Pre-Budget Submission

For Budget 2027 →

Strengthening Indigenous Innovation Capacity and Sustaining Ireland's FDI Competitiveness

June 2026

Mr Simon Harris T.D.
Tánaiste
Minister for Finance
Department of Finance
Government Buildings
Merrion Street Upper
D02 R583

8 June 2026

IRDG Pre-Budget Submission for Budget 2027

Dear Tánaiste,

This submission asks the Government to deliver three key overarching measures in Budget 2027.

First, a Finance Act 2026 SME package on the R&D Tax Credit (RDTC), comprising accelerated refund cashflow, a simplified-claim pathway, a dedicated Revenue SME unit, advance support for first-time claimants, an SME ISO-readiness support package, a doubling of the Revenue grant-based science-test concession and changes to SARP to support direct SME hiring. This package aims to close the claim-rate gap between eligible SMEs and eligible large companies.

Second, an innovation and substantive R&D competitiveness package. This comprises an Innovation Tax Credit (ITC), at a 20% refundable rate, commencing on 1 January 2027 as a general corporation-tax measure. The ITC is intended to support AI, design and digitalisation activity that does not qualify under the existing RDTC regime. The package also provides for revised RDTC outsourcing limits for third-party and third-level institution R&D, a five-year green and climate technologies RDTC pilot, and a joint Department of Finance, IDA Ireland, Enterprise Ireland and Revenue work-stream on substantive R&D activity in Ireland. Together, these measures are designed to sustain and strengthen FDI competitiveness.

Finally, Budget 2027 should begin a three-year trajectory for Government R&D investment (GBARD) towards 1% of GNI*, informed by EU R&D-intensity benchmarks.

These measures build on the R&D Tax Credit and Innovation Compass (16 February 2026). The Compass identified the work-streams. Ireland's Innovation Index 2026 gives the Department firm evidence why these are the right actions and why now. This submission sets out the recommendations and implementation pathway.

Budget 2027 is the relevant decision point. The 35% RDTC rate is still being implemented. Ireland's EU Council Presidency runs to 31 December 2026. Pillar Two and US tariff policy are sharpening international competition for mobile R&D mandates. The Ministerial Summary that follows sets out the asks, the evidence base and where each ask sits relative to the Compass workstreams. IRDG would welcome engagement with the Department of Finance on the measures in this submission.

Yours sincerely,

Dermot Casey
Chief Executive Officer
Industry Research and Development Group (IRDG)

Contents

1. Ministerial Summary

1.1 Policy rationale

Ireland’s innovation tax system no longer reflects how companies undertake innovation today, including through design, digitalisation and AI. Ireland’s Innovation Index 2026 provides the evidence base for this assessment. The R&D Tax Credit (RDTC), modernised to 35% under Finance Act 2025, is competitive at the headline rate but is claimed by significantly fewer eligible SMEs compared to eligible large companies. The credit also does not reach activity outside the scope of the Frascati Manual. This is important because 67% of respondents identify AI and disruptive technology as a one-to-three-year priority. A comparator analysis in this submission places Ireland's RDTC outsourcing limits at the tightest end of the European group reviewed (Chapter 4).

This submission proposes twelve Asks, grouped under the three overarching measures in the cover letter. Most of these sit within the workstreams identified by the Department of Finance in the R&D Tax Credit and Innovation Compass (published 16 February 2026). The Public R&D investment Ask sits outside the Compass. It is included because Ireland’s performance points to a wider investment gap.

The submission is backed by evidence from nearly 600 companies in Ireland's Innovation Index 2026 (Index 2026), the largest evidence base on company attitudes to R&D and innovation.

> *"The topline rate is excellent and is the highest in the OECD. While the scheme is set up to generate value for Ireland, given the significant amount of R&D that cannot be delivered in Ireland, the subcontracting rules need to be addressed. However, where the most improvement is needed is in how it is administered and processed by Revenue, especially for SMEs."*

Company Comment — Index 2026 free-text response, anonymised per survey terms. (Multinational respondent.)

1.2 Why Budget 2027 matters

Several developments make Budget 2027 the right decision point.

- The R&D Tax Credit has only recently been modernised to a 35% Qualified Refundable Tax Credit under Finance Act 2025.
- The Department of Finance established the R&D Tax Credit and Innovation Compass framework, with Supports for Innovation identified as an active workstream .
- Ireland’s EU Council Presidency from 1 July to 31 December 2026 creates a window for competitiveness positioning and, if needed, early technical engagement on the State aid treatment of innovation incentives. The State aid design of the Innovation Tax Credit is set out in section 3.4.1.
- Ireland’s Innovation Index 2026 shows that firms are already changing their priorities. 67% of respondents identify AI as a key one-to-three-year priority, a 22-point shift from 2024.

- OECD Pillar Two implementation and tightening international incentive regimes (UK merged scheme, US Inflation Reduction Act, French CIR) are intensifying competition for mobile R&D investment.
- The Index also provides the first evidence base on how firms are responding in their investment plans to the 35% RDTC rate and the proposed Innovation Tax Credit architecture.

1.3 Priority Asks

Closing the SME gap in the R&D Tax Credit (Chapter 2)

Note: Each Ask includes a reference to where it sits relative to the Department of Finance's R&D Tax Credit and Innovation Compass workstreams. Appendix 2 sets out the proposed implementation timeline.

- **Ask 1 — Bring forward SME refund cashflow.** Lift the RDTC first-instalment SME refund from 50% to 75% of the qualifying credit. Raise the first-instalment statutory euro floor from €87,500 to €150,000. Publish a 60-day Revenue service standard. (Compass: Administration and Simplification.)
- **Ask 2 — Establish a dedicated Revenue R&D SME Unit.** Establish the unit by Q3 2027, with a pre-notification pathway, a co-branded plain-English SME R&D Playbook involving Revenue, EI, IDA, LEO network, Údarás na Gaeltachta and a single Innovation Claim portal aligned with MyGovID. (Compass: Administration and Simplification.)
- **Ask 3 — Introduce a simplified-claim pathway.** Amend the RDTC in Finance Act 2027 to introduce a simplified claim pathway for qualifying expenditure under €100,000 per annum, with reduced documentation and a fast-track audit standard. (Compass: Administration and Simplification.)
- **Ask 4 — Open SARP to direct SME hires.** Amend s.825C TCA 1997 in Finance Act 2027 to open the Special Assignee Relief Programme (SARP) to direct new hires by Irish SMEs. (Alongside Compass scope.)
- **Ask 5 — Establish Advance Assurance for first-time SME claimants.** Establish a voluntary Advance Assurance scheme for first-time SME RDTC claimants by Q1 2028, based on the HMRC model. Introduce a Regional R&D Voucher funding 80% of feasibility projects up to €20,000 for first-time claimants, feeding into Advance Assurance. (Compass: Administration and Simplification.)
- **Ask 6 — Establish an SME ISO 56001-readiness support package.** Provide innovation management vouchers of €10,000 for ISO 56001-aligned implementation, and rebates for first-time ISO 56001 certification. Deliver through Enterprise Ireland instruments. (Compass: Supports for Innovation.)
- **Ask 7 — Double the Revenue grant-based science-test concession.** Lift the Revenue grant-based science-test concession from €50,000 to €100,000 of R&D Tax Credit per accounting period, while retaining the existing Revenue Tax Duty Manual Part 29-02-03 §2.5 eligibility conditions: (a) an approved Enterprise Ireland, IDA Ireland, Horizon 2020 or Horizon Europe R&D grant in respect of the project; (b) the project undertaken in a prescribed field of science or technology; and (c) the claimant is a micro or small enterprise. (Compass: Administration and Simplification.)

The Innovation Tax Credit (Chapter 3)

- **Ask 8 — Establish an Innovation Tax Credit (ITC).** Establish an Innovation Tax Credit (ITC) at a 20% refundable headline rate, with:

    a) +5% ISO 56001 uplift (maximum 25%)
    b) €250,000 per-group annual credit cap
    c) €25,000 expenditure floor
    d) OECD Oslo Manual scope
    e) Mutual exclusivity with the RDTC

The ITC should be designed as a Qualified Refundable Tax Credit under Pillar Two and as a general, non-selective corporation-tax measure. Full design specification is available in Appendix 3. (Compass: Supports for Innovation.)

Anchoring substantive R&D in Ireland (Chapter 4)

- **Ask 9 — Raise the RDTC outsourcing limits.** Amend legislation to raise the third-party and third-level institution outsourcing limits from the greater of 15% of in-house qualifying R&D expenditure or €100,000 to the greater of 25% of in-house qualifying R&D expenditure or €250,000. (Compass: Qualifying Expenditure.)
- **Ask 10 — Pilot a higher R&D Tax Credit rate for green and climate technologies.** Pilot a five-year, 50% R&D Tax Credit rate for green and climate technologies, with rapid SME refundability and verified climate-impact criteria. (Alongside Compass scope.)
- **Ask 11 — Establish a substantive R&D workstream.** Establish a joint Department of Finance, IDA Ireland, Enterprise Ireland and Revenue Compass workstream on substantive R&D activity in Ireland, reporting in H2 2027. (Compass: Qualifying Expenditure.)

Public R&D investment (Chapter 5)

- **Ask 12 — Set a three-Budget trajectory for Public R&D Investment.** Lift GBARD towards 1% of GNI* over three Budgets, beginning in Budget 2027 and informed by EU R&D-intensity benchmarks. Publish a trajectory document alongside the Budget. (Outside Compass scope.)

Implementation and technical measures (outside Budget 2027 envelope)

The following measures support the priority asks:

- Direct Revenue to publish a dedicated SME chapter alongside the annual R&D Tax Credit Statistics, measuring claim activity, refund timing, audit experience and pre-notification take-up against Index 2026 baselines (Recommendation 2.8).
- Amend the RDTC in Finance Act 2027 to permit qualifying expenditure on R&D carried out by connected parties outside the State, capped at 25% of the company's overall RDTC claim or €250,000, whichever is greater, subject to intellectual property (IP), substance and anti-double-claim conditions (Recommendation 4.2).
- Clarify the treatment of group R&D under s.766 TCA 1997 and Revenue Tax and Duty Manual Part 29-02-03 in Finance Act 2027 to permit qualifying expenditure incurred between Irish-resident group companies on a single-claim basis, subject to anti-double-claim rules (Recommendation 4.4).
- Direct the Department of Finance and IDA Ireland to publish, by end-2027, an annual statement on FDI R&D substance in Ireland (Recommendation 4.6).

1.4 Fiscal envelope

Indicative fiscal envelope summarised below. All figures are subject to Revenue and DPER scoring. Central scoring assumptions for the RDTC SME and outsourcing package set out in Appendix 4.

Ask / package	Indicative cost	Notes
Initial Budget 2027 impact (Asks 1, 2 and 9)	Approx. €70m–€80m	Timing-weighted estimate for first-year measures. Mainly reflects accelerated SME refund cashflow and the increase in RDTC outsourcing limits.
Full RDTC SME and outsourcing package once implemented (Asks 1–7 and 9)	Approx. €62m–€72m	Estimated annual cost from Year 2 onwards, once the full package is operating.
SME ISO 56001-readiness (Ask 6)	€1.5m–€3m (included above)	Delivered through Enterprise Ireland instruments.
Revenue grant-based science-test concession (Ask 7)	Negligible (included above)	Revenue TDM update; no Finance Act provision required.
Innovation Tax Credit Phase 1 (Ask 8)	€110m–€200m (central estimate €150m)	Estimated annual cost once fully operational.
Green and climate technologies RDTC pilot (Ask 10)	€30m–€80m	Separate pilot measure requiring Revenue, DPER and EPA/SEAI scoping.
Substantive R&D workstream (Ask 11)	n/a	Design and process; not a Budget 2027 line item.
Public R&D investment, Year 1 step (Ask 12)	€350m–€500m	First step on three-Budget GBARD/GNI* trajectory

1.5 Evidence base

The evidence base for this submission draws on several sources. The core company evidence comes from Ireland's Innovation Index 2026, produced by IRDG and KPMG and based on responses from 587 companies. It is supported by direct IRDG member input through roundtables and one-to-one meetings between October 2025 and April 2026. The submission also draws on Department of Finance and Revenue material on the R&D Tax Credit and innovation supports, CSO data, and national and international benchmarks on innovation, R&D investment, productivity and competitiveness.

The Index identifies a clear SME gap in the R&D Tax Credit, with 61% of SMEs claiming the RDTC compared with 81% of large companies. It also underlines the importance of the credit to mobile R&D investment: 54% of multinational respondents say that 10% or less of their R&D would remain in Ireland in the absence of the RDTC.

The case for a broader innovation incentive is also clear. 71% of respondents say an Innovation Tax Credit would enable more innovative work in Ireland, including activity in areas such as AI, design and digitalisation that may sit outside the existing RDTC regime. The public investment case is supported by the European Innovation Scoreboard 2025, where Ireland ranks 26th of 27 EU Member States on public R&D expenditure.

1.6 Out of scope

For clarity, this submission does not propose:

- A change to the R&D Tax Credit Frascati Manual qualifying-activity test which was addressed through the 2025 consultation and the February 2026 Compass.
- A further increase to the R&D Tax Credit headline rate beyond the 35% set in Finance Act 2025 (still being implemented).
- Replacement of grant supports under Enterprise Ireland, IDA Ireland, the Local Enterprise Offices or Research Ireland. The proposed package is tax-side, complementary to the existing grants architecture.

1.7 About IRDG

Industry Research and Development Group (IRDG) is Ireland's business-led innovation network. For more than 30 years it has given the companies that carry out research, development and innovation (RDI) in Ireland a collective voice in national policy and a structure for collaboration.

IRDG today represents more than 300 Member companies across manufacturing, technology, life sciences, food, energy and services, from indigenous SMEs to the largest multinationals operating in the State. IRDG's role is twofold: to build innovation capability inside member companies, and to make the policy case for the conditions that allow that innovation to happen.

It has been a consistent advocate throughout that period on the R&D Tax Credit, business expenditure on R&D (BERD) and the wider innovation ecosystem, through pre-budget submissions, consultation responses and direct engagement with the Department of Finance, Revenue and the enterprise agencies.

That advocacy is grounded in evidence. Ireland's Innovation Index, produced in partnership with KPMG, provides an annual, data-led picture of how Irish business innovates and where the barriers lie.

IRDG's flagship programmes including Foundations for Strategic Innovation, Pathway to Innovate, the Amplify Innovation Conference and the IRDG Innovation Skillnet, delivered in partnership with Skillnet Ireland, turn that evidence into practical capability: innovation strategy, leadership and the skills member companies need to compete.

2. Closing the SME Gap in the R&D Tax Credit

2.1 Diagnosis

The SME gap is the most consistent finding across four years of the Innovation Index. 61% of SME respondents claim the R&D Tax Credit (RDTC) compared with 81% of large company respondents. Furthermore, 14% of SMEs are aware of State supports but do not claim them, against 7% of large companies. SME satisfaction with RDTC refund timing sits at 46%, relative to 64% for large companies. Combined with the Revenue 2023 figures (1,804 claimants, the largest cohort since the credit's introduction in 2004), SMEs account for 89% of claimant numbers but a smaller share of value. IRDG analysis in Appendix 1 suggests that a substantial number of technically eligible SMEs are not in the system.

Three barriers are documented in the Index 2026 §3.5–3.6 evidence:

1. **Cashflow**: SMEs without a corporation tax liability are paid in cash but bear the full cost of claim preparation upfront and wait for the first instalment under the RDTC mechanism. Larger companies typically offset this against current-year liabilities and carry no cashflow exposure. The disparity has a competitive impact, not only an administrative impact.
2. **Threshold:** Firms undertaking €25,000 to €100,000 of qualifying R&D, where additionality is highest, face documentation requirements and burdens which were designed for €1m+ claims.
3. **Documentation and advisor burden:** Advisor cost on a first-time claim is non-trivial relative to the credit recovered. SMEs without an in-house tax function carry the full compliance overhead on a claim value that is, by definition, smaller than a large-company claim.

The additionality evidence in Index 2026 §3.6 points in the opposite direction. Specifically, 62% of respondents say State funding supports allowed more R&D to take place, 52% report additional employment (up from 47% in 2025), and 46% report additional internal investment (up from 40%). Every supports-impact measure has risen year-on-year. The credit is working where it reaches firms: the policy task is to increase SME take-up among firms already undertaking qualifying activity.

> *"It's April 2026 and I am still waiting for my 2024 tax credit refund. Please, please, please operate the R&D tax credit on a self-assessment basis."*

Company Comment — Index 2026 free-text response, anonymised per survey terms. (Irish-owned SME.)

> *"We are a small company and are now letting people go because they have not paid this. They also have not paid back PSWT that they owe us. They are impossible to get hold of to ask questions. My accountant has been chasing them for over a year."*

Company Comment — Index 2026 free-text response, anonymised per survey terms. (Irish-owned SME.)

> *"130 days from claim to payment this cycle; average 116 over last five years. Badgering for updates through multiple channels worked well this year, although communication from Revenue is very slow. No agreed timelines to complete claims, or visibility into the process, can be nerve-wracking generally."*

Company Comment — Index 2026 free-text response, anonymised per survey terms. (Irish-owned mid-sized respondent.)

> *"I'd like for there to be more clarity and examples of what does and does not constitute eligible R&D for the Tax Credit purposes. We shouldn't have to contract with a specialist accounting firm to avail of this."*

Company Comment — Index 2026 free-text response, anonymised per survey terms. (Irish-owned micro-enterprise, 1–10 employees.)

> *"We had an audit of our R&D tax credit application. It was more swift than I expected; I handled it directly myself instead of using our accountants. I was confident we had strong internal records and processes. Overall I was very impressed with the Revenue team."*

Company Comment — Index 2026 free-text response, anonymised per survey terms. (Irish-owned SME — Company Comment for balance.)

2.2 Recommendations

Recommendation 2.1 — Bring forward SME refund cashflow.

- Increase the RDTC first-instalment refund proportion for SMEs from 50% to 75% of the qualifying credit, effective Finance Act 2026.
- Raise the RDTC first-instalment statutory euro floor from €87,500 to €150,000. Effective Finance Act 2026. This removes the artificial cliff for growing SME claimants and is included in the €35m–€45m Year 1 timing estimate below.
- Publish a Revenue service standard of 60 days between SME claim submission and first-instalment payment, with annual reporting. A higher first instalment paired with a faster service standard improves the SME case for undertaking R&D. A third-instalment timing change is not proposed at this stage.

Trade-off: Two feasible approaches are presented for the Department's consideration: SME-only acceleration concentrates the benefit on firms most affected by cashflow pressures, while limiting Exchequer exposure. Alternatively, an all-claimant acceleration would simplify Revenue administration at higher cost.

Indicative Year 1 cost of approximately €35m–€45m, timing-weighted. This reflects the present-value impact of (a) moving 25 percentage points of the s.766C SME refund stream from instalments 2 and 3 into instalment 1 for the SME claimant cohort (approximately 1,580 SMEs in the 2023 base, drawn from Revenue R&D Tax Credit Statistics March 2026), and (b) the €87,500 to €150,000 first-instalment statutory floor lift. Steady-state present-value cost of the combined measure is modest, estimated at approximately €5m–€8m at a 3% discount rate; the Year 1 figure is timing-weighted. Final scoring is for Revenue and DPER.

Recommendation 2.2 — Establish a dedicated Revenue R&D SME Unit.

- Establish a dedicated Revenue R&D SME Unit by Q3 2027 with a pre-notification pathway for first-time and small claimants.

Remit: Scope is to process RDTC claims and publish plain-English Revenue guidance through a co-branded SME R&D Playbook, developed with Revenue, Enterprise Ireland, IDA Ireland, the Local Enterprise Office network and Údarás na Gaeltachta, with worked micro-company examples and checklists. The unit would also deliver a single Innovation Claim portal aligned with MyGovID, for instance auto-populating from ROS payroll and CRO returns and accepting one upload for both grant and tax claims. It would also run an annual engagement programme and report annually on SME claim activity.

A pre-notification pathway addresses the cohort of SMEs that are aware of the RDTC but do not currently claim. Firms intending to undertake qualifying activity would be able to notify Revenue at project outset, receive structured guidance on documentation, and approach the year-end claim from a known position.

Indicative steady-state operating cost is estimated at approximately €0.6m–€1.0m per annum, based on 6–10 FTE at an indicative loaded cost of approximately €100,000 per FTE. This is an IRDG modelling assumption and would require confirmation for Revenue scoring. The estimate is proportionate to the 1,580 SME RDTC claimants currently in the system and to the SME measures designed to convert the under-claiming cohort. For comparison, HMRC's R&D compliance reorganisation in 2022–2024 expanded R&D compliance staffing against a UK claim volume an order of magnitude larger than Ireland's, as set out in HMRC's Annual Report and Accounts 2023–24. On that basis, the proposed resourcing is proportionate, with final operating scope for Revenue to determine.

> *"Revenue case workers are not familiar with processing an R&D tax compliance check and do not have the required technical knowledge to process the uncertainty or advancement criteria. The Government on one hand is encouraging a relatively nervous business sector to use the scheme, but Revenue Commissioners have significantly stepped up their Level 1 and Level 2 enquiry rates while taking an overly stringent approach. This is creating a chilling effect across claimants of the scheme."*

Company Comment — Index 2026 free-text response, anonymised per survey terms. (Mid-sized respondent — supporting Recommendation 2.2.)

Recommendation 2.3 — Introduce a simplified claim pathway.

- Amend RDTC in Finance Act 2027 to introduce a simplified claim pathway for qualifying expenditure under €100,000 per annum, with reduced documentary burden, a standardised project record template, and a fast-track audit standard.

Firms claiming under the simplified pathway submit a structured project record of fixed length, certify the expenditure, and accept a fixed audit window. Revenue publishes the project record template on commencement.

Index 2026 §3.9 records the most-cited SME claim recommendation as "simpler grant or tax credit application" (29% of SME respondents). The simplified pathway responds to that finding without changing the qualifying-expenditure test.

Trade-off: SME-only application concentrates the simplification on firms most likely to be deterred by the administrative burden of making a claim. For small claims, the documentation required can be disproportionate to the value of the relief. Extending the same pathway to all claimants would allow large firms to use it for low-value projects, increasing the risk that relief is paid for activity that would have been claimed anyway. The SME-only option therefore carries lower deadweight risk, because it is targeted at firms that are more likely not to claim without simplification.

Indicative steady-state Exchequer cost is estimated at approximately €5m–€30m per annum. This assumes 500-1,500 additional SME claims from the estimated pool of eligible non-claiming SMEs set out in Appendix 1. Average qualifying expenditure is assumed at €30,000–€60,000 per claim, within the proposed €100,000 ceiling. Relief is calculated at the 35% headline rate. The lower end assumes limited additional uptake from the simplified pathway alone; the upper end assumes full conversion of that estimated SME pool. Final modelling, including deadweight assumptions, would be for Revenue and DPER.

Recommendation 2.4 — Open SARP to direct new hires by Irish SMEs.

- Amend s.825C TCA 1997 in Finance Act 2027 to open the Special Assignee Relief Programme (SARP) to direct new hires by Irish SMEs, removing the prior-employment restriction.

SARP currently requires prior employment in another jurisdiction by the same employer or related entity. Direct new hires by Irish SMEs do not qualify. Index 2026 §3.9 and the 2021 Report of the SME Taskforce: National SME and Entrepreneurship Growth Plan, Action 2.6.4, both identify the constraint. The talent picture in the four-year Innovation Index series consistently reveals that the share of respondents citing recruitment of key talent as a barrier has fallen in each edition (46% in 2023, 39% in 2024, 33% in 2025, 31% in 2026), but the share citing a skills gap in RDI within the business sits at 37% in 2026 and has not moved. The acute hiring problem is easing, however the chronic capability problem is not. SMEs scaling up high-skilled R&D functions need a route to compete for senior international talent on the same terms as multinational subsidiaries. Opening SARP to direct new hires is that route and follows the Tax Administration Liaison Committee (TALC) recommendation.

Indicative steady-state Exchequer cost of approximately €2m–€6m per annum, derived from an estimated 100–300 additional SARP-qualifying individuals per year on the SME direct-hire route, at the average per-claim relief level recorded in the Revenue Costs of Tax Expenditures series for SARP. The most recent published SARP cost base, reported for tax year 2022, was approximately €40m across approximately 3,000 claimants (Revenue Costs of Tax Expenditures, 2023 release). The SME extension is a small marginal addition. Final modelling for Revenue.

Recommendation 2.5 — Establish a voluntary Advance Assurance scheme for first-time SME RDTC claimants.

- Establish a voluntary Advance Assurance scheme for first-time SME RDTC claimants by Q1 2028, providing upfront eligibility validation against the RDTC qualifying-activity test.

The scheme is modelled on HMRC's Advance Assurance for first-time R&D relief claimants in the UK, recommended by the Tax Administration Liaison Committee (TALC) in 2024, and falls within Revenue's existing administrative remit. It addresses eligibility uncertainty without changing the qualifying-activity definition.

SMEs intending to claim for the first time may apply to Revenue for an upfront view of eligibility, supported by a structured project record.

The response is non-binding on Revenue's audit position but reduces SME first-claim hesitation. The Index 2026 evidence illustrates that compared with just 7% of large companies, 14% of SMEs are aware of State supports but do not claim them. The IRDG triangulation in Appendix 1 puts the under-claiming SME cohort at between 500 and 1,500 firms. Advance Assurance is the lowest-cost lever to convert that cohort.

Indicative steady-state operating cost of approximately €0.1m–€0.3m per annum, on the basis of 1–3 FTE within the Revenue R&D SME Unit. The HMRC Advance Assurance scheme operates within existing R&D unit resourcing at very low marginal cost; the Irish scheme would inherit that design. Final scoping for Revenue.

> *"We had one [Revenue audit] in 2018. It was terrifying, so we stopped grants for six years."*

Company Comment — Index 2026 free-text response, anonymised per survey terms. (Irish-owned SME — supporting Recommendation 2.5.)

> *"We requested an advance opinion from Revenue to help us better align our approach, but were denied."*

Company Comment — Index 2026 free-text response, anonymised per survey terms. (Irish-owned firm — supporting Recommendation 2.5.)

Recommendation 2.6 — Establish an SME ISO 56001-readiness support package.

- Through existing Enterprise Ireland instruments, deliver two complementary supports for SMEs and first-time Innovation Tax Credit claimants: (a) Innovation management vouchers of €10,000 redeemable for ISO 56001-aligned training or consultancy. This is modelled on the existing Innovation Voucher scheme such that eligibility and aid intensity follow GBER Article 28 conditions, including the €220,000 limit per undertaking over any three-year period for innovation advisory and support services. (b) Partial reimbursement of first-time ISO 56001 certification and external conformity audit fees.

These supports build the internal capability that lets a firm prepare the structured Innovation Project Statement required for an Innovation Tax Credit claim, without outsized advisor costs. This is the design feature that opens the Innovation Tax Credit to first-time SME claimants. They are not conditions of entitlement to the Innovation Tax Credit and are not preconditions to 1 January 2027 commencement. The Index 2026 baseline supports the design: 53% of respondents either have no innovation-management process or operate an ad-hoc one without formal governance.

Indicative steady-state cost of approximately €1.5m–€3m per annum, assuming 100–200 voucher draws per annum at €10,000 and 50–100 certification rebates at an average €5,000. Final scoping for Enterprise Ireland.

Recommendation 2.7 — Double the Revenue grant-based science-test concession.

- Increase the de minimis ceiling in Revenue Tax and Duty Manual Part 29-02-03 §2.5 from €50,000 to €100,000 of R&D Tax Credit per accounting period, while retaining the existing eligibility conditions, namely (a) approved R&D grant in respect of the project; (b) the project undertaken in a prescribed field of science or technology; (c) and the claimant is a micro or small enterprise.

For SMEs holding an eligible RDI grant, the qualifying activity has already been technically assessed by the funding agency. The existing Revenue concession recognises that and removes the burden of duplicating the science assessment for claims up to €50,000 of credit value. At the 35% rate that ceiling corresponds to approximately €143,000 of qualifying expenditure. Doubling the ceiling to €100,000 of credit (approximately €286,000 of qualifying expenditure) widens the cohort of SME claimants who avoid the cost of expert science-test verification, reducing first-claim friction. Index 2026 §3.9 records that 29% of SME respondents identify simpler application as the most-needed change.

Negligible Exchequer cost: The change does not alter the qualifying-activity definition under s.766 TCA 1997 and does not change credit value or eligibility; it shifts the documentary burden for a defined SME cohort where the science work has already been done by a State agency.

Delivery vehicle: Revenue Tax and Duty Manual update, scheduled by Revenue with effect from Q1 2027. No Finance Act provision required. If the Department of Finance wishes to base the concession statutorily, a corresponding provision may be inserted in Finance Act 2027; the statutory base is not required for delivery.

> *"Filling out an EI form for an R&D grant is much easier as it is assessed by their approvers who have technical capabilities. If only Revenue had those skills and capabilities. An easy way to make a claim without having to ensure documentation is in their science-test format in case of an audit."*

Company Comment — Index 2026 free-text response, anonymised per survey terms. (Irish-owned SME — supporting Recommendation 2.7.)

Recommendation 2.8 — Annual reporting against SME baselines.

- Direct Revenue to publish (alongside the annual R&D Tax Credit Statistics) a dedicated SME chapter measuring claim activity, refund timing, audit experience, and pre-notification take-up against the Index 2026 baselines.

Annual public reporting anchors the Compass workstreams on administrative simplification and SME access in a measurable annual reporting mechanism.

3. The Innovation Tax Credit — Phase 1 Design & Commencement on 1 January 2027

3.1 The case for a separate credit

The R&D Tax Credit's statutory test in s.766 TCA 1997 and S.I. No. 434 of 2004 (covering fields of science or technology, scientific or technological advancement and resolution of scientific or technological uncertainty) aligns with the OECD Frascati Manual R&D concepts. The Department of Finance settled the scope question in 2025: the public consultation closed 19 May 2025 concluded that widening s.766 to capture non-Frascati innovation would introduce uncertainty into the R&D Tax Credit and is not the appropriate policy approach.

The R&D Tax Credit and Innovation Compass (16 February 2026) carries that conclusion forward. Supports for Innovation sits as a separate workstream alongside Qualifying Expenditure, Capital Expenditure, and Administration and Simplification. The Innovation Tax Credit addresses activity outside the current R&D Tax Credit framework.

> *"Broaden the definition of qualifying R&D to explicitly include digital service innovation, AI-driven workflow design, and business model innovation — not just product or laboratory R&D."*

Company Comment — Index 2026 free-text response, anonymised per survey terms. (Digital-services SME, 1–10 employees — supporting Chapter 3.)

3.2 What has changed since the Budget 2026 submission

IRDG's Pre-Budget Submission for Budget 2026 (May 2025) set out the Innovation Tax Credit as Chapter 7 of a four-instrument package: the R&D Tax Credit at 35%, the new Innovation Tax Credit, public R&D investment, and innovation skills.

This submission retains the core architecture. The maximum Phase 1 rate proposed is 25%, comprising the 20% headline rate and a single +5% ISO 56001 uplift. Eligibility is open to all companies within the charge to Irish corporation tax that meet objective statutory criteria. The preferred design is a general, non-selective corporation-tax measure intended to fall outside Article 107(1) TFEU, with GBER Articles 28 and 29 retained only as fallback references if the State Aid Unit or Attorney General concludes that any component is selective.

Two design features follow from the Compass's February 2026 framing. First, eligibility is all companies within the charge to Irish corporation tax. The qualifying-definition gap on AI and design is generalised across firm size and ownership: 67% of respondents identify AI as a key one-to-three-year priority, a 22-point movement from 45% in Index 2024 and the largest shift in any priority option in the four-year Index series. The gap between Irish-owned and US-owned respondents on AI prioritisation reported in Index 2024 has narrowed substantially.

Second, the €250,000 per-group annual credit cap binds total public exposure regardless of company size. The cap limits total exposure per claimant group regardless of firm size and follows the French Crédit d'Impôt Innovation, which caps qualifying expenditure at €400,000 per firm.

3.3 Recommendation

- Establish an Innovation Tax Credit (ITC) at a 20% refundable headline rate, commencing on 1 January 2027 as a general corporation-tax measure. The ITC should support innovation activity, including AI, design and digitalisation, that does not qualify under the existing R&D Tax Credit regime. It should be designed as a Qualified Refundable Tax Credit under Pillar Two and as a general, non-selective corporation-tax measure.

Index 2026 gives clear company-side evidence. 71% of respondents say an Innovation Tax Credit would enable more innovative work to take place in Ireland; 67% expect it would support new product or service development; 51% expect it would support hiring or retention of high-skilled employees; 45% expect it would increase IP creation or protection in Ireland (Index 2026, n=587). Respondents read the credit as covering activity that does not currently qualify under the R&D Tax Credit.

The 35% R&D Tax Credit and the proposed Innovation Tax Credit are complementary, not substitutes. 58% of respondents say they will reinvest the additional credit from the 30%–35% rate increase into existing R&D projects, 57% into new R&D projects, and 39% into hiring or retaining R&D staff (Index 2026 §3.6).

The international gap is consistent with the Index evidence. Ireland sits at rank 26 of 27 EU Member States on design applications and rank 27 (last in the Union) on trademark applications (European Innovation Scoreboard 2025). Eco-innovation outputs sit second-lowest in the EU (EIS 2025).

In the current WIPO Global Innovation Index 2025, Ireland ranks 17th globally for innovation outputs and 21st for innovation inputs. This gap is an improvement on the 2023 eight-rank gap but requires further attention. The wider innovation activity that turns research into commercial and societal outcomes is under supported, with emphasis on design, advanced process, business-model and digital innovation, as well as the AI development that increasingly underpins all four.

3.3.1 Phase 1 design

Phase 1 is bounded fiscal exposure with broad eligibility. The credit is open to all companies within the charge to Irish corporation tax that meet objective statutory criteria. The headline rate is 20% refundable on qualifying expenditure, with a single +5% uplift (to 25%) tied to ISO 56001 certification or a written commitment to certify within 24 months of first claim. A €250,000 per-group annual credit cap binds total public exposure regardless of company size; a €25,000 expenditure floor limits administrative cost on de minimis claims.

The credit is mutually exclusive with the R&D Tax Credit at the expenditure level. Designed as a Qualified Refundable Tax Credit under the OECD GloBE Rules and as a general, non-selective corporation-tax measure intended to fall outside Article 107(1) TFEU. Three-year initial period 2027–2029, with a Year 2 mid-term review and a mandatory Year 4 statutory evaluation gate. Commenced 1 January 2027 by order of the Minister for Finance. The full design specification (eligibility, rate, cap, floor, evidence pathway, Pillar Two and State aid treatment) is set out in Appendix 3.

3.3.2 Defining innovation: OECD Oslo Manual scope

The credit's qualifying-activity scope is based on the OECD Oslo Manual (4th edition, 2018) and operationalised through the ISO 56000 family. Eligible expenditure falls within three categories: design innovation, AI development and deployment, and digitisation projects, all subject to the "new to the firm" Oslo test and mutual exclusivity with the R&D Tax Credit.

The full scope definition, exclusions list and proposed Innovation Project Statement are set out in Appendix 3, where the statement is described as the structured claim document administered by Revenue.

3.4 International comparators and Governance

This section compares the proposed credit with selected peer-economy regimes, then addresses the legal, tax and governance issues required for implementation. Three peer- economy regimes frame the comparator analysis:

- **France — Crédit d'Impôt Innovation (CII).** Operational since 2013 under article 244 quater B II k of the Code Général des Impôts, the current headline rate is 20% on qualifying expenditure capped at €400,000 per firm per annum, giving a per-firm credit ceiling of €80,000. The rate was 20% from 2013 to end-2022, raised to 30% for 2023 and 2024, and reverted to 20% from 1 January 2025 under article 56 of loi n° 2025-127 du 14 février 2025 (loi de finances pour 2025). Higher rates apply outside metropolitan France (60% in the overseas departments; 35% medium and 40% small enterprises in Corsica). It is restricted to SMEs by EU definition. The scope is narrower than the IRDG Innovation Tax Credit as proposed. Namely the CII covers the design and prototype phase of new products only and does not extend to process, business-model or pure digitisation innovation. Operating within the GBER framework (with Article 2 definitions), the CII regime is currently scheduled to run until 31 December 2027. Banque de France evaluation (2022) recorded measurable additionality on SME employment and new-product output, with some evidence of expense reclassification between CIR and CII. The expenditure level design utilises mutual exclusivity to address this.
- **United Kingdom — merged R&D scheme.** Operational since April 2024. The UK has not introduced a dedicated innovation credit equivalent to France's CII. R&D relief in the UK remains based on the test for scientific and technological advancement such that design, process and service innovation outside of this are not separately incentivised. The HMRC compliance experience of 2022–2024 led to the merged-scheme tightening and illustrates the importance of tight definitions, structured documentation, and audit capacity. These design features are built into the Innovation Tax Credit at first issue.
- **Netherlands — WBSO.** Payroll-tax reduction based on own R&D hours plus eligible R&D project costs and expenditures. WSBO is not a corporation-tax credit, and outsourced R&D is not separately relieved. While direct comparison with the Innovation Tax Credit is structurally limited, the relevant lesson is administrative in that WBSO supports 19,392 firms annually, 97% SME, on a self-certification model with random-sample audit by RVO. WBSO's SME participation supports a simpler administrative model.

3.4.1 EU State aid treatment and Pillar Two compatibility

Two technical questions sit behind the Innovation Tax Credit. The EU State aid route is the legal pathway to ensure the credit is cleared in Brussels. The Pillar Two question is the tax-treatment pathway for ensuring multinational claimants get full value under the 15% global minimum effective tax rate.

On State aid, the preferred route is a general, non-selective corporation-tax measure designed to fall outside Article 107(1) TFEU. The 20% headline rate applies across the economy. The single +5% ISO 56001 uplift is an objective condition for generally available governance and auditability, not targeted by sector, technology, region or size. State Aid Unit and Attorney General confirmation should be completed in June–September 2026, before Finance Bill 2026 publication. DG Competition pre-notification is not on the critical path unless that confirmation concludes that the measure contains selective State aid; in that event, GBER Articles 28 and 29, operating through the Irish RDI Scheme, are the fallback for the affected component.

On Pillar Two, the Innovation Tax Credit is designed as a Qualified Refundable Tax Credit under the OECD GloBE Rules, mirroring the R&D Tax Credit modernisation in Finance Act 2025. QRTC treatment preserves credit value for in-scope groups subject to the 15% minimum effective tax rate (QRTCs are treated as income for GloBE purposes, not as a tax reduction). Specialist tax counsel review is required before the design specification is finalised.

The detailed implementation steps (the State Aid Unit timetable, the Finance Bill provisions, the Revenue commencement instruments, and the GBER fallback architecture) are set out in Appendix 3.

3.4.2 Costing, governance and review

Phase 1 central estimate of €150m at steady state, with a credible range of €110m to €200m. The central figure assumes approximately 2,500 claimant groups at an average claim value of €60,000, before the €250,000 per-group annual credit cap binds. The lower bound (€110m) reflects approximately 2,200 claimants at €50,000 average; the upper bound (€200m) reflects approximately 2,500 claimants at €80,000 average. The €250,000 per-group cap holds the upper tail. The estimate is independent of the R&D Tax Credit base by virtue of the mutual-exclusivity rule (see Appendix 3). The all-claimant extension and the per-group cap together replace the SME-only and €40m headline-cost design in the Budget 2026 submission; the central figure is therefore higher than that earlier ceiling by design. Final cost modelling is for Revenue and DPER.

Year 4 statutory evaluation: Independent and published before sunset, against four metrics. These are:

- Uptake by firm size, sector and ownership.
- Additional innovation spend per euro of public support.
- Productivity effect against a control cohort matched on size, sector and prior R&D activity.
- Exchequer cost relative to the central estimate.

Year 2 mid-term review: Lighter-touch, addressing in-flight implementation: the Innovation Project Statement template, the Enterprise Ireland and IDA Ireland review pipeline, the Revenue audit profile, the volume of voluntary advance-assurance applications, and any signs of expense reclassification between the R&D Tax Credit and the Innovation Tax Credit (the principal lesson from the Banque de France 2022 evaluation of CII).

Sunset and Phase 2: Phase 1 runs three years from commencement to 31 December 2029; the credit's statutory sunset is 31 December 2031, providing the legislative window for the Year 4 evaluation gate and Phase 2 design. Phase 2 design (including any cap revision, scope expansion or rate adjustment) is conditional on the Year 4 evaluation outcome and ratified through Finance Act 2030.

Implementation pathway: see Appendix 2 for the legislative pathway, State aid timing and commencement steps.

4. Anchoring Substantive R&D in Ireland — Outsourcing Limits and Substance

4.1 Diagnosis

Ireland's R&D engine runs on the R&D Tax Credit. Index 2026 records that 54% of multinational respondents would do 10% or less of their Irish R&D without the R&D Tax Credit; 79% would do 50% or less. As one Member's free-text response to the 2026 Index put it: 'the headline rate is now among the largest in the OECD but the outsourcing restrictions cap subcontracted R&D at 15% of in-house spend or €100,000, and prevent material volumes of qualifying R&D being delivered through the Irish entity.'

The chapter that follows sets out the diagnosis and the recommendations: raise the outsourcing limits, clarify the treatment of connected-party and group R&D, anchor the substance workstream inside the Compass, pilot a 50% rate for green and climate technologies, and publish an annual statement on FDI R&D substance in Ireland.

84% of BERD is foreign-owned (CSO BERD 2023 Final). 54% of multinational respondents say 10% or less of their R&D would take place in Ireland in the absence of the R&D Tax Credit; 79% say 50% or less (Index 2026). The credit is part of the underlying business case for Irish R&D operations, not a discretionary uplift.

Two of the recommendations below (the outsourcing limit increases at Recommendations 4.1 and 4.2) are equally relevant to SMEs. The s.766(1)(b)(vii) and (viii) caps of 15% of in-house qualifying R&D or €100,000 bind regardless of firm size, and bind hardest on SMEs running collaborative R&D with third-level institutions where the in-house base is small. Chapter 4 is framed around FDI substance because that is where the policy weight of the Pillar Two and Compass debate sits, but the qualifying-expenditure architecture it addresses serves both indigenous and foreign-owned claimants.

International competitive pressure on mobile R&D investment has intensified. The OECD Pillar Two GloBE Rules apply a 15% minimum effective tax rate to in-scope groups; Ireland's R&D Tax Credit, modernised in Finance Act 2025 as a Qualified Refundable Tax Credit, sits inside that framework.

Recent US tax and incentive changes have increased the relative value of US-located R&D for in-scope firms. The UK has expanded its R&D-intensive SME regime and operates a merged-scheme above-the-line credit for large companies. France's Crédit d'Impôt Recherche remains one of the most generous regimes in the EU. Canada has expanded the enhanced-rate expenditure limit under SR&ED and extended eligibility to public corporations (Budget 2025). Singapore and the Netherlands have refreshed their innovation incentives in 2024 and 2026 respectively.

Without the credit, Irish subsidiaries are more exposed to cost-based competition from lower-cost jurisdictions, with knock-on effects on co-located high-skilled manufacturing.

Tariff policy and Pillar Two sentiment is uneven by sector (Index 2026 §3.3):

- Pharmaceuticals: 35.5% negative against 9.7% positive (n=31).
- Medical Devices, Health and Wellbeing: 34.9% negative against 9.5% positive (n=63).
- US-owned subsidiaries: 28.4% negative against 16.0% positive (n=81).
- Manufacturing: 17.7% positive against 14.5% negative.
- Financial Services: 25% positive, zero negative.
- High Potential Start-Ups: 25% positive against 18.8% negative.

The headline 35% rate is competitive with the OECD top tier. The binding constraint is the rules around what counts as qualifying expenditure when the activity is cross-border, group-coordinated or partially outsourced.

Ireland's fifth-place EIS position is held on a thin margin. On the 2018-indexed European Innovation Scoreboard, Belgium sits 0.5 percentage points behind Ireland (138.6% against 138.1%, European Innovation Scoreboard 2025, Summary Innovation Index table). Luxembourg and Austria are within ten points. Sweden is the only EU member state to have added ground on Ireland in the last year. The recommendations below protect the policy measures tied to the FDI-weighted indicators on which that margin is built.

4.2 Outsourcing comparator

The current s.766(1)(b)(vii) and (viii) limits sit at the tightest end of the European comparator group. The current Irish 15% limits are out of step with the comparator regimes. Index 2026 §3.9 records explicit Member commentary that significant volumes of qualifying R&D cannot be delivered in Ireland under the current rules and that outsourcing restrictions need to be addressed: 'the headline rate is now among the largest in the OECD but the outsourcing restrictions cap subcontracted R&D at 15% of in-house spend or €100,000 [and] prevent material volumes of qualifying R&D being delivered through the Irish entity' (Index 2026 §3.9, Member free-text; Member's wording, statutory reference is s.766(1)(b)(vii) and (viii)). The recommendations below address the sub-section limits directly.

4.3 Recommendations

Recommendation 4.1 — Raise RDTC outsourcing limits.

- Amend the RDTC to increase the third-party outsourcing limit from the greater of 15% of in-house qualifying R&D expenditure or €100,000 to the greater of 25% or €250,000, effective Finance Act 2026.

A 25% limit aligns better with how international R&D programmes are structured, while retaining a substantive in-Ireland link. The Compass workstream on qualifying expenditure is the right vehicle for the technical design.

Section 766(1)(b)(viii) TCA 1997, as amended through Finance Act 2025, currently caps qualifying expenditure on R&D activities subcontracted to unconnected third parties at the greater of 15% of the company's in-house qualifying R&D expenditure in the relevant accounting period or €100,000 (Revenue Tax and Duty Manual Part 29-02-03, current edition).

Outsourcing comparator table:

Jurisdiction	Outsourcing treatment in main R&D tax incentive
Ireland — s.766(1)(b)(viii)	Outsourcing to unconnected third parties capped at the greater of 15% of the company's own qualifying R&D expenditure and €100,000 (proposed: the greater of 25% or €250,000).
Ireland — s.766(1)(b)(vii)	Outsourcing to third-level institutions capped at the greater of 15% of the company's own qualifying R&D expenditure and €100,000 (proposed: the greater of 25% or €250,000).
United Kingdom	Merged R&D scheme (from accounting periods beginning on or after 1 April 2024). 20% taxable expenditure credit; subcontracted R&D and externally-provided workers may qualify subject to contracting-out and overseas-contractor restrictions; there is no simple Irish-style percentage cap (HMRC, CIRD81000 series; Finance (No. 2) Act 2023, Schedule 1).
France — CIR	R&D outsourced to approved research organisations or scientific / technical experts, whether public, public-assimilated or private, may be included in the CIR base where the work qualifies and is directly performed under the BOFiP rules. Current BOFiP caps eligible outsourced R&D at three times the company's other CIR-eligible research expenditure, with annual statutory caps of €2m where there is a dependency relationship and €10m where no dependency relationship exists. For expenditure from 1 January 2022, public/public-assimilated outsourcing is also subject to the three-times internal-spend rule and the former €2m public-body cap uplift is abolished.
Netherlands — WBSO	WBSO (Wet Bevordering Speur- en Ontwikkelingswerk). Payroll-tax reduction based on own R&D hours plus eligible R&D project costs and expenditures; outsourced R&D is not separately relieved. Current rate structure (2026, subject to RVO confirmation): 36% on the first bracket, 50% for starters, with a first-bracket threshold of €391,020, and 16% on expenditure above the first bracket (RVO WBSO Manual 2026).
Belgium	Partial wage-tax exemption (80%) for qualifying R&D personnel, subject to BELSPO project / programme notification and qualifying-researcher conditions; no equivalent percentage outsourcing cap because the scheme operates on payroll rather than on a corporation-tax credit base (SPF Finances guidance, December 2025 edition).
Singapore — Refundable Investment Credit (RIC)	Approval-based through the Singapore Economic Development Board and Enterprise Singapore as approving authorities; up to 50% support on qualifying expenditure including R&D, innovation and decarbonisation; refund payable over four years (IRAS).

Indicative steady-state cost of approximately €15m–€40m per annum, derived from the share of current RDTC claims at or near the 15% outsourcing cap; this share is to be modelled by Revenue from claim-level data, since the published Statistics do not disaggregate outsourcing-cap binding. Where the cap is currently binding, the marginal R&D supported is typically the most outsourcing-intensive part of MNC programmes; additionality is therefore high relative to gross cost. Final modelling for Revenue, ideally producing a sensitivity around the share of claims that the cap currently truncates.

- Amend RDTC to increase the third-level institution outsourcing limit from the greater of 15% of in-house qualifying R&D expenditure or €100,000 to the greater of 25% or €250,000, effective Finance Act 2026.

Higher-education R&D collaboration is an explicit policy goal of Impact 2030 and the Research Ireland Strategy 2026–2030. 17% of Index 2026 respondents have claimed Research Ireland or InterTradeIreland support (a small share), and Knowledge Transfer Ireland's 2024 Annual Survey records 25 new university spinouts and 221 licences, options and assignments. The supply side is responsive; the tax-side outsourcing cap constrains demand.

The RDTC currently caps qualifying expenditure on R&D activities subcontracted to third-level institutions and other approved research bodies at the greater of 15% of the company's in-house qualifying R&D expenditure in the relevant accounting period or €100,000.

Indicative steady-state cost of approximately €3m–€10m per annum, smaller than the third-party outsourcing cost in Recommendation 4.1 on the basis that third-level outsourcing is a thinner share of total RDTC outsourced spend (Knowledge Transfer Ireland Annual Survey 2024: 221 licences, options and assignments; 25 new university spinouts — supply is responsive but the demand-side cap binds). Final modelling for Revenue.

Recommendation 4.2 — Connected-party R&D outside the State.

- Amend the RDTC in Finance Act 2027 to permit qualifying expenditure on R&D carried out by connected parties outside the State, capped at 25% of the company's overall RDTC claim or €250,000, whichever is greater.

Connected-party subcontracting outside the State is the principal mismatch between the credit and the operational reality of distributed group R&D programmes. A 25% cap on the overall claim allows that work to qualify within a defined upper bound while protecting Irish substance. Three conditions tie the change against international regulatory risk:

- The Irish claimant retains economic ownership of the resulting intellectual property, consistent with DEMPE substance under the Knowledge Development Box and the OECD Transfer Pricing Guidelines.
- A defined share of R&D personnel, decision-making and supervisory functions for the project sits in Ireland.
- Anti-double-claim rules prevent the same expenditure from supporting an R&D incentive in the connected party's jurisdiction; cost recharges follow OECD Transfer Pricing Guidelines for intra-group services.[1]

[1] *Note: IRDG and Members support IDA Ireland's parallel work on the IP-anchoring test, the personnel-substance threshold and the EU State aid and Pillar Two compatibility implications of a connected-party outsourcing measure; the recommendation is presented as structural framing only.*

> *"Allow more contractor spend. We bring in expertise as we don't need full-time or permanent staff for some of the innovation work, so we can't cover a lot of our cost in the credit. Improve eligibility in relation to contract research outside of Ireland — for certain developments, this capability is not available in Ireland."*

Company Comment — Index 2026 free-text response, anonymised per survey terms. (Irish-owned firm — supporting Recommendations 4.1 and 4.2.)

Recommendation 4.3 — Establish a Compass workstream.

- Establish a joint Department of Finance, IDA Ireland and Revenue workstream under the Innovation Compass on substantive R&D activity in Ireland, reporting in H2 2027.

Remit: examine a qualifying-cost uplift (e.g. a 110% deduction) or an enhanced-rate tier for R&D activity carried out by personnel and infrastructure physically located in Ireland; the interaction with Pillar Two and the EU State Aid framework; design lessons from the UK R&D-Intensive SME regime, the French CIR, the Dutch WBSO and Singapore's incentive set.

The substance workstream should be developed through published terms of reference, with input from IDA Ireland, Revenue and Department of Finance technical teams.

No incremental Budget 2027 line item. The workstream operates within existing Department of Finance, IDA Ireland and Revenue running costs and reports through the Compass framework. Reporting deliverable H2 2027 against published terms of reference, with substance-based uplift measures considered in Finance Act 2028 if recommended.

Recommendation 4.4 — Clarify the treatment of group R&D.

- Clarify the treatment of group R&D under s.766 TCA 1997 and Revenue Tax and Duty Manual Part 29-02-03 in Finance Act 2027 to permit qualifying expenditure incurred between Irish-resident group companies on a single-claim basis, subject to anti-double-claim rules.

The change is technical, narrow and revenue-neutral in design intent. It aligns Revenue treatment with the OECD Transfer Pricing Guidelines for intra-group services and reduces the audit risk that drives Members to under-claim group R&D.

Recommendation 4.5 — Pilot a higher R&D Tax Credit rate for green and climate technologies.

- Pilot an enhanced 50% R&D Tax Credit rate for qualifying R&D expenditure on projects that deliver substantial, verified environmental benefits (emissions reductions, clean energy breakthroughs, circular-economy solutions, or alignment with the Climate Action Plan's innovation mandate). Five-year pilot from Finance Act 2027 (1 January 2028 commencement), with rapid refundability for SMEs and a mandatory evaluation gate at year four. This recommendation is scoped separately from the Innovation Tax Credit Phase 1 design and is not a precondition for the ITC.

The pilot serves two objectives: substance and decarbonisation. On substance, an enhanced rate tied to verified climate impact concentrates the highest-value rate uplift on R&D activity that is, by its nature, physically located close to the asset, process or sector being decarbonised, anchoring mobile green R&D mandates in Ireland during the window in which those mandates are being competed for internationally. On decarbonisation, 79% of Index 2026 respondents say a 50% RDTC rate for green and sustainable technologies would increase R&D investment in those areas; the reading has been stable across all four years of the Index.

Ireland's Climate Change Performance Index ranking has slipped from 29th in 2025 to 33rd in 2026; the current incentive package will not deliver Ireland's commitments under the Paris Agreement, the European Green Deal or the Climate Action Plan. A targeted 50% rate, paired with simplified environmental grant administration, delivers activity uplift while protecting against deadweight cost; this is a more efficient design than raising the headline RDTC rate across the board.

Trade-off: A targeted enhanced-rate tier raises design complexity (eligibility criteria for 'verified climate impact'; interaction with grant supports under SEAI and EI environmental schemes; State aid notification likely under Article 107(3)(c) and the 2022 R&D&I Framework). The trade-off against an across-the-board rate increase is that deadweight cost is materially lower, additionality more demonstrable, and the policy signal more legible to the activity Ireland needs to attract and retain. Both options are presented for the Department's consideration; IRDG recommends the targeted-rate pilot.

Indicative steady-state additional cost of approximately €30m–€80m per annum at full pilot rollout, derived from the share of current RDTC claims attributable to green or climate-relevant R&D (estimated at 5–10% of the total RDTC base as an IRDG modelling assumption, with the climate-relevant categorisation to be defined with Revenue, EPA and SEAI before pilot commencement) and the 15-percentage-point uplift from the 35% headline rate to the proposed 50% pilot rate. The pilot is time-bounded (five years from Finance Act 2027) with a mandatory Year 4 evaluation gate. Climate-impact verification protocol to be designed jointly by the EPA, SEAI and Revenue; rapid SME refundability and a project-level eligibility test contain deadweight. Final modelling for Revenue.

Recommendation 4.6 — Annual reporting on FDI R&D substance.

- Direct the Department of Finance and IDA Ireland to publish, by end-2027, an annual statement on FDI R&D substance in Ireland.

The statement should be linked to the Index 2026 baseline (54% / 79% MNC dependence on the R&D Tax Credit) and track BERD performed by foreign-owned firms in Ireland (CSO); s.766 and Innovation Tax Credit claim activity by ownership cohort; foreign-owned R&D personnel headcount in Ireland (CSO Productivity); comparative regime data for the UK, France, the Netherlands, Switzerland and Singapore. A measured baseline bases Compass-driven reform in a published monitoring framework and gives the Department a defensible position on the credit's continued role in Ireland's FDI proposition.

Taken together, the six Chapter 4 recommendations sit inside the Qualifying Expenditure workstream of the Innovation Compass on outsourcing (Recommendation 4.1), connected-party R&D (Recommendation 4.2) and group-R&D clarification (Recommendation 4.4), and alongside the Compass scope as Finance Act measures on substantive R&D activity (Recommendation 4.3), the green RDTC pilot (Recommendation 4.5) and FDI reporting (Recommendation 4.6). The package addresses the structural constraints on the credit's reach into MNC R&D programmes that the Compass framework has not yet resolved.

5. Public R&D Investment — Lifting GBARD towards 1% of GNI*

5.1 Structural under-investment in public R&D

Public R&D investment is the instrument the Exchequer can move unilaterally. The European Innovation Scoreboard 2025 places Ireland 26th of 27 EU Member States on R&D expenditure in the public sector, scoring 16.7 against an EU average of 100.0. That single indicator is the principal reason Ireland's Finance and support pillar score sits at 74.1 (rank 13), below the EU average. Ireland is one of three Strong Innovators whose finance and support score is below the EU average, alongside Luxembourg and Germany.

Ireland's Gross Expenditure on R&D (GERD) as a share of GDP is 1.6%, ranked 25th globally (GII 2025), against an EU 3% target. Adjusted to a GNI* basis (correcting for the GDP/GNI* divergence specific to Ireland), GERD stands at approximately 2.42% of GNI*: closer to, but still below, the EU 3% target on the comparable measure. Irish R&D investment is primarily driven by industry: 87.5% of total RDI investment came from private enterprise in 2023, the highest business share in the EU, against an EU average of approximately 65% (CSO BERD 2024; EU comparison from Eurostat 'R&D expenditure by sector of performance and source of funds', and OECD MSTI 2025, table 'Gross domestic expenditure on R&D by source of funds'). The subset the State directly controls per Government Budget Allocations for R&D (GBARD) is 0.36% of GNI* in Ireland, down from 0.49% in 2014, and well below the equivalent EU27 average of 0.66% of GDP. It sits well behind Germany at 1.01% and other small EU countries: Denmark 0.87%, Austria 0.86%, Finland 0.84%. This is the metric the State directly controls, and it sits alongside the IP-origination gap as the two key structural findings of the four-year Index series.

The composition matters for the rest of this submission. The R&D Tax Credit and the proposed Innovation Tax Credit are both demand-side instruments, calibrated to private-sector activity. They do not substitute for public R&D investment; they depend on it. Ireland ranks fourth in the EU on Innovative SMEs collaborating with others, at 178.1% of the EU average. The wider Linkages dimension ranks eighth in the EU but has risen by 88.0 percentage points since 2018, the largest Linkages-dimension increase among EU Member States. The component indicator, Innovative SMEs collaborating with others, rose by 117.7 percentage points over the same period (EIS 2025). The supply side is responsive. The bottleneck is the volume of publicly funded research available to be drawn on, not the willingness of the private sector to collaborate with it.

> *"As an island nation we need to keep competitive in terms of being the best in terms of innovation through research and development. Keep ahead of the most leading-edge innovation by producing top talent through our universities. Of late, some of the graduates hired from France, Spain et cetera are of a much higher standard in terms of practical standards than those produced by our local third level. I was wondering if others were experiencing the same issue."*

Company Comment — Index 2026 free-text response, anonymised per survey terms. (Mid-sized MNC-orientated respondent — supporting Chapter 5.)

5.2 Recommendation

Recommendation 5.1 — Lift GBARD towards 1% of GNI* over three Budgets.

Set GBARD as a share of GNI* on a credible three-Budget trajectory towards 1% of GNI*, informed by EU R&D-intensity benchmarks, with the first step committed in Budget 2027 and the trajectory published as part of the Department of Finance and Department of Public Expenditure, NDP Delivery and Reform medium-term expenditure framework.

The 1% of GNI* target is the IRDG and Index 2026 ask, informed by EU R&D-intensity benchmarks; it is the public-investment complement to the 3% of GDP overall EU RDI target. A three-Budget trajectory is deliverable inside existing NDP envelopes if Research Ireland, Enterprise Ireland, IDA Ireland and the Higher Education Authority allocations are stepped together. The Innovation Index 2026 records that increasing public R&D investment toward 1% of GNI* (the figure most relevant in an Irish context) remains the single most quantifiable measure the State has available (Index 2026).

Trade-off: A staged trajectory is more deliverable than a single-Budget step but signals intent only if the first step is visible at the agency level. A single-Budget step delivers more on rank but risks crowding out other Budget 2027 priorities. IRDG recommends the three-Budget trajectory with a substantive first step. Publication of the trajectory document (the GBARD/GNI* baseline, the three-Budget pathway, agency-level allocations and the EIS Finance and Support pillar score the trajectory is targeting) is part of this recommendation, not a separate one.

Baseline: GBARD as a share of GNI* in 2024 is approximately 0.36% (Index 2026, Public R&D Investment chapter). At a GNI* of approximately €295bn (CSO 2024), this equates to approximately €1.06bn in current Government R&D allocations. Target. 1% of GNI*, informed by EU R&D-intensity benchmarks, equates to approximately €2.95bn at current GNI*. The implied uplift against the 0.36% baseline is approximately €1.9bn over the three-Budget pathway.

Year 1 step: A credible Year 1 step on a stepped trajectory is in the range of €350m–€500m, weighted towards Research Ireland, Enterprise Ireland and the Higher Education Authority allocations. Final quantum and agency split are for DPER, the Department of Finance and Research Ireland scoping. These figures are indicative IRDG derivations from the CSO Modified Gross National Income (GNI*) 2024 estimate and the 0.36% GBARD/GNI* baseline reported in the Index 2026 Public R&D Investment chapter; final figures are for DPER and Research Ireland to confirm.

Annual reporting against that trajectory ties public R&D investment to the Compass-style monitoring framework the Department of Finance has built for the R&D Tax Credit. Without a published baseline, the position recorded in Index 2026 (that has not moved since Index 2025) will be observed by the Index series rather than the Department.

The demand-side instruments (the 35% R&D Tax Credit and the proposed Innovation Tax Credit) depend on the supply-side public investment they draw on. Moving GBARD onto a credible three-Budget trajectory toward 1% of GNI* is the lever that ties the rest of this package to the research base it is calibrated against.

6. Conclusion

Four years of Ireland’s Innovation Index data and commentary underline the diagnosis. The research-input deficit, the IP-origination gap, and Ireland's dependence on a narrow set of FDI-weighted indicators to lift the headline ranking are the underlying composition of Ireland's innovation score. The 2026 headline numbers are the strongest Ireland has held: 5th in the EU on the EIS, top of the Strong Innovators group, 18th of 139 globally on the GII, Dublin in the GII top-100 innovation cluster list. The 35% R&D Tax Credit is in place, the Compass has been published, and Members have set out, in the largest evidence base IRDG has produced, what would close the gap that remains. The full implementation pathway is set out in Appendix 2.

Each measure is set out in detail in Chapters 2–5; the full implementation pathway sits in Appendix 2 and the indicative costings in Appendix 4.

IRDG submits this package as a considered set of measures, not an exhaustive list. Where alternatives exist, both are presented for the Department's consideration. The twelve priority asks set out in §1.3, together with the implementation and technical measures listed below them, represent the most directly actionable elements for Budget 2027. IRDG is available to engage with the Department of Finance, the Office of the Tánaiste, IDA Ireland and Revenue on any of the asks.

> *"Our company is a bit larger now, no longer a Small Enterprise but fitting into the Medium and Large category for some things. I think things have improved on the small end, but we need our Mittelstand to be looked after and to grow, and not be forced to sell out."*

Company Comment — Index 2026 free-text response, anonymised per survey terms. (Mid-sized Irish-owned respondent — Conclusion.)

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Appendix 1: The Missing 500–1,500 SMEs

Approximately 1,580 SMEs claim the R&D Tax Credit. The credible band of SMEs doing or close to qualifying R&D activity and not converting into claims is between 500 and 1,500 (broad range; see methodology below). Four SME-access measures, plus the Innovation Tax Credit, are the core measures proposed to close that gap.

A decade of stagnation, finally moved

Method	Penetration rate	Implied IE SMEs	Missing	Note
1. BERD-active gap	n/a	n/a	~550	CSO BERD 2,130 R&D-active SMEs (1,622 small, 508 medium) minus ~1,580 SME RDTC claimants. Direction: probably understates true gap.
2. UK pre-tightening	1.44%	~5,800	~4,300	Ceiling. Rate HMRC tightened on fraud grounds; not a sustainable benchmark.
3. UK post-tightening	0.67%	~2,700	~1,200	HMRC 2023-24 provisional, after compliance reforms. Closest CT-comparable peer.
4. France CIR	0.42%	~1,700	~200	MESR provisional 2023; ~16,200 SME beneficiaries. Most conservative EU peer.
5. Netherlands WBSO	1.18%	~4,700	~3,200	RVO Jaarverslag 2023; 19,392 users, 97% SME. Payroll-tax instrument is structurally different from RDTC.
6. Survey-based gap	n/a	n/a	Directional	Index 2026: 14% of SMEs aware but not claiming. Floor under the awareness component.

From 2012 to 2022, the number of Irish companies claiming the R&D Tax Credit moved barely at all. SME claimants were 1,428 in 2013 and 1,496 in 2022 (Revenue 2024). Total claimants sat at approximately 1,600 firms a year for over a decade. Over the same period, Ireland's active SME population grew by more than 20% (CSO Business in Ireland 2023), the credit was liberalised twice (cash refunds, then a higher headline rate), and entirely new knowledge-intensive sectors emerged.

In 2023 the count moved for the first time in eleven years. Revenue records 1,804 claimants for 2023, up 173 (+11%) on 2022, comprising 74 additional micro, 58 additional small, 18 additional medium and 23 additional large claimants (Revenue 2025, statistics for 2023 prepared 3 April 2025). The Department of Finance's R&D Tax Credit and Innovation Compass (February 2026) cites that SMEs account for approximately 85–90% of RDTC claims by number but only around a quarter of the cost. Applied to the 1,804 total, that gives an SME claimant population of approximately 1,580 in 2023. Drawn from an active SME population of approximately 400,553, that is a penetration rate of 0.45%.

The four-year Index series confirms the take-up gap by company size from a different angle. In 2026, 81% of large companies in the survey claim the R&D Tax Credit, against 61% of SMEs. Twice the proportion of SMEs (14%) are aware of State supports but do not claim them, against 7% of large companies (Index 2026, n = 587).

The realistic figure: unpacking the data

Estimating SME underclaiming requires triangulation. No single source captures both the eligible-but-not-claiming population and the wider gap between RDI-active firms and RDTC claimants. Six methods (tabulated below) bound the credible answer.

CSO BERD 2023 records 2,130 R&D-active SMEs in Ireland, comprising 1,622 small enterprises with fewer than 50 persons engaged and 508 medium enterprises with 50–249 persons engaged. Subtracting the Compass-cited ~1,580 SME RDTC claimants gives a verified BERD-active SME gap of approximately 550 SMEs conducting R&D and not claiming. (The broader CSO BERD 2024 figure of 2,351 RDI-active enterprises includes large firms; the 2,130 figure used here is the SME-only subset, against the SME-only RDTC claimant count.) This is the source-to-source conservative bound.

Per-capita comparison with peer-economy R&D tax incentives sharpens the picture. Applying HMRC's post-tightening 2023-24 SME penetration rate (0.67%, after the UK's compliance reforms) to Ireland's SME base implies ~2,700 SME claimants, a gap of ~1,100.
Applying France's Crédit d'Impôt Recherche rate (0.42%) implies ~1,700, a gap of ~120. Applying the Netherlands' WBSO rate (1.18%) implies ~4,700, a gap of ~3,100, with the structural caveat that WBSO is a payroll-tax instrument rather than a corporation-tax credit. The triangulated central scenario is between 700 and 1,500 missing SMEs. The IRDG Pre-Budget Submission for Budget 2026 names a Mittelstand-style target of doubling SME claimants from ~1,500 to ~3,000; that target sits at the upper end of the central band, with independent EU peer support.

Three scenarios that fall out of the methods

- **Conservative: ~200–500 missing SMEs.** Based on Method 1 (BERD-active gap) and Method 4 (France CIR per-capita). The most defensible lower bound. Says: even on the most cautious comparison, a meaningful population of Irish SMEs is doing R&D and not converting into RDTC claimants.
- **Central: ~500–1,500 missing SMEs.** Based on Method 3 (UK post-tightening) reconciled against Method 4. The credible mid-range estimate. Says: applying the closest comparable corporation-tax R&D scheme to Ireland implies an SME claimant base roughly 1.5× to 1.8× current levels.

- **Aspirational: ~2,000–3,000 missing SMEs.** Based on Method 5 (NL WBSO per-capita), with the structural caveat that WBSO is a payroll-tax instrument rather than a corporation-tax credit. Says: where a country has built the most accessible R&D incentive in Europe, SME participation runs three times the Irish level. Reaching this level would require RDTC redesign as well as simplification.

Estimates circulating from third-party R&D advisors of 17,500 to 35,000 ‘missing’ SMEs are not credible. They imply Irish SME penetration rates of 4.7% to 9.1%, four to eight times the highest rate observed in any major OECD economy and several times the level the UK tightened on fraud grounds. They should be treated as marketing rather than analysis.

Why the gap exists: Index 2026 evidence

> *"The administrative overhead of maintaining R&D time-allocation records, preparing technical narratives, and managing the Accounting Test evidence is essentially a fixed cost. For a company with a dedicated R&D accounting function, this cost is negligible per euro of credit claimed.*
>
> *For a one-to-three-person company where the founder is both the primary researcher and the person who must document the research, that same overhead can consume a significant fraction of the credit's value.*
>
> *At the lower end of qualifying expenditure, the compliance cost can approach or exceed the benefit, which means the credit effectively has an invisible minimum threshold that excludes the smallest innovators."*

Company Comment — Index 2026 free-text response, anonymised per survey terms. (First-time R&D claimant, solo founder — Company Comment central to Appendix 1.)

The reasons SMEs do not claim the RDTC are well-evidenced and consistent across four years of Index data. In 2026, less than half of SMEs are satisfied with the timing of refund payments, against 64% of large companies. 40% of SMEs identify administrative time related to grant drawdown or RDTC claim submission as a barrier, against 32% of large companies, the inverse of where policy intent sits. 14% of SMEs are aware of State supports but do not claim them, against 7% of large companies.

The barriers fall into three groups:

- **Cashflow exposure:** SMEs are loss-making in early-stage R&D and cannot fully benefit from a non-refundable credit; the s.766C first-instalment mechanism, with s.766B as antecedent for earlier periods, partially addresses this but the timing remains stretched.
- **Administrative complexity:** the technical report and contemporaneous documentation requirements are calibrated for large-firm tax functions and read as disproportionate to SME claim values.
- **Eligibility uncertainty:** SMEs do not engage tax advisors before commencing R&D and fear retrospective Revenue challenge.

> *“Waiting three years turns the credit into a promissory note, not capital.”*

Company Comment — Index 2026 free-text response, anonymised per survey terms.

The Compass and government policy

The Department of Finance's R&D Tax Credit and Innovation Compass (February 2026) sets a medium-term plan in four broad areas: Qualifying Expenditure, Capital Expenditure, Administration and Simplification, and Supports for Innovation.

The Compass identifies nine measures for further review. Work has commenced on subcontracting measures and on supports for innovation; the other two directions are scheduled for later in the term of Government.

The Compass is unambiguous about the SME profile of RDTC use. SMEs account for approximately 85–90% of claims by number but only around a quarter of the cost, and the document highlights the need to reduce administrative burden, better incentivise higher-value SME R&D, promote public–private collaboration and broaden subcontractor engagement.

That is direct policy support for the SME thread the Index has documented across four years. The question is no longer whether the gap exists, but how to calibrate the policy package to close it.

Four SME-access measures, plus the Innovation Tax Credit, close the gap

Two of the four SME-access measures are explicit Compass workstreams. Two are IRDG and TALC asks for the Compass's Administration and Simplification direction:

- **Faster s.766C refund instalments, accelerating credit payments.** Named in the Compass. Increase the proportion of the credit paid in the first instalment under s.766C TCA 1997 and reduce the time between claim submission and first instalment. Index 2026: refund-timing satisfaction has improved from 47% to 53% overall, but remains below 50% for SMEs. SME cashflow exposure is the binding constraint cited across four Index editions.
- **The Innovation Tax Credit, OECD Oslo Manual scope.** Named in the Compass under Supports for Innovation; an active workstream as of 16 February 2026. The credit designed for activity outside the RDTC's Frascati Manual scientific-uncertainty test. Index 2026: 71% of respondents say an ITC would enable more innovative work to take place in Ireland; 67% expect it would support new product or service development; 51% expect it would support hiring or retention of high-skilled employees; 45% expect it would increase IP creation or protection in Ireland.
- **Advance Assurance for first-time SME claimants.** IRDG and TALC ask, not currently a named Compass measure. Voluntary upfront eligibility validation for new claimants, equivalent to HMRC's Advance Assurance scheme. Reduces eligibility uncertainty without changing the qualifying-activity definition. Low fiscal cost; high impact on first-time conversion. The Index evidence: 14% of SMEs aware-not-claiming.
- **A specialist R&D Credit Unit within Revenue.** IRDG ask, not currently a named Compass measure. Centralised technical and administrative resource for RDTC claims, with SME-tier resourcing distinct from the large-corporate desk. The Index evidence: 40% of SMEs flagging administrative time as a barrier, against 32% of large companies.

  Simplified-claim pathway for SMEs (Recommendation 2.3). Amends s.766C to introduce a fast-track audit standard and a reduced documentation burden for qualifying R&D expenditure under €100,000 per annum, addressing the most-cited SME claim recommendation in Index 2026 §3.9 (29% of SMEs cite simpler application).

The four SME-access measures are independent of one another. None requires statute changes the Department of Finance has previously ruled out. Together they map onto the three barrier groups in the Index data: faster refunds address cashflow; Advance Assurance addresses eligibility uncertainty; the centralised Unit addresses administrative complexity; and the Innovation Tax Credit captures the activity the RDTC was not designed for.

The four SME-access measures map onto Recommendations 2.1, 2.2, 2.3 and 2.5 in Chapter 2, with the Innovation Tax Credit (Chapter 3) sitting alongside them as the fifth instrument.

What progress would look like

On the central scenario, closing the gap is a five-to-seven-year programme. The first measurable indicator will be the number of first-time SME claimants in the Revenue Statistical Report for 2025, due in 2027. The 2024–25 baseline against which that figure should be measured is the +132 SME-tier net additions Revenue recorded for 2023, the first material movement in eleven years. The Compass identifies the broad policy directions; the Index evidence identifies which company-experienced barriers each direction needs to address; the four SME-access measures above are how the gap moves from approximately 1,500 missing SMEs in 2026 to an SME claimant base IRDG, KPMG and the Department of Finance can credibly stand behind by 2030.

Appendix 2: Implementation Timeline

Innovation Tax Credit commencement risk and design pathway:

The 1 January 2027 commencement compresses a multi-year design exercise into a single Budget cycle.

The design is sufficiently developed for implementation: the core architecture was set out in the Budget 2026 submission, the Compass has identified Supports for Innovation as an active workstream, and the French CII provides a useful comparator for a separate innovation instrument.

The precondition is domestic: State Aid Unit and Attorney General confirmation of the non-selective general-tax-measure design in June–September 2026; legislation in Finance Act 2026; Revenue guidance, ROS claim fields and the Innovation Project Statement template in Q4 2026; commencement by order of the Minister for Finance on 1 January 2027; Year 2 mid-term review Q4 2028; Year 4 statutory evaluation Q2 2030.

Four implementation tracks. The full implementation pathway for the Budget 2027 measures, the Innovation Tax Credit, and the Compass FDI substance workstream is collected here for reference.

Date	Milestone	Lead body	Track	Notes
June–September 2026	Confirm non-selective general-tax-measure design under Article 107(1) TFEU; settle Finance Bill instructions	Department of Finance, Revenue, State Aid Unit, Attorney General	ITC State aid	DG Competition pre-notification not a precondition unless legal assessment concludes the measure contains selective State aid
Budget Day 2026	ITC announcement; three-Budget GBARD/GNI* trajectory document published	Minister for Finance; DPER	ITC; Public R&D	First step in three-Budget pathway towards 1% of GNI*
Finance Act 2026	SME refund acceleration; outsourcing limit increases; ITC legislation (20% headline, +5% ISO 56001 uplift; commencement from 1 January 2027)	Oireachtas; Department of Finance	RDTC SME package; ITC	Tier 1 Year 1 envelope c. €70m–€80m; ITC Phase 1 c. €110m–€200m steady state (central €150m)
Q4 2026	Revenue guidance, ROS claim fields, Innovation Project Statement template published	Revenue	ITC operational readiness	Pre-commencement administrative build
1 January 2027	ITC commencement by order of the Minister for Finance, if provided for in the enabling provision	Minister for Finance; Revenue	ITC	Phase 1 runs 2027–2029
Finance Act 2027	Simplified s.766C pathway; SARP-direct-hire amendment (s.825C TCA 1997); connected-party outsourcing rules	Oireachtas; Department of Finance	RDTC SME package; FDI substance	50% green RDTC pilot remains a separate Chapter 4 scoping proposal
H2 2027	Department of Finance, IDA Ireland and Revenue substance workstream (Recommendation 4.3) reports	Department of Finance, IDA Ireland, Revenue	FDI substance	Feeds into Finance Act 2028 consideration
Finance Act 2028	Substance-based uplift measures considered, subject to workstream output	Oireachtas; Department of Finance	FDI substance	Conditional on H2 2027 workstream recommendations
Q4 2028	ITC Year 2 mid-term review	Revenue; Department of Finance	ITC governance	Lighter-touch review: IPS template, EI/IDA pipeline, Revenue audit profile, reclassification check
Q2 2030	ITC Year 4 statutory evaluation; sunset or roll-forward in Finance Act 2030	Independent evaluator; Department of Finance	ITC governance	Evaluation against uptake, additionality, productivity and Exchequer cost

Four implementation tracks at a glance:

Track	Scope	Key dates	Cost
Track 1 — Budget 2027 measures (Asks 1–7 and 9)	Refund-timing acceleration (s.766C); Revenue R&D SME Unit; simplified s.766C claim pathway; SARP-direct-hire eligibility (s.825C TCA 1997); Advance Assurance for first-time SME claimants; SME ISO 56001-readiness support package (delivered through Enterprise Ireland); Revenue grant-based science-test concession lift (TDM Part 29-02-03 §2.5 update); outsourcing limit increases under s.766(1)(b)(vii) and (viii)	Finance Acts 2026 and 2027	Tier 1 c. €70m–€80m Year 1 (timing-weighted); €62m–€72m present-value steady state
Track 2 — Innovation Tax Credit Phase 1 (Ask 8)	Non-selective general corporation-tax measure; 20% headline rate; +5% ISO 56001 uplift; €250,000 per-group annual credit cap; €25,000 expenditure floor; OECD Oslo Manual scope; mutual exclusivity with RDTC; QRTC treatment under Pillar Two	SAU and AG confirmation Jun–Sep 2026; Budget 2027 announcement Oct 2026; legislation Finance Act 2026; commencement 1 January 2027	Phase 1 c. €110m–€200m steady state (central €150m)
Track 3 — Compass FDI substance workstream (Recommendation 4.3)	Joint Department of Finance, IDA Ireland and Revenue workstream on substantive R&D activity in Ireland; examine qualifying-cost uplift or enhanced-rate tier for R&D personnel and infrastructure physically located in Ireland; interaction with Pillar Two and EU State aid	Reporting H2 2027; potential Finance Act 2028 measures	No incremental Budget 2027 line item (design and process)
Track 4 — Public R&D investment (Ask 12)	First step on a three-Budget GBARD/GNI* trajectory towards 1% of GNI*, informed by EU R&D-intensity benchmarks; trajectory document published alongside Budget 2027	Budget 2027 first step (October 2026); trajectory document at Budget Day 2026	Year 1 step c. €350m–€500m (Research Ireland, Enterprise Ireland and HEA-weighted)

Appendix 3: Innovation Tax Credit Design Specification

Detailed design parameters for the Innovation Tax Credit Phase 1. The body of the submission carries the case for the credit and the summary of Ask 8; the full parameter set follows here and is referenced from Chapter §3.4.1.

Phase 1 design parameters

- **Eligibility:** Open to all companies within the charge to Irish corporation tax that meet the qualifying-activity test. No SME-only, ownership-only, sector-only or region-only restriction in Phase 1.
- **Headline rate:** 20% refundable credit on qualifying expenditure.
- **ISO 56001 uplift:** +5% (to 25%) where the claimant holds or commits within 24 months of first claim to obtain, ISO 56001 certification. ISO 56002-aligned training, assessment or guidance may support the Innovation Project Statement, but the rate uplift is tied to ISO 56001 certification or committed certification only.
- **Per-group annual credit cap:** €250,000 per group per annum on the credit. The cap limits total public exposure regardless of company size.
- **Floor:** €25,000 of qualifying expenditure per claim, to limit administrative cost on de minimis claims.
- **Mutual exclusivity:** Where a project or expenditure qualifies for the R&D Tax Credit, it is not eligible for the Innovation Tax Credit, and vice versa. Members may hold both credits for different projects.
- **Pillar Two treatment:** Designed as a Qualified Refundable Tax Credit under the OECD GloBE Rules, mirroring the modernisation of the R&D Tax Credit in Finance Act 2025.
- **Evidence pathway:** An Enterprise Ireland or IDA Ireland project assessment may be used as supporting evidence for the qualifying-activity test where held. Entitlement to the credit is determined by Revenue under objective statutory criteria; no agency approval, ranking or discretionary project selection is a condition of entitlement.
- **Phase duration:** Three-year initial period, 2027 to 2029, with a Year 2 mid-term review and a mandatory Year 4 statutory evaluation gate.
- **Commencement:** 1 January 2027, legislated through Finance Act 2026 and commenced by order of the Minister for Finance, if provided for in the enabling provision.
- **EU State aid treatment:** Preferred route is a general, non-selective corporation-tax measure intended to fall outside Article 107(1) TFEU, open across the economy, not restricted by firm size, sector, ownership or region, and administered by Revenue under objective statutory criteria. GBER Articles 28 and 29 are retained as fallback references only if any component is considered selective.

EU State aid implementation steps

The Departmental implementation steps for Budget 2027, ref. from Chapter 3 §3.6, are as follows:

- June–September 2026: Department of Finance to seek State Aid Unit and Attorney General confirmation that the Phase 1 design is a non-selective general corporation-tax measure outside Article 107(1) TFEU.
- Finance Bill 2026: legislate the Innovation Tax Credit as a corporation-tax provision with objective statutory criteria, a €250,000 per-group annual credit cap, a €25,000 expenditure floor, a 20% headline rate and a maximum 25% rate where the ISO 56001 uplift applies.
- Q4 2026: Revenue to publish the Innovation Project Statement template, ROS claim fields and guidance on mutual exclusivity with the R&D Tax Credit.
- 1 January 2027: commence the credit by order of the Minister for Finance, if provided for in the enabling provision.

DG Competition pre-notification is not a precondition unless the State Aid Unit or Attorney General concludes that the measure contains selective State aid. If they so conclude, GBER Articles 28 and 29 provide a fallback route for the affected components only; IRDG is available to discuss the technical design with the Department.

Under the current GBER framework: Article 28 (SME innovation aid and innovation advisory and support services) operates within a €10 million notification threshold per undertaking per project; Article 29 (process and organisational innovation aid) operates within a €12.5 million threshold per undertaking per project and requires effective collaboration with SMEs, with the collaborating SMEs incurring at least 30% of total eligible costs (and a 15% cap on large-firm aid).

Operationalisation in Ireland is through the Irish RDI Scheme under Commission Regulation (EU) No 651/2014 as amended by Regulation 2023/1315, subject to renewal or replacement for periods after 31 December 2026. The fallback is for ring-fenced components only and is not the lead route for the all-company 20%/25% Innovation Tax Credit.

Pillar Two treatment: The Innovation Tax Credit is designed as a Qualified Refundable Tax Credit under the OECD GloBE Rules. QRTC treatment preserves credit value for in-scope groups subject to the 15% Pillar Two minimum effective tax rate (QRTCs are treated as income for GloBE purposes rather than as a tax reduction). Specialist tax counsel review is required before the design specification is finalised; KPMG's 2025 Public Consultation submission sets out the Pillar Two design considerations.

Defining innovation: OECD Oslo Manual scope

Eligibility is defined against the OECD Oslo Manual (4th edition, 2018): "A new or improved product or process (or combination thereof) that differs significantly from previous products or processes, and that has been made available to potential users or brought into use by the organisation."

The R&D Tax Credit is based on the Frascati Manual definition; the Innovation Tax Credit is based on the Oslo Manual. Since 2013, France has operated a two-instrument regime, specifically CIR for Frascati R&D and CII for Oslo innovation.

Eligible expenditure must pass the "new to the firm" test (Oslo Manual 4th edition) and fall within one of three categories: design innovation (industrial design, user-experience design and service design where the output is a new or substantially redesigned product or service); AI development and deployment (development, training, customisation and integration of AI capability where the firm builds proprietary AI assets or proprietary AI-driven workflows); and digitisation projects (process redesign incorporating digital twins, robotic process automation, IoT or proprietary data architectures, where the redesign is fundamental rather than incremental).

Activities that qualify under s.766 are excluded by the mutual-exclusivity rule. Organisational and marketing innovations (Oslo Manual 2005 edition) are excluded on verification grounds. Routine or minor changes are excluded.

Exclusions list: the primary anti-deadweight mechanism

The exclusions list is the primary anti-deadweight control. The structured Innovation Project Statement and the Year 4 evaluation are secondary controls. The following are excluded from qualifying expenditure:

- SaaS subscriptions and routine software licensing
- Off-the-shelf AI products (Microsoft Copilot, ChatGPT Enterprise, Zoho AI features, vendor AI add-ons and equivalents)
- Standard CRM and ERP implementation
- Commercially available analytics platforms
- Hardware, except where integral to a qualifying project
- Website redesign, social media, marketing technology, advertising
- Change-management consultancy as a standalone item (eligible only when bundled within a qualifying project, capped at 20% of qualifying spend)
- Adaptation of premises as a standalone item (subject to the same 20% bundled cap)
- Like-for-like replacement of equipment or systems
- Activities that qualify for the R&D Tax Credit (the mutual-exclusivity rule)
- Routine or minor product, process or service changes that do not meet the "new to the firm" Oslo Manual test

Administrative oversight: ISO 56000 and the Innovation Project Statement

The R&D Tax Credit's qualifying activities are defined in s.766 TCA 1997 and supplemented by S.I. No. 434/2004. The Innovation Tax Credit ties qualifying activity to the Oslo Manual and operationalises it through ISO 56000.

ISO 56001:2024 (auditable management system) and ISO 56002:2019 (guidance) provide an internationally vetted framework for managing innovation activities (NSAI 2024). Coupling Oslo and ISO 56000 gives Revenue and the claimant firm a common reference on eligibility and process. Impact 2030 highlights the ISO 56000 series as a tool for innovation-led growth, particularly for SMEs.

Embedding ISO 56001 supports auditability. ISO 56001 documentation and audit trails make innovation an auditable rather than undocumented activity. ISO 56002 sits in the background as supporting guidance on strategic-planning and risk-management practice for the Innovation Project Statement; it is not a rate-uplift trigger. Only ISO 56001 certification, or a written commitment to obtain certification within 24 months of first claim, supports the +5% uplift.

Claims are filed through a structured three-page Innovation Project Statement, administered by Revenue. An Enterprise Ireland or IDA Ireland project assessment may serve as evidence of the qualifying-activity test where held. Random-sample technical review by Enterprise Ireland or IDA Ireland accompanies Revenue review of higher-value claims. ISO certificate numbers are logged in ROS and cross-checked against NSAI records. Voluntary advance assurance is available to first-time claimants.

Separate from the tax credit, two optional SME and first-time claimant supports could be delivered through existing Enterprise Ireland instruments: innovation management vouchers (€10,000 vouchers redeemable for training or consultancy on ISO 56001-aligned implementation, modelled on the existing Innovation Voucher scheme; eligibility and aid intensity follow GBER Article 28 conditions, including the €220,000 limit per undertaking over any three-year period for innovation advisory and support services); and certification and audit fee rebates (partial reimbursement for first-time ISO 56001 certification).

These supports are not conditions of entitlement to the Innovation Tax Credit and are not on the required for a 1 January 2027 commencement.

The Index 2026 baseline on innovation management maturity supports the design. 53% of respondents either have no innovation management process or operate an ad-hoc one without formal governance; 47% are transitioning to a structured process or operate one already, including firms running ISO 56001.

> *"We have ISO standards as a baseline requirement to be accepted as a supplier by roughly 90% of our clients. If ISO - or this new ISO Innovation standard - could also be recognised by Revenue for R&D tax credits, it could either satisfy their compliance expectations or create a fast-track route to securing those credits. Reward companies who are more innovative and can prove it via ISO compliance and measurable outputs."*

Company Comment — Index 2026 free-text response, anonymised per survey terms. (Irish-owned SME, 1–10 employees — supporting Recommendation 2.6 and the Innovation Tax Credit ISO uplift.)

Appendix 4: Indicative Costings

Indicative cost bridge for the Tier 1 envelope. All figures are subject to Revenue and DPER scoring. Cost bridge. Central scoring assumptions for the Tier 1 envelope by measure. Final scoring is for Revenue and DPER.

Recommendation	Year 1 (timing-weighted)	Steady state (present-value)
Rec 2.1 — Refund acceleration (75% first-instalment) + €87,500→€150,000 floor lift	€35m–€45m (timing-weighted)	€5m–€8m (present-value)
Rec 2.2 — Revenue R&D SME Unit (incl. SME R&D Playbook and Innovation Claim portal)	—	€0.8m–€1.2m
Rec 2.3 — Simplified s.766C pathway	—	€17.5m (Year 2 onwards under Finance Act 2027)
Rec 2.4 — SARP direct-hire	—	Approx. €4m (Year 2 onwards under Finance Act 2027)
Rec 2.5 — Advance Assurance + Regional R&D Voucher	—	€0.7m–€1.2m (Q1 2028 onwards)
Rec 2.6 — SME ISO 56001-readiness support package	—	€1.5m–€3m
Rec 2.7 — Revenue grant-based science-test concession (TDM update only)	—	Negligible
Rec 4.1 — Third-party + third-level outsourcing limit increases	—	Approx. €34m combined (€27.5m + €6.5m)
Year 1 envelope (Recs 2.1, 2.2, 4.1)	€70m–€80m (timing-weighted)	
Steady-state envelope (all measures running concurrently)	—	€62m–€72m (Year 2 onwards once simplified pathway and SARP commence)

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Communication from the Commission — Framework for State aid for research and development and innovation (2022/C 414/01). https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022XC1028(03) — Cited as a fallback reference only if the State Aid Unit or Attorney General concludes that any component of the Innovation Tax Credit is selective State aid and cannot be brought within GBER or another existing route. The preferred Phase 1 design is a general, non-selective corporation-tax measure outside Article 107(1) TFEU.

Treaty on the Functioning of the European Union — Article 107. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A12012E107 — Article 107(1) cites the State aid definition and the selectivity test. Article 107(3)(c) is retained as a fallback compatibility provision only where a measure is considered selective State aid.

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Netherlands — WBSO (Wet Bevordering Speur- en Ontwikkelingswerk). RVO (Rijksdienst voor Ondernemend Nederland). https://www.rvo.nl/subsidies-financiering/wbso — Wage-cost-based R&D payroll-tax instrument. Cited at §3.4 and Appendix 1 (the 1.18% SME penetration-rate benchmark, 19,392 firms, 97% SME).

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Inland Revenue Authority of Singapore (IRAS) — Refundable Investment Credit (RIC). https://www.iras.gov.sg/taxes/corporate-income-tax/specific-topics/refundable-investment-credit-(ric) — IRAS scheme page; up to 50% support on qualifying expenditure including R&D, innovation and decarbonisation; refund payable over four years. Cited in the Chapter 4 Comparator table.

Canada — Scientific Research and Experimental Development (SR&ED) Tax Incentive Programme. https://www.canada.ca/en/revenue-agency/services/scientific-research-experimental-development-tax-incentive-program.html — Fall Economic Statement 2024 proposed an enhanced-rate expenditure limit of CAD 4.5m; Budget 2025 proposed a further increase to CAD 6m, effective for taxation years beginning on or after 16 December 2024. The taxable-capital phase-out range was extended to CAD 75m and eligible Canadian public corporations were brought into scope.

Banque de France — Evaluation of the Crédit d'Impôt Recherche and Crédit d'Impôt Innovation (Banque de France, 2022). https://www.banque-france.fr/ — Independent evaluation of the French CIR / CII regimes. Cited at §3.4 and §3.4.2 for the additionality finding on SME employment and new-product output and for the evidence of expense reclassification between CIR and CII.

Agencies, Departments and Regulatory Authorities

IDA Ireland. https://www.idaireland.com/ — Inward investment agency. Referenced at §4.3 and §4.6 in the FDI substance and connected-party R&D context.

Enterprise Ireland. https://www.enterprise-ireland.com/ — Indigenous enterprise agency. Referenced throughout Chapter 2 and at §3.3 (pre-qualification pathway for the Innovation Tax Credit).

Research Ireland. https://www.researchireland.ie/ — National research funding agency (successor to Science Foundation Ireland and the Irish Research Council). Referenced at Chapter 5 in the GBARD trajectory.

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Industry Research & Development Group

IRDG is a non-profit, business-led Innovation Network of member companies, working together to drive excellence in industry innovation to crete growth, jobs and prosperity.

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