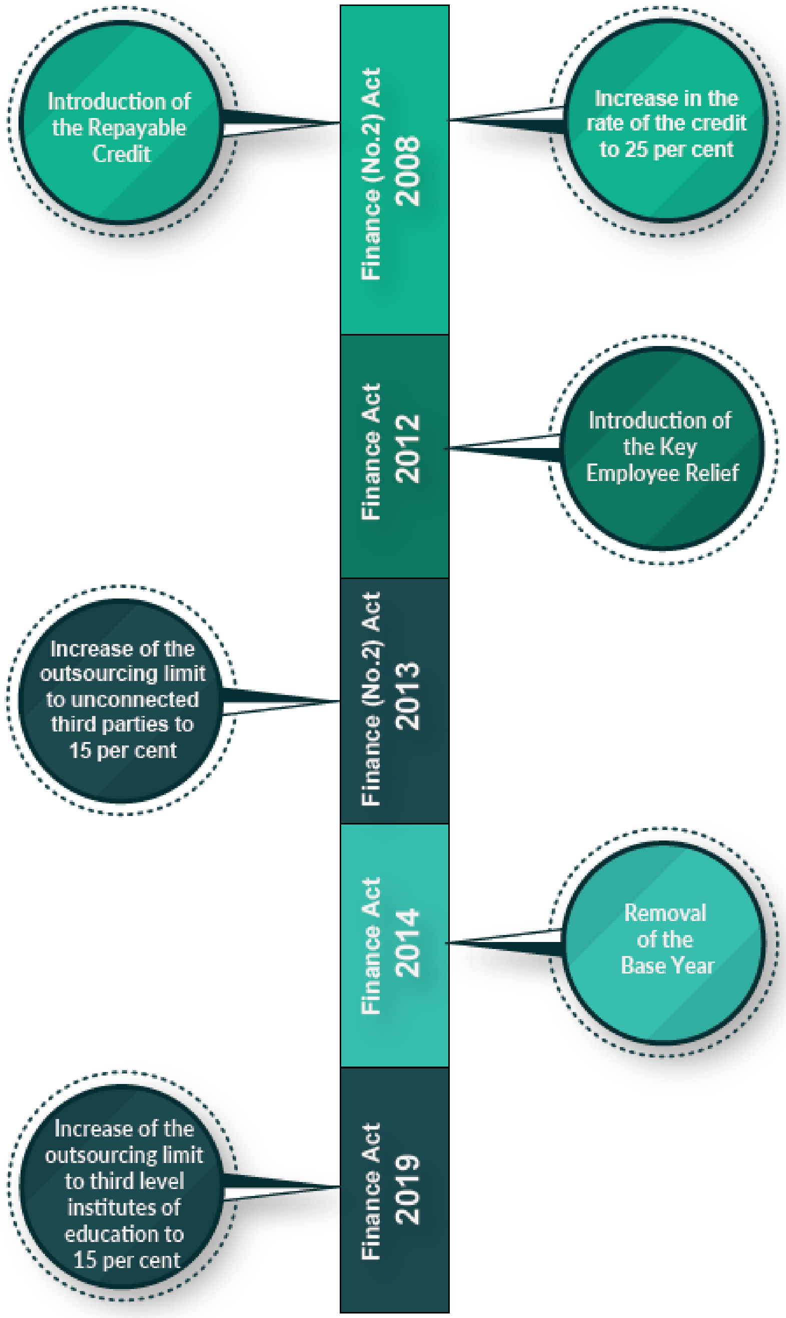

Knowledge Development Box
R&D tax credit
Cash grant supports IDA, EI
12.5% Corporate Tax Rate
Accelerated capital allowances
Relief for investment in Corporate Trades
Start up company relief
Digital Games Tax Credit

2. Evolution of the R&D Tax Credit Regime

2.1 Enhancements to the R&D tax credit

The R&D tax credit regime was first introduced in 2004 and has been in place for over 20 years. It has grown and evolved since its introduction in 2004, in response to a changing international tax landscape and to business and stakeholder feedback.

Key changes that have been introduced to enhance the regime over the past 20 years, up to and including Finance Act 2025 are set out in this chapter.



Base year

When introduced in 2004, the R&D tax credit was a 20 per cent credit, available on incremental spend over R&D expenditure incurred in the 2003 base year. The R&D tax credit was only available for offset against corporation tax liabilities. The purpose of the base year was to focus on additionality, attempting to reduce deadweight costs (i.e. in respect of investment expenditure that would have occurred in the absence of the relief) by reference to an amount of R&D that was already being undertaken prior to the introduction of the credit.

However, over time this provision created an increasing administrative burden for companies, including the indefinite retention of 2003 records. It also resulted in a favouring of new entrants over companies that had undertaken R&D activities in 2003, which could act as a disincentive to investment, or a competitive disadvantage, for companies affected by the base year. A process of phasing-out the base year began in 2012, and it was fully phased out from 2015.

Payable credit

Finance (No.2) Act 2008 introduced the repayable R&D tax credit. In general terms, this provided that the R&D tax credit was first used to reduce a company's corporation tax liability for the accounting period in which the expenditure had been incurred. Where a company had an insufficient corporation tax liability against which to claim the R&D tax credit in a given accounting period, the excess R&D tax credit could be offset against the corporation tax liability for the preceding period or could be carried forward. The repayable credit introduced an ability to access the cash value of the R&D tax credit as a payable credit over a 33-month period, subject to certain caps. This therefore provided a positive cash flow support to all companies engaged in qualifying R&D activities, regardless of whether they were profitable or loss making, and particularly to companies with limited financing options carrying on smaller R&D projects.

The payable R&D tax credit was capped by reference to the greater of the corporation tax paid by the company in the preceding ten years or the company's payroll liabilities (PAYE, USC and PRSI) for the period when the relevant R&D expenditure was undertaken. Where the cap resulted in a limitation on the amount of the R&D tax credit that could be paid to the company, any amount in excess of the limitation was available to be carried forward for offset against future corporation tax liabilities and was non-refundable. While this measure had the effect of protecting the Exchequer in terms of limiting the amount of the R&D tax credit that would be paid (which in practice was predominantly by reference to the payroll liabilities of the company), it had the impact of deferring access to the credit for smaller claimant companies, younger companies, or those engaged in R&D activities involving more capital or material costs than labour costs.

Key employee relief

Finance Act 2012 introduced the key employee relief. It allows for an R&D claimant company to transfer a proportion of the R&D tax credit to key employees. A key employee is defined as a person who performs at least 50 per cent of their duties in the conception of new knowledge, products, methods and systems, and 50 per cent or more of the cost of their employment must qualify as R&D expenditure. In addition, the employee must not be, or have been, a director of the claimant company or have or have had an individual holding of more than 5 per cent of the shares in the company.

The relief allows key employees to reduce the income tax which is chargeable in respect of their income from that employment. The transfer of R&D tax credit can be claimed by the employee to the extent that the effective rate of tax on his or her total income will not be reduced to less than 23 per cent.

Sub-contracting

When first introduced, the R&D tax credit regime allowed for the sub-contracting of a certain amount of R&D expenditure to third parties and to universities or institutes of higher education. A cap of 5 per cent of the company's in-house R&D expenditure originally applied on sub-contracting to universities or institutes of higher education, before being increased by **Finance Act 2019** to 15 per cent. A separate provision for sub-contracting to unconnected third parties was introduced in Finance Act 2007 subject to a 10 per cent cap, before being increased by Finance (No.2) Act 2013 to 15 per cent. The sub-contracting provisions are set out in further detail in Section 3.1.

2022 Restructuring

The R&D tax credit was reviewed in 2022 as part of the Department's normal schedule of tax expenditure reviews. At that time, agreement on the OECD Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy had recently been reached, and the EU Minimum Tax Directive was under negotiation to provide for the co-ordinated implementation of the Pillar Two global minimum tax in the EU.[3] The OECD Pillar Two rules recognised the valuable economic role played by tax credits, such as those for research and development activities, and therefore provided that a Qualified Refundable Tax Credit (QRTC) may be treated as income, rather than as reducing tax paid, thereby preserving the majority of the value of a QRTC tax credit in the context of the minimum effect tax rate of 15 per cent.

Whilst the R&D tax credit was closely aligned with the definition of a QRTC under Pillar Two GloBE rules, there were some elements that required change, such as the removal of the caps on the payable credit in order to ensure that the credit met the criteria of being payable within no more than four years.[4] **Finance Act 2022** provided for the restructuring of the payment provisions of the R&D tax credit, to ensure that the regime aligned with the agreed definition of a QRTC. It also introduced the new first year payment threshold (FYPT), an amount up to which a credit claim is payable in full in the first year. It was introduced at an amount of €25,000 and has subsequently been increased, now standing (in 2026) at €87,500. The FYPT provides faster access to the credit for companies engaged in smaller R&D projects, encouraging companies to engage with the credit and providing valuable cash-flow support.

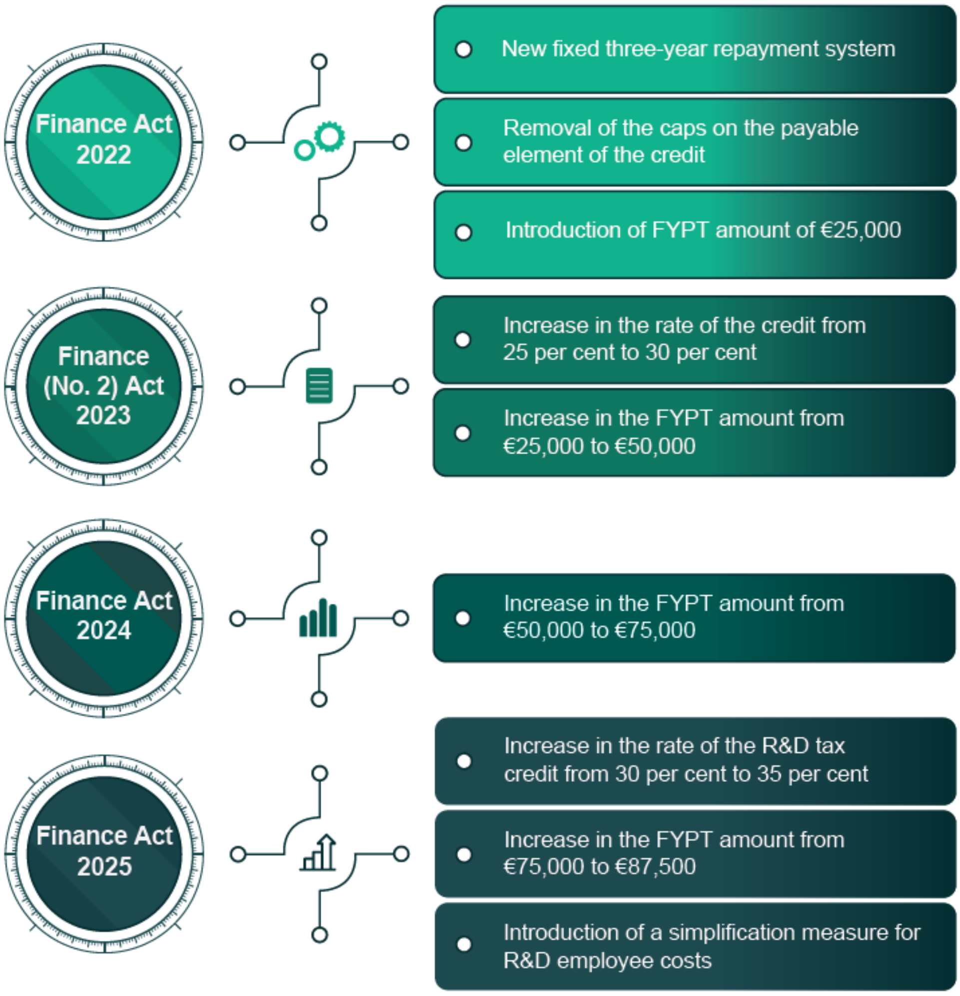
Rate increases

When the R&D tax credit regime was first introduced in 2004, the R&D tax credit was available at a 20 per cent rate. Since 2004 the rate has been increased on three occasions. Finance (No.2) Act 2008 increased the rate to 25 per cent. More recently, in the context of increased global competition for R&D investment and recognising the valuable economic role played by foreign and domestic investment in R&D activities, Finance (No.2) Act 2023 increased to 30 per cent.

---

[3] Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy

[4] Global Anti-Base Erosion Model Rules (Pillar Two)



Finance Act 2025 – Enhancements and Simplification

In line with the tax expenditure guidelines, the R&D credit was reviewed again in 2025. This review took place against a more challenging global backdrop of increased trade tensions and further debates on global tax reform. Informed by this review, and taking account of the stakeholder feedback received throughout 2025, **Finance Act 2025** provided for the following enhancements to the R&D tax credit regime:

- An increase in the rate of the R&D tax credit from 30 per cent to 35 per cent.
- An increase in the amount of the FYPT from €75,000 to €87,500.
- In recognition of the need to simplify the R&D regime, a new administrative measure was introduced to allow 100 per cent of an R&D employee's emoluments as qualifying costs where at least 95 per cent of the duties of their employment is spent on qualifying R&D activities. This measure is aimed at reducing the level of documentation required for time keeping and reducing disputes on audits in relation to time apportionment.

These measures have been introduced to provide additional support to all R&D claimant companies, to further encourage engagement in the regime and investment in high value R&D activities. These measures will support Ireland's continuing position as a leading location for investment in research and development and the creation of intellectual property arising from such activity.

2.2 Impact of recent Finance Act enhancements and the cost of the R&D regime

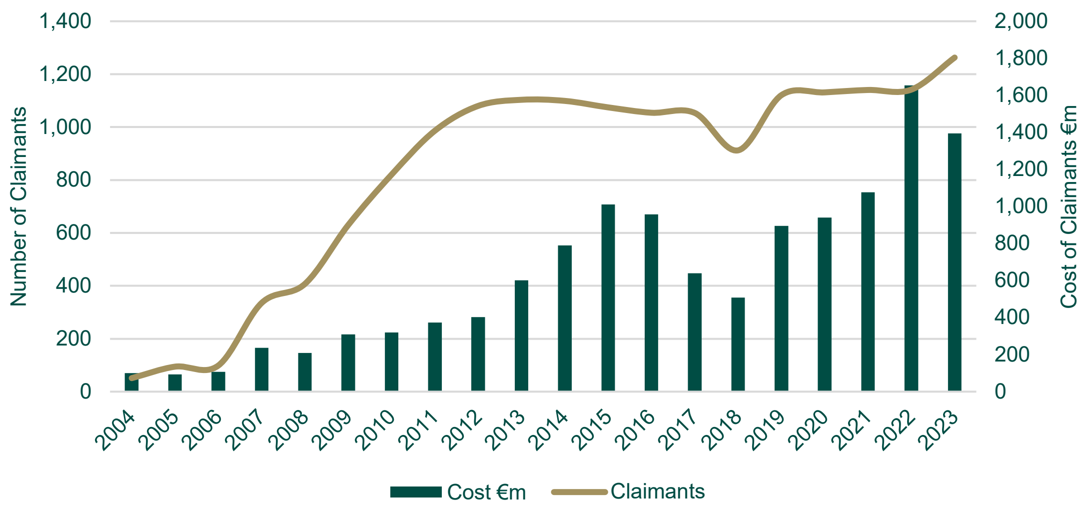
In March 2026, Revenue published a revised Research and Development (R&D) Tax Credit statistics report.[5] This latest statistics report incorporates data on claims reflective of the changes made in Finance Act 2022, however data for the more recent changes in Finance (No.2) Act 2023 and Finance Act 2024 are not yet available – such as the increase in the R&D tax credit rate to 30 per cent and increases to the value of the FYPT. Therefore, the Department of Finance does not currently have any statistical insight into the impact of those enhancement measures on claimant numbers or profile.

The cost of the R&D tax credit has increased significantly over time, inter alia due to greater take-up. When first introduced in 2004, 73 companies claimed the R&D tax credit at a cost of €70 million. By 2023 this had increased to 1,804 claimants and a cost of €976 million. A higher cost peak of €1,158 million was reached in 2022, however this reflected some one-off factors, including the ability for companies to elect to accelerate repayable tax credits which prior to the transitional period, would have been due to be paid in a subsequent period.

The data for 2023 is notable in that it shows an increase in the number of claimant companies, to 1,804 compared with 1,631 in 2022. This is the first significant increase in claimant numbers in over a decade – the number of companies claiming the R&D tax credit had been largely stable with between 1,500 and 1,630 claimants annually over the period 2012 to 2022 (with the exception of 2018 when the number of claimant companies decreased to 1,303) (**Figure 1**).

Figure 1: Exchequer Cost of R&D Tax Credit

Exchequer Cost of R&D Tax Credit 2004 - 2023



Source: Revenue

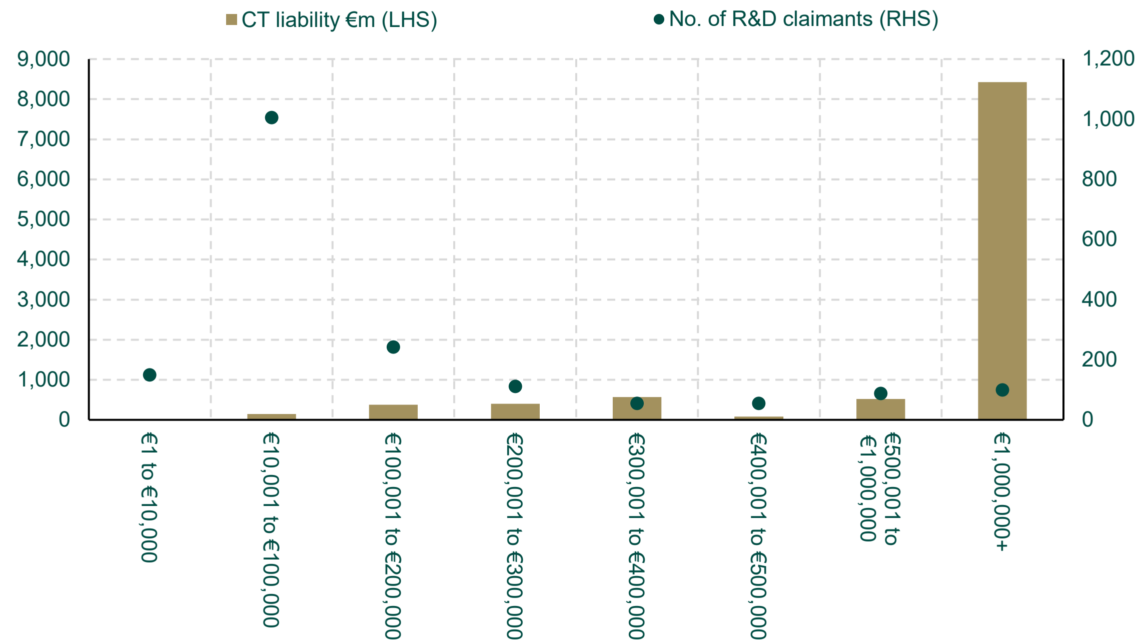
5 Revenue Research and Development ("R&D") Revised Statistics - March 2026

The increase in claimant numbers after a decade of a plateau is encouraging, as is the fact that the increase in claimant numbers is largely comprised of SME companies. Based on Revenue data in respect of claimants (which categorises claimant companies based on the number of employees), indications are that the increase of 173 in claimant numbers is comprised of 73 additional micro company claimants, 58 additional small companies, 19 additional medium companies and 23 additional large companies.

In 2023, engagement with the R&D tax credit regime by micro, small and medium sized companies increased and accounted for 89 per cent of the total number of R&D tax credit claims, albeit that they accounted for just 26 per cent of the Exchequer cost of the R&D tax credit. Large companies accounted for 11 per cent of the total number of claimants but account for 74 per cent of the Exchequer cost. This is not unexpected as it aligns with the wider profile of Irish corporation tax receipts. It is also notable that R&D claimant companies are a significant contributor to the Exchequer through corporation tax. In 2023, total corporation tax liabilities for all claimant companies were €10.53 billion, with €8.43 billion of that amount attributable to companies that used R&D tax credit in excess of €1 million in the year.[6] In 2023, R&D tax credit claimant companies accounted for 44 per cent of total corporation tax liabilities. (**Figure 2**)

Figure 2: R&D expenditure, claimants, and CT liabilities

R&D credit amount used and by CT liability, 2023



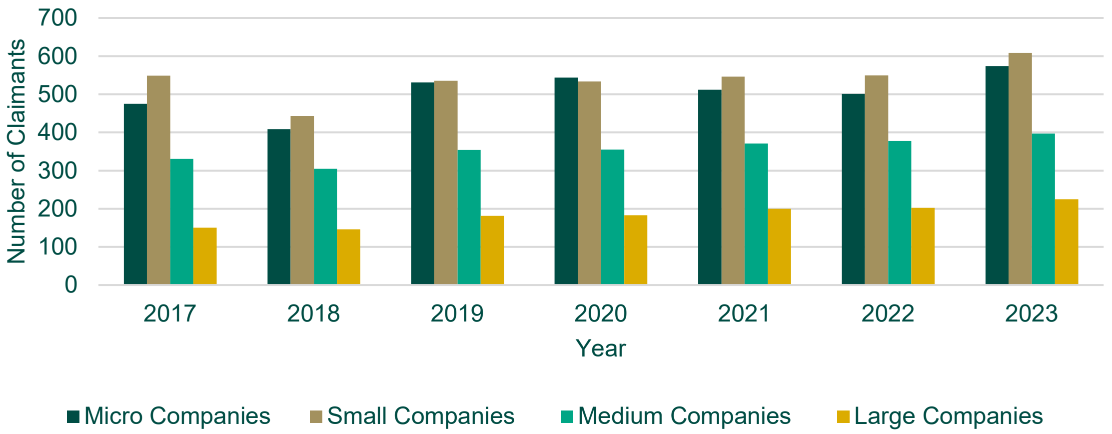
Source: Revenue; Analysis by Department of Finance

[6] Table 5, Revenue Research & Development ("R&D") Tax Credit Revised Statistics - March 2026

The increase in the number of SME claimants engaging with the R&D tax credit regime is welcome, as it shows indications of a wider spread of R&D activity across the economy. This increase may be a result of the enhancements to the regime as introduced by Finance Act 2022. Therefore, it is anticipated that the enhancements to the regime as introduced by Finance (No.2) Act 2023 (in respect of the rate and the FYPT amount), Finance Act 2024 (to further increase the FYPT amount) and Finance Act 2025 will continue to attract new companies and smaller companies to engage with the regime.

Figure 3: Claims for the R&D Tax Credit 2017-2023

Number of claims of the R&D Tax Credit by estimated company size, 2017-2023



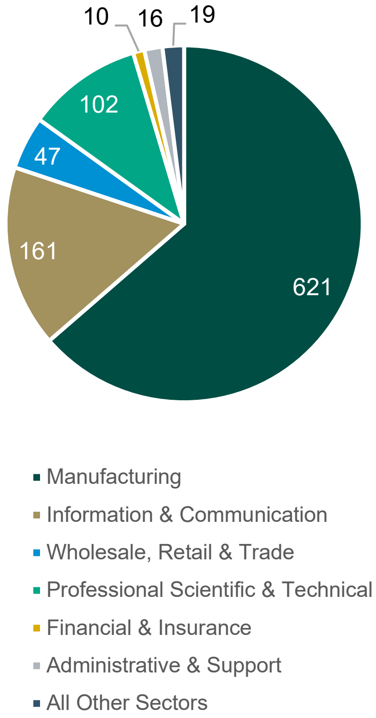
Source: Revenue

Sectoral profile of R&D tax credit claimants

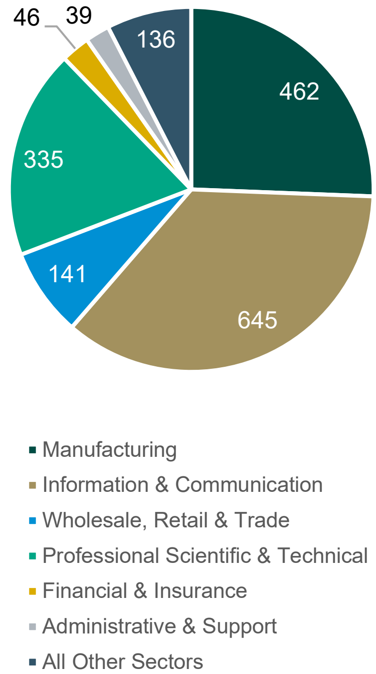
The R&D tax credit is a general measure available to all companies and sectors carrying on qualifying research and development activities. The Manufacturing and Information & Communication sectors are the two largest sectors availing of the R&D tax credit in terms of both the number of claimants and cost of the R&D tax credit, but there is a broad sectoral profile overall. **Figure 4** sets out the key sectors which are claiming the R&D tax credit and the cost to the Exchequer of these claims.

Figure 4: Sectoral Analysis of the R&D tax credit

A: Cost of R&D credit by Sector, €m



B: Number of R&D claimants by Sector



Source: Revenue

3. 2025 Review and Development of the Compass

As one of the primary incentives in the corporation tax system, the R&D tax credit is reviewed regularly under the Department of Finance's Tax Expenditure Guidelines, to ensure its continued relevance and effectiveness in delivering on the intended policy objectives. As part of the 2025 review of the R&D tax credit regime, a public consultation on the R&D tax credit and on options to support innovation was undertaken. The consultation provided the opportunity for stakeholders to give their views on the R&D tax credit and on options to support innovation, in line with the commitment given in the Programme for Government.

The Department of Finance received a broad range of submissions from companies engaged in R&D activities, advisory firms, representative bodies and Government Departments. In total twenty-six submissions were received and have been published on the Department's website.[7] In addition, prebudget submissions referencing the R&D tax credit were received from a range of bodies. All feedback received has been reviewed and will assist with shaping policy in this area. The report on the Research and Development Tax Credit 2025 Review provides further details and analysis of the feedback received from stakeholders.[8] [9]

These stakeholder responses, along with other work undertaken as part of the R&D review, contributed to the policy decisions taken on the R&D measures introduced in Budget 2026. The depth of detail contained in the proposals received has also allowed for the identification of a medium-term trajectory for further policy considerations in these areas, and the purpose of this Compass is to set out this trajectory at a high level, for the information of stakeholders.

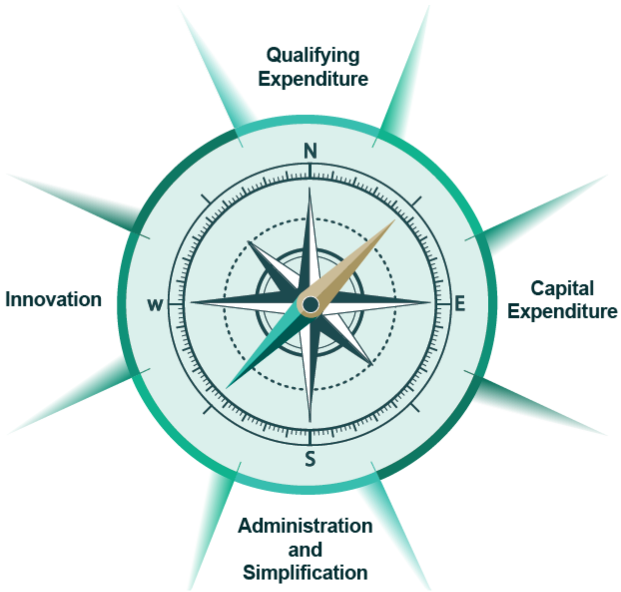
The R&D compass identifies key areas of the R&D regime which will be reviewed and considered in further detail. These are aspects of the regime which the Department believes could be further developed, to drive activity and add value in the knowledge economy in terms of investment, employment, competitiveness and economic growth.

It is noted that some policy proposals received from stakeholders relate to matters which have been considered previously and in respect of which it is not currently proposed to undertake further work, and some further discussion on these points is also included below for the information of stakeholders.

Four broad directions for future policy work have been identified, as set out below, with the first three being specific to the R&D tax credit:

- 3.1 Qualifying Expenditure
- 3.2 Capital Expenditure
- 3.3 Administration and Simplification
- 3.4 Supports for Innovation

[7] Responses to the Public Consultation on the Research & Development Tax Credit and on Options to Support Innovation
[8] Research & Development Tax Credit 2025 Review
[9] Responses to the Public Consultation on the Research & Development Tax Credit and on Options to Support Innovation



3.1 Qualifying Expenditure – R&D Tax Credit

The R&D tax credit is available at a rate of 35 per cent in respect of expenditure incurred wholly and exclusively in the carrying on by the company of qualifying R&D activities.[10] The R&D tax credit is a broad incentive, available to companies of all sizes and across all sectors carrying on qualifying activities.

In general, to qualify for the R&D tax credit, the applicant must be a company, within the charge to Irish tax, and undertaking the qualifying R&D activities within the European Economic Area or the UK. For the expenditure to qualify it must not qualify for a deduction under the law of another jurisdiction.

For activities to be qualifying R&D activities they are also required to satisfy all of the following conditions. They must:

1. be systematic, investigative or experimental activities;
2. be in a field of science or technology;
3. involve one or more of the following categories of R&D:
    a. basic research,
    b. applied research, or
    c. experimental development.

In addition, they must:

4. seek to achieve scientific or technological advancement; and
5. involve the resolution of scientific or technological uncertainty.

The R&D tax credit consultation and review identified a number of common themes of interest to stakeholders in relation to the definition and interpretation of expenditure on research and development.

[10] Finance Act 2025 increased the rate of the R&D tax credit from 30 per cent to 35 per cent

3.1.1. A HOLISTIC REVIEW AND EXAMINATION OF THE SUB-CONTRACTING PROVISIONS

The definition of qualifying R&D activity generally requires that the R&D activity be carried on by the claimant company itself and not by another person. However, there are two situations where the R&D tax credit is currently available in respect of costs incurred on R&D activities not undertaken by the claimant company itself, being where activities are sub-contracted to a university or institute of higher education (available from the introduction of the credit in 2004), and where activities are sub-contracted to unconnected third parties (available in respect of expenditure incurred on or after 1 January 2007).

As part of the feedback provided in response to the Public Consultation on "the Research and Development Tax Credit and on Options to Support Innovation", stakeholders advocated for a broad range of enhancements to the regime in relation to sub-contracting R&D activities, some of which would envisage the provisions developing in quite different directions.

Due to the level of interest in these provisions and the range of proposals received, it has been decided that it would be beneficial to conduct an in-depth review of sub-contracting as a whole, rather than looking at each element individually, to ensure a coherent approach to any further development of this aspect of the R&D tax credit. This process has commenced. The text below therefore sets out an overview of the current provisions and a summary of the proposals received from stakeholders that will be considered in further detail.

Overview of current provisions

For each of the two sub-contracting provisions, qualifying costs are limited to a maximum of 15 per cent of the expenditure incurred by the company itself on R&D activities or €100,000, whichever is the greater, subject also to the requirement that the company must have incurred at least the same level of expenditure on qualifying R&D activities which it carries out itself.

Qualifying third-level sub-contracting is limited to costs sub-contracted to universities or institutes of higher education in the EEA or the UK. There is no geographic restriction on sub-contracting to unconnected third parties.

These two sub-contracting limits have been enhanced since first introduction – a 5 per cent cap originally applied on sub-contracting to universities or institutes of higher education before increasing to 15 per cent by Finance Act 2019; and a cap of 10 per cent originally applied on third party sub-contracting before being increased to 15 per cent by Finance (No.2) Act 2013. The alternative €100,000 cap for each provision was introduced in Finance Act 2012 to support companies undertaking smaller R&D projects, allowing the first €100,000 of subcontracted expenditure to qualify for the credit to the extent that it is matched by the company's own R&D expenditure.

Allowing certain sub-contracting costs as eligible expenditure recognises the different ways in which companies may perform their R&D activities - for example, some companies may require specialist skills, equipment or facilities that are not available or economical to provide in-house.

The ability to sub-contract to universities or institutes of higher education also supports Government policy of encouraging public-private collaborations, building knowledge exchange systems and developing linkages between companies and the third level sector. It acknowledges the unique expertise that universities or institutes of higher education can offer in relation to the provision of researchers, infrastructure and capabilities that are often essential for R&D activities, but that a company may not have the capacity to provide in-house.

The interaction between academia and industry is also recognised as being important in ensuring that universities and institutes of higher education are designing courses to meet the needs of industry in the future, providing a strong pipeline of graduates of all levels coming out of third level education with the right skillsets and strong employment prospects. Collaboration also gives students the opportunity of applying theoretical concepts in the real world and allows them to engage with cutting-edge developments in their relevant fields while still pursuing their qualifications.

In commenting on these sub-contracting provisions, stakeholders put forward a range of proposals relevant to both existing provisions, to individual aspects of the provisions, and for new supports, as follows:

Stakeholder proposals relevant to both existing provisions

- Increase or remove the current caps of €100,000 and/or 15 per cent of R&D expenditure from both of the sub-contracting provisions.
- Remove the requirement that the level of allowable sub-contracting expenditure is capped by reference to the amount of in-house expenditure incurred by the company.
- Consider how in-house and sub-contracted expenditure are defined.

Stakeholder proposals specific to universities or institutes of higher education

- Broaden the definition of a university or institute of higher education to include research institutes and university research hospitals.
- Introduce an additional or enhanced deduction where a business collaborates with a university or institute of higher education in the R&D process, to allow businesses greater flexibility to engage in academic partnerships.
- Allow expenditure incurred by companies on the sponsorship or support of PhD or post-doctoral researchers to qualify for the R&D tax credit where the research aligns with the company's R&D activities.
- Allow costs incurred in connection with bursaries which support STEM education at secondary and third level as qualifying costs.

With regard to proposals to broaden the definition of a university or institute of higher education to include research institutes and/or university hospitals, it is likely that these costs may qualify currently under the third-party category, subject to the relevant limits. The geographic scope will also be a consideration, as sub-contracting to relevant institutions in other EU/EEA jurisdictions is also allowed under this provision.

Stakeholder proposals regarding connected party sub-contracting

Stakeholders also advocated for the introduction of a new category of qualifying sub-contracting expenditure in respect of expenditure to connected parties, contending that this measure would align the Irish R&D tax credit regime with international best practice. It has been suggested that the current sub-contracting rules are too restrictive, that Irish companies are at a competitive disadvantage and as a result are losing out on high value R&D investment to other competitive jurisdictions. It was also maintained that introducing this provision would result in the creation of higher value strategic roles in Ireland.

The long-term policy focus of the R&D tax credit has been on the generation of economic activity and supporting high quality employment, and a connected party sub-contracting measure could result in additional expenditure outside the State coming within scope of the tax credit. Recognising this, stakeholders have suggested that Exchequer protections could form part of such a measure's design, for example:

- Limiting access to companies that are carrying on / managing the R&D activity on their own account – i.e. it would not apply where the claimant company is itself a sub-contractor on the R&D project.
- Introducing a geographic limitation, e.g. allowing sub-contracting only to connected parties in the European Economic Area or a country with which Ireland has a Double Taxation Agreement.
- Requiring that the claimant company owns any IP arising from the R&D activities.
- Capping the allowable amount of sub-contracted expenditure based on the claimant company's qualifying internal expenditure.

2026 Review of sub-contracting provisions

A review will be undertaken in 2026 to consider these proposals in detail, and there will be further opportunities for stakeholder engagement. Consideration will need to be given to matters such as:

- The cost and potential benefits (both direct and indirect) of each proposal.
- The impact or consequences for any other provision within the Taxes Consolidation Act 1997.
- EU law and/or State aid implications.
- Operational and administrative implications.
- Ensuring that the overall policy objectives of the R&D tax credit continue to be met.

3.1.2. THE DEFINITION OF QUALIFYING EXPENDITURE

The R&D legislation (section 766(1) Taxes Consolidation Act 1997) states that *"expenditure on research and development, in relation to a company, means expenditure, other than expenditure on a building or structure, incurred by a company wholly and exclusively in the carrying on by it of research and development activities in a relevant Member State.".*

Feedback received from stakeholders during the R&D consultation process sought for the amendment of the definition of "expenditure on research and development" by replacing the phrase "*in the carrying on by it of*" with "*for the purposes of*". The phrase "*for the purposes of*" would broaden the scope of qualifying expenditure and would therefore result in an increase in the activities, and associated expenditure, that would potentially qualify for the R&D tax credit.

This would be a material change to the premise on which the R&D tax credit regime is based and could potentially have significant Exchequer impacts. As it would introduce a lower bar for qualifying expenditure, it could extend the credit to expenditure which would have been incurred in any event in the absence of the tax credit (often referred to as deadweight) and might therefore not deliver sufficient additionality for the taxpayer.

However, noting the interest of stakeholders in this area, it is intended that further work will be undertaken to consider the subject of qualifying expenditure, following completion of the sub-contracting review. This will include:

- Identification of the types of expenditure not within scope of the current definition of expenditure on research and development and the policy rationale for any proposed expansion.
- Assessment of the potential Exchequer cost and benefit.
- Consideration of Statutory Instrument 434/2004 which sets out the fields of qualifying activities for the purposes of the R&D tax credit. This statutory instrument (S.I) identifies fields of science and technology within which expenditure may qualify for the R&D tax credit, and the wording was developed with a view to encompassing current and future developments within those specified fields. However, it is important to acknowledge that there have been significant scientific and technological developments and changes over the past 20 years and there may therefore be merit in carrying out a review of the fields of science and technology to ensure that they are still appropriate and broad enough to accommodate scientific and technological advances.

3.2 Capital Expenditure

Expenditure on the construction or refurbishment of a building for use for qualifying R&D activity, may qualify for an R&D tax credit where the building also qualifies for industrial buildings capital allowances (IBAA), subject to certain conditions. The R&D tax credit is available in addition to any capital allowances claimed.

The R&D activities carried on by a company in that building or structure over a period of four years must represent at least 35 per cent of all activities carried on in the building or structure. Where this minimum threshold is met, construction or refurbishment costs in respect of the building may be in scope of the R&D tax credit, limited by reference to the proportion of the building used for qualifying R&D activities. Clawback provisions apply in respect of this provision in specific circumstances.

Finance Act 2025 clarified that expenditure incurred by a company on the construction of a laboratory used for the carrying on of R&D activities is also within scope of the credit. In this regard, “a laboratory” takes its ordinary meaning and is understood in its purest sense for the purposes of R&D (e.g. specialised facility with specialist equipment, controlled environment, controlled access, etc.).

A number of stakeholders recommended that the provision relating to capital expenditure be reviewed, with a view to encouraging greater investment in manufacturing and development of specific R&D facilities. In particular, the following specific areas were suggested:

- Conduct a review of the 35 per cent de minimis usage test and whether this is required or could be reduced to make it easier to be met.
- Reduce the four-year period over which the 35 per cent de minimis usage test must be met.
- Review the linkage between the R&D tax credit and capital allowances for industrial buildings.

Any changes in this area could result in a significant cost to the Exchequer which will need to be understood in further detail, together with what additional safeguards, if any, could be introduced to protect the Exchequer. It will be important to assess whether any changes of this nature would result in additional investment in respect of the construction of buildings for the carrying on of R&D activities, and whether any amendments would be of benefit to smaller R&D projects.

While raised by a number of stakeholders, considerations regarding capital expenditure of this nature appear to be a less pressing consideration than the issues set out above in relation to qualifying current expenditure. It will therefore be a medium-term priority to progress the review of capital buildings expenditure for R&D purposes.

3.3 Administration and Simplification

3.3.1. PILLAR TWO – JANUARY 2026 SAFE HARBOURS

The OECD published a Side-by-Side Package in January 2026, following agreement by the Inclusive Framework on BEPS.[11] The Side-by-Side package includes the Simplified Effective Tax Rate Safe Harbour, an extension of the Transitional Country-by-Country Reporting Safe Harbour, the Substance-based Tax Incentive Safe Harbour, and a Side-by-Side System. This package of Administrative Guidance introduces a new concept of Qualifying Tax Incentives (QTI) through the Substance-based Tax Incentive Safe Harbour and will be incorporated into the 'Commentary to the Global Anti-Base Erosion Model Rules'. A transposition process to implement these new rules domestically is underway and the R&D Tax credit will be reviewed in 2026 as part of the transposition of the Substance-based Tax Incentive Safe Harbour to assess alignment with the QTI rules.

3.3.2. THE RATE OF THE R&D TAX CREDIT

The rate of the R&D tax credit is a headline feature of the regime and therefore has been the subject of much policy consideration, and of proposals by stakeholders for increases to the rate. When the R&D regime was introduced in 2004, a 20 per cent rate applied and the credit was non-refundable. The R&D tax credit was available for offset against the company's corporation tax liability. Any excess amount was available to be carried forward for offset against future corporation tax liabilities.

Finance (No.2) Act 2008 increased the rate of the R&D tax credit from 20 per cent to 25 per cent and allowed for the carry back of the R&D tax credit for offset against the prior period's corporation tax liability. The repayable R&D tax credit was also introduced, allowing excess credit (after offset against corporation tax liabilities) to be paid to the company in three instalments over a 33-month period.

Finance (No.2) Act 2023 increased the rate of the R&D tax credit to 30 per cent for all claimant companies, against the backdrop of global tax reform and increasing focus on the positive spillover benefits of R&D activities following the COVID-19 pandemic.

Finance Act 2025 provided for an increase in the R&D tax credit rate to 35 per cent, to support companies carrying on qualifying R&D activities in an increasingly competitive global R&D environment. It was noted by stakeholders, in response to the consultation undertaken as part of the 2025 R&D tax credit review, that the headline rate is instrumental when global R&D investment decisions are being made as it is seen as one of the key differentiators when competing for investment.

[11] Tax Challenges Arising from the Digitalisation of the Economy - Global Anti-Base Erosion Model Rules (Pillar Two)

The policy objectives for increasing the rate in Finance (No.2) Act 2023 and Finance Act 2025 were twofold – firstly to continue to provide a competitive environment for large-scale investment in R&D, and secondly to provide increased support to smaller companies and companies undertaking smaller R&D projects, to encourage increased engagement with the credit and the broadening of Ireland's knowledge economy.

As previously noted, since the introduction of the regime, the Exchequer cost of the regime and number of claimant companies has increased from €70 million for 73 claimants in 2004 to €976 million for 1,804 claimants in 2023. In light of these recent changes, it is not anticipated that further changes to the rate will take place in the near future.

Statistical data will be examined, as it becomes available, to determine the impact of the recent rate increases on qualifying R&D activity. This analysis will inform consideration of any future proposals in respect of the headline rate of the credit.

3.3.3. ACCELERATING THE PAYMENT OF THE R&D TAX CREDIT

As part of the feedback provided in response to the Public Consultation on "the Research and Development Tax Credit and on Options to Support Innovation", stakeholders advocated for a review of the current timeline for payment of the R&D tax credit, proposing the acceleration of some or all elements of the payment. Proposals included:

- Accelerating payment of the R&D tax credit for all claimants, or for smaller R&D projects – for example by making the R&D tax credit payable in year one instead of over three annual instalments, or by increasing the proportion of the credit payable in the first and/or second years.
- Increasing the FYPT from €75,000 (now €87,500 following Finance Act 2025) to another higher amount, with proposals ranging from €100,000 to €500,000.

Current Payment Provisions

Finance Act 2022 restructured the manner in which the R&D tax credit is claimed, and the R&D tax credit is paid. The R&D tax credit is now payable in three annual instalments; 50 per cent of the R&D tax credit is payable in year one, 30 per cent in year two and the final 20 per cent in year three. In respect of each instalment the company must specify whether the amount or any portion of the amount is to be paid by Revenue to the company or offset against other tax liabilities.

The restructuring of the payment provisions in Finance Act 2022 was primarily undertaken to align with the requirements of the Pillar Two definition of a Qualified Refundable Tax Credit. However, it also had the benefit of providing greater certainty as to the trajectory of payment and accelerating the benefit of the credit for companies that would previously have been affected by the caps on the repayable credit.

Finance Act 2022 also provided for the introduction of the FYPT, being the amount up to which claims for the R&D tax credit are payable in full in the first year. It applies to all claimants, but in practice is of financial benefit to companies with R&D tax credit claims of up to twice the threshold level (as, above that level, the standard first instalment payment of 50 per cent would exceed the FYPT amount). Where it is of benefit, the first-year payment threshold provides a cash-flow support, accelerating the payment of credit to the claimant company. It was introduced with a view to encouraging more companies to engage with the regime and supporting companies engaged in smaller R&D projects.

The FYPT was introduced in Finance Act 2022 at €25,000, increased to €50,000 in 2023. Finance Act 2024 provided for a subsequent increase to €75,000. Finance Act 2025 announced a further increase in this amount to €87,500, in conjunction with the increase in the rate of the credit from 30 per cent to 35 per cent - i.e. the FYPT remains at the amount of credit payable in respect of qualifying R&D expenditure of €250,000.[12]

Policy Considerations

There have been significant changes to the R&D payment provisions in recent years, and the Department will be reviewing the effectiveness of the new payment system as data becomes available. It is noted in this regard that 2022 was a transition year, which allowed companies to make an R&D tax credit claim in accordance with the pre-Finance 2022 or post-Finance act 2022 payment structure. This resulted in the Exchequer costs for 2022 being higher than in 2023. Given the significant changes introduced the data analysis for that year and 2023 is complicated. Data for claims in subsequent years will provide a clearer picture of the operation of the new payment system for all cohorts of claimants.

Stakeholders often view an acceleration in payment of the credit as a cost-neutral proposal, but it is important to recognise that any acceleration of the existing Exchequer cost, while being net neutral to the Exchequer over a three-year period, would have a first-year cost for Budget purposes which would have to be taken into account in any Budget package.

A further significant consideration will be the potential risk to the Exchequer – this is a factor of particular importance in the case of payable credits given the potential for opportunistic fraudulent claims. The standard three-year window for the payment of claims for the R&D tax credit serves a purpose in protecting the Exchequer and ensuring an ongoing connection between companies claiming the R&D tax credit and the Irish economy. It also provides time for Revenue to review claims, where necessary, before all or most of the R&D tax credit is paid to a company.

Given the generous nature of the R&D tax credit, and that it is one of the largest tax expenditure items at a cost of €976 million in 2023, continued vigilance will be important to ensure that the credit processes are robust and support those companies genuinely undertaking qualifying R&D activities.

3.3.4. PRELIMINARY TAX

Interaction between the first instalment of the R&D tax credit and preliminary corporation tax

The interaction of preliminary tax obligations with the new payment provisions was raised as an issue for further consideration. As set out above, the R&D tax credit is now payable in three annual instalments (except for claims within the FYPT, which may be paid in full in the first year).

For each of the instalments to be paid to the company, the company must specify whether the instalment or any portion of the instalment amount is to be:

a) Treated as an overpayment of tax, for the purposes of section 960H Taxes Consolidation Act 1997 (which allows for the offset of an overpayment against other tax liabilities), or

b) Paid directly to the company by Revenue.

Where a company elects for the first instalment of the R&D tax credit to be offset, in whole or in part, against its corporation tax liability for the accounting period, the amount offset against that

[12] Based on the current R&D tax credit rate of 35 per cent

corporation liability may be taken into account in the calculation of the company's preliminary corporation tax liability for that period and the subsequent accounting period.

The second and/or third instalments cannot be taken into account when calculating preliminary tax, and stakeholders have proposed that this position should be reviewed. It has also been proposed that consideration be given to allowing payable credits to similarly be taken into account for preliminary tax purposes. Factors for consideration in such review will be the increased Exchequer risk where the credit is paid rather than offset, together with how such a measure might interact with existing preliminary tax legislation.

3.3.5. OVERHEAD EXPENDITURE COSTS

In general, the R&D tax credit is calculated on the basis of qualifying expenditure and includes, for example, staff costs, plant & machinery and other expenditure incurred wholly and exclusively in the carrying on of the R&D activities. Where relevant, this can involve an allocation of a proportion of certain costs to the R&D tax credit claim – for example where a staff member works partly on R&D projects and partly in other areas of the company's trade. A specific method for allocation is not provided for in legislation, and companies may determine a cost allocation method, on a just and reasonable basis, that is specific to the facts of the activity carried out by the company. It is therefore possible that different allocation methods can be used for different types of expenditure incurred by a company.

Revenue's Research and Development (R&D) Corporation Tax Credit, Tax and Duty Manual provides guidance in relation to qualifying expenditure and the costs which are considered not to be incurred wholly and exclusively in the carrying on of the R&D activity.[13] In this regard it states that *"costs which are not wholly and exclusively incurred in the carrying on of the R&D activity, including indirect overheads such as recruitment fees, insurance, travel, equipment repairs or maintenance, shipping, business entertainment, telephone, bank charges and interest, do not qualify as relevant expenditure".*

Stakeholders have proposed that, to provide greater certainty on the types of costs that may qualify and to simplify the regime for SMEs in particular, consideration should be given to two different potential approaches to certain overhead costs:

a) Develop list of qualifying overhead expenditure – proposals included: rent; maintenance, repairs and specialised cleaning of R&D equipment; R&D training; R&D shipping; certain costs in connection with R&D employees such as relocation fees.

b) Allow a qualifying overhead cost as a fixed percentage of wage costs – for example, to provide that a figure of 20 per cent of qualifying R&D wage costs should be deemed to be qualifying R&D expenditure (subject to the company actually having incurred this amount of costs). Stakeholders noted that a similar approach is sometimes taken in R&D grants with regard to overhead costs.

Policy considerations

It is not considered that legislating for a definitive list of qualifying costs would be feasible or practical, given the nature of R&D activities. Qualifying R&D costs are likely to differ from company to company and from sector to sector. Furthermore, as R&D by definition is dedicated to examining scientific and technological uncertainties, it is unlikely that any prescriptive list could be sufficiently comprehensive, or be updated sufficiently frequently, to encompass all relevant expenditure. The

[13] Revenue Research and Development (R&D) Tax Credit Tax and Duty Manual Part 29-02-03

provision of such a list might therefore run contrary to the objective and create doubt in relation to the eligibility of costs which are incurred as part of qualifying R&D activities but are not included on the list.

It is intended that further consideration will be given to the proposal for a fixed percentage determination of qualifying overhead costs for R&D purposes. Such a proposal could provide for a level of simplification of the regime, particularly for smaller claimants, and reduce the potential for disputes as to cost allocation. However, a number of potential complexities have been identified in initial considerations that will need to be addressed.

A factor to be considered in this regard is the extent to which this would be an expansion of the scope of qualifying expenditure (and therefore an increased Exchequer cost), as opposed to a simplification of the current process for determining eligible expenditure. Expenditure which is incurred 'wholly and exclusively' in the carrying on of R&D activities will currently qualify for the R&D tax credit, therefore it is possible that companies could be disadvantaged by the imposition of a standardised fixed percentage approach aiming for simplification, to the extent that it replaces a current process of identifying qualifying expenditure on the 'wholly and exclusively' basis. A simplification approach could require certain costs to be specifically disallowed from qualification under the general rule where they are intended to be in scope of the fixed percentage allocation.

Further matters for consideration include whether any such fixed overhead rate would be mandatory or an option that claimants could elect into; and the rate to be set, noting that an overhead rate appropriate across claimants with diverse R&D activities may be difficult to identify.

There is potential for substantial overlap between these proposals regarding overhead expenditure and the proposals in Section 3.1. for review of qualifying expenditure, both being different approaches to reviewing the current methodology for identifying expenditure in scope of the R&D tax credit. It is therefore intended that further examination of overhead proposals will take place in conjunction with work on qualifying expenditure, in order to ensure a consistent policy approach is taken and the objectives of Exchequer protection and administrative simplification are appropriately balanced.

3.3.6. FINANCE ACT 2025 SIMPLIFICATION – WAGE COSTS

In the context of discussions on reducing the complexity of R&D claims administration, stakeholders proposed that consideration should be given to how the proportion of an employee's time spent on qualifying R&D activities is determined, for the purposes of calculating qualifying R&D wage costs. Contemporaneous records such as timesheets are generally the method used in this regard, and stakeholders questioned the level of detail required when the significant majority of an employee's time is dedicated to R&D, with only occasional or minor non-qualifying activities.

In recognition of this stakeholder feedback and the need to simplify the R&D regime, a new administrative provision was introduced in Finance Act 2025 to allow 100 per cent of an R&D employee's emoluments to be treated as qualifying costs where at least 95 per cent of the duties of their employment is spent on qualifying R&D activities. This measure aims to simplify the level of documentation required for time keeping and to reduce the scope for disputes on audits in relation to time apportionment.

This measure will be kept under review, to ensure that it operates as intended and provides increased certainty and a level of administrative simplification for claimant companies and for Revenue.

3.3.7. TAX ADMINISTRATION

Stakeholder Proposals

The amendments to the payment provisions in Finance Act 2022, as described above, were complex and required changes to both the legislation and the corporation tax return form. During discussions and meetings with stakeholders the issue of simplification was a common theme, and in this regard a number of stakeholder proposals were made for further review of administrative processes relating to the R&D tax credit.

A sample of those proposals included the establishment of a centralised R&D unit which would deal with all matters pertaining to the R&D tax credit, from technical queries to Revenue audits and the processing of the R&D payments.

It must first be acknowledged that Revenue are statutorily independent in the administration of the tax regime. Matters specific to administration, other than where specifically provided for in legislation, are therefore wholly within the competence of Revenue.

Officials in Revenue and the Department of Finance work closely together to support the operation of the R&D tax credit and to examine concerns raised by taxpayers with regard to administration and/or legislative interpretation.

The Department of Finance will continue to work with Revenue to determine if legislative or administrative steps might be taken, within our relevant competencies, to simplify the regime or provide greater assistance and clarity to taxpayers and claimants of the R&D tax credit.

3.4 Innovation

The Programme for Government 2025 “Securing Ireland’s Future” highlights the requirement for a strong enterprise and fiscal framework which will prioritise economic and employment growth, competitiveness, fiscal responsibility, and investment in innovation, energy and decarbonisation. There is a commitment to examine options to enhance the R&D tax credit, reward innovation and digitalisation and to encourage innovation by domestic and international companies.

The public consultation undertaken as part of the 2025 review of the R&D tax credit was used as an opportunity to seek initial high-level views from stakeholders as to the potential design of a tax-based support for innovation. Proposals received from stakeholders included:

- The expansion of the existing R&D tax credit to include innovation.
- The introduction of a new tax credit focussed on:
    - decarbonisation and green objectives,
    - digital transformation, and/or
    - experimental development.
- An investment tax credit in respect of the acquisition of, or the production cost of, software development, digital infrastructure and cybersecurity.
- Enhanced deductions for the cost of equipment meeting certain scientific standards.
- The introduction of a new incentive to support expenditure to incentivise further developmental activity following the resolution of a scientific or technological uncertainty

(that qualified for the R&D tax credit) and leading to the commercialisation of a product or process.

Work on the development of a tax-based support for innovation will continue in 2026, and the following have been identified as key factors for consideration:

Potential Exchequer Cost

"Innovation" is a broad concept that will, by its nature, change over time. A key first step in considering measures to encourage and support innovation will be to develop a clear and robust definition of innovation. In addition, clarity will be needed on the policy aims behind any such measure to ensure those aims can be met in a manner that provides a broader benefit to the Exchequer, delivers value for money and avoids deadweight. In addition, the administrative implications of any potential measure require consideration to ensure any measure is operable in practice.

The CSO Innovation in Irish Enterprise survey can be used to give a broad indication of the potential scale of innovation expenditure in the economy.[14] This survey encompasses research & development and innovation (RD&I); therefore, it includes expenditure already within scope of the R&D tax credit. However, the scope is somewhat limited – the survey is undertaken on a representative sample of all companies with 10 to 49 persons engaged and a full census of enterprises with 50+ persons engaged. Companies with less than 10 persons are not included in the survey, therefore it understates expenditure for the economy as a whole.

The survey indicates that total RD&I expenditure by enterprises in Ireland in 2022 (the latest available data) was €11.2 billion, an increase of 50.4 per cent when compared with 2020 (€7.4 billion). The R&D tax credit was claimed in respect of expenditure of approximately €4.7 billion in 2022, indicating that at least €6.5 billion of expenditure by companies in that year might be within scope of a definition of "innovation".

It is therefore not considered feasible to extend the current R&D tax credit to encompass innovation, having regard to both the potential cost and the likelihood of significant deadweight cost, given the level of innovation expenditure already taking place.

Options for targeting the measure to ensure additionality

The key initial focus will therefore be on options to target an innovation support, to ensure that aligns with wider Government objectives and delivers real value to the taxpayer through additionality.

Proposals received from stakeholders, and from Government Departments and agencies, are being considered in this regard, and further engagement will take place early in 2026. The Government's 'Action Plan on Competitiveness and Productivity' together with IDA and Enterprise Ireland strategies will also inform further considerations.

Consideration of EU State aid rules will also be required, as any targeted measure, to ensure any proposed support aligns with a State aid framework or receives State aid approval before commencement.

Administration

The potential scope of an innovation support will also be influenced by consideration of the manner in which it could be administered, and in particular how verification of whether the costs meet the

[14] Innovation in Irish Enterprises Survey 2022

relevant ‘innovation’ definition would operate. While the tax system operates on a self-assessment basis, it will be essential to provide clear definitions of qualifying ‘innovation’ for the purposes of the support and a methodology by which both taxpayers and Revenue can be reasonably certain that the criteria to claim a relief are met. Options which have been proposed in this regard include:

- A process similar to the R&D regime, whereby certain principles are set out in legislation and regulations, and Revenue have the option to appoint an independent expert to conduct a ‘science test’.
- Assessment by another Government agency, such as Enterprise Ireland or the IDA, potentially linked to existing grant criteria.
- The meeting of other verifiable international standards (e.g. ISO 56000).
- In the case of an incentive targeted at capital expenditure, the creation of a list of qualifying equipment, similar to the Triple-E Register used in connection with Accelerated Capital Allowances for Energy Efficient Equipment.

Each of the above options have potential pros and cons, depending on the nature of the expenditure that may be in scope of the incentive. Having regard to the importance placed by taxpayers on both certainty and simplicity, it is expected that the viability of certification options will have a significant influence on the ultimate design of an innovation support measure.

3.5 Knowledge Development Box

The Knowledge Development Box (KDB) is an Intellectual Property (IP) regime for companies which was introduced in Finance Act 2015. The objective of the KDB is to encourage companies to develop IP in Ireland and thereby engage in substantive operations that have a high ‘value-add’ for the Irish economy, both in the FDI and indigenous sectors.

Up to the end of September 2023, the KDB operated by allowing a company a deduction equal to 50 per cent of its profits generated from qualifying assets that have resulted from qualifying R&D activities carried out by the company in Ireland, resulting in an effective rate of 6.25 per cent. This meets the OECD’s “modified nexus” standard.

Following agreement of the of the Pillar Two “Subject to Tax Rule” (STTR), Finance Act 2022 amended the KDB regime such that the deduction against profits generated from qualifying assets decreased to 20 per cent thus increasing the KDB effective rate to 10 per cent. This was commenced from 1 October 2023.

In Finance Act 2022, the relief’s sunset clause was extended for 4 years, to allow the KDB to be available for accounting periods commencing on or before 1 January 2027.

The KDB regime will be reviewed in 2026, in tandem with work on innovation support. In reviewing the measure consideration will be given to examining the benefits and potential drawbacks (pros and cons) of extending the measure, and/or integrating it with a new innovation support measure. It is noted in this regard, that the KDB was specifically designed to comply with the Modified Nexus Approach developed under Action 5 of the OECD/G20 BEPS project.

3.6 Summary of measures to be examined

Item	Compass – Proposed R&D measures for enhancing the regime
Qualifying Expenditure	
1.	A holistic review and examination of the sub-contracting provisions. This will include for example: a) Examination of the R&D provisions in relation to the sub-contracting of R&D activities and associated expenditure to unconnected third parties. b) Examination of the R&D provisions in relation to the sub-contracting of R&D activities and associated expenditure to universities or institutes of higher education. This would include examining options to encourage greater collaboration between the private sector and universities or institutes of higher education. c) Examination and review of options to develop a new category of sub-contracting which could allow subcontracted activities between connected companies to qualify for the R&D tax credit, subject to conditions.
2.	The scope of qualifying expenditure, including examination of the fields of science and technology to determine if there is any merit and scope to adding additional activities or categories of qualifying activities.
Capital Expenditure	
3.	Potential enhancements in relation to capex provisions in relation to expenditure incurred on the construction of a building or structure used for the carrying on of R&D activities.
Administration and Simplification	
4.	Review of the R&D Tax credit in 2026 to assess alignment with Pillar Two QTI rules.
5.	Examine options to accelerate the payment of the R&D tax credit.
6.	Consideration of measures to simplify the R&D tax credit regime which may include for example: a) Examination of the interaction between the instalments of the R&D tax credit and the company's preliminary corporation tax obligations. b) Review of Finance Act 2025 measure: allowing salary costs of an R&D employee to qualify in full once a minimum level of R&D activity is met.
7.	Maintain a commitment to ensuring an open and transparent R&D tax credit regime.

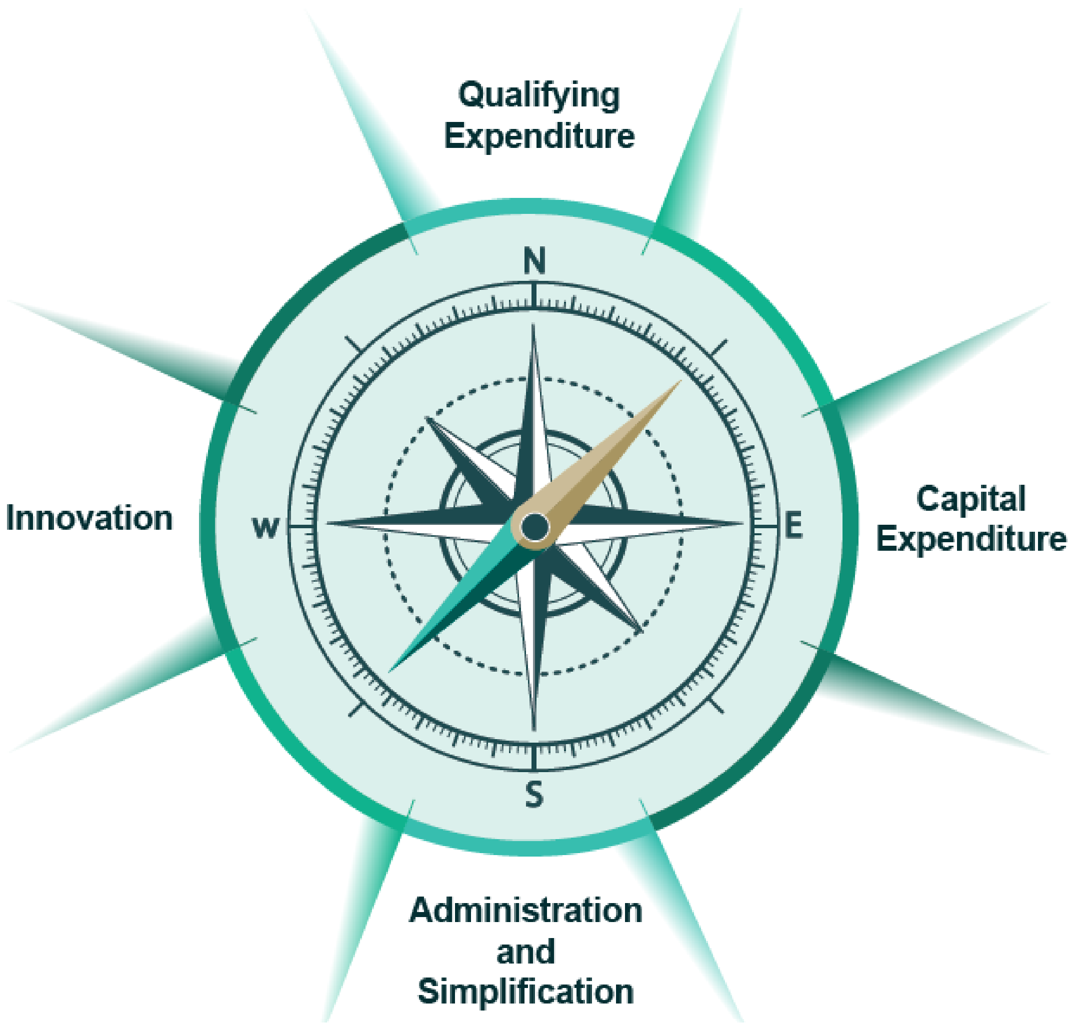
Innovation	
8.	Consider options to encourage and reward innovation undertaken by companies carrying on R&D activities in the State.
Knowledge Development Box	
9.	Review of Knowledge Development Box regime to be carried out during 2026.

4. Conclusion

The global landscape in which Irish R&D companies are operating is challenging, with the threat of tariffs disrupting investment plans and trade patterns and creating global tensions. Ireland finds itself in a strong position with record numbers of people at work, and it is important that the tax system continues to support investment and employment in the economy. Companies engaging in research and development activities have played and will continue to play an important role in meeting these objectives.

Tax expenditures are effective tools to influence market and human behaviour, but they must be carefully designed to minimise deadweight costs arising from supporting investment expenditure that would have occurred in the absence of the relief. Therefore, in the development of policy, it is important to consider whether tax measures are the most appropriate and cost-effective tool to use to achieve a desired outcome. A range of non-tax supports are provided by State and European agencies to support businesses and, as the different agencies develop their strategies and as additional supports become available to businesses, the Department of Finance will look to understand where potential gaps exist and determine the role that tax incentives may play in addressing such gaps.

This Compass provides stakeholders with an overview of the R&D tax credit and its evolution in response to business needs over the past two decades. It maps out the key areas that will be prioritised by the Department of Finance for consideration over the coming years that will help to ensure that the regime continues to be competitive into the future. Its goal is to support continuing confidence in the R&D tax credit, providing the certainty needed for businesses, of both domestic and foreign origin, to make long-term investment decisions on the location of high-quality research and development activities in Ireland.


Qualifying Expenditure
N
W
E
S
Innovation
Capital Expenditure
Administration and Simplification

Rialtas na hÉireann
Government of Ireland

Tithe an Rialtais, Sráid Mhuirfean Uacht, Baile Átha Cliath 2, D02 R583, Éire
Government Buildings, Upper Merrion Street, Dublin 2, D02 R583, Ireland

T: +353 1 676 7571 | @IRLDeptFinance
www.gov.ie/finance