

Ireland's Innovation Index 2024/2025 – Pulse Report





Executive Summary

Following Ireland's Innovation Index 2024 report published in May 2024, KPMG and IRDG conducted a follow-up pulse survey to gauge the current state of Research, Development, and Innovation (RDI) activities in Ireland. This pulse survey aimed to capture the latest trends, challenges, and opportunities faced by organisations in Ireland.

The survey received 512 responses from a cross sectoral group of companies actively investing in RDI, providing valuable insights into the evolving landscape of innovation in Ireland.

Summary of findings

- 65% of companies plan to increase their RDI activities or employment over the next 12 months.
- 62% perceive lack of budget/high costs to be a primary barrier to innovation.
- 80% of respondents feel that the admin burden related to R&D Tax Credits and related grants has stayed about the same since the beginning of 2024.
- 51% of organisations are currently involved in R&D of green technologies.
- 70% have either adopted or plan to integrate a clear AI strategy within the next 6-12 months.

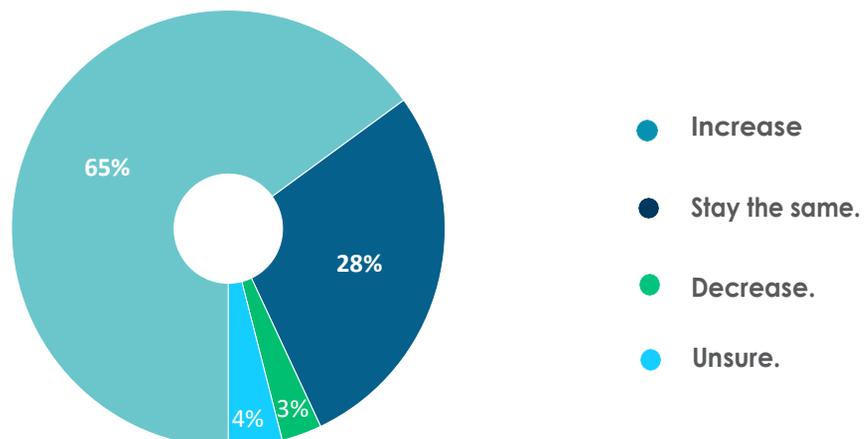
01. Key Findings

1. Increase in RD&I Activities

Over the next 12 months, 65% of organisations plan to increase their RDI activities or employment, while 29% expect to remain the same, and only 3% anticipate a decrease.

Our main 2024 survey which focused on organisations plans for the next three years, found that 77% of respondents expected their R&D spend to increase over the next 3 years with only 2% expecting a decrease.

FIG.1: EXPECTED PROFILE OF RDI SPEND IN THE COMING THREE YEARS

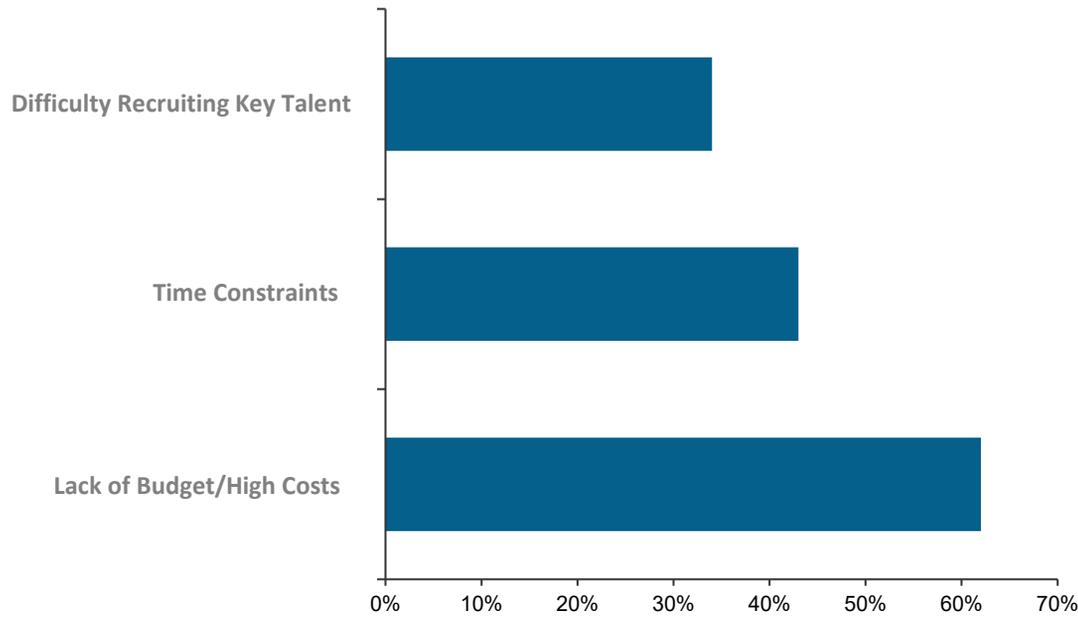




2. Barriers to Innovation

In keeping with the findings of the main IIR 24 survey, the main barriers to innovation identified by respondents include lack of budget/high costs (62%), time constraints (43%), and difficulty recruiting key talent (34%).

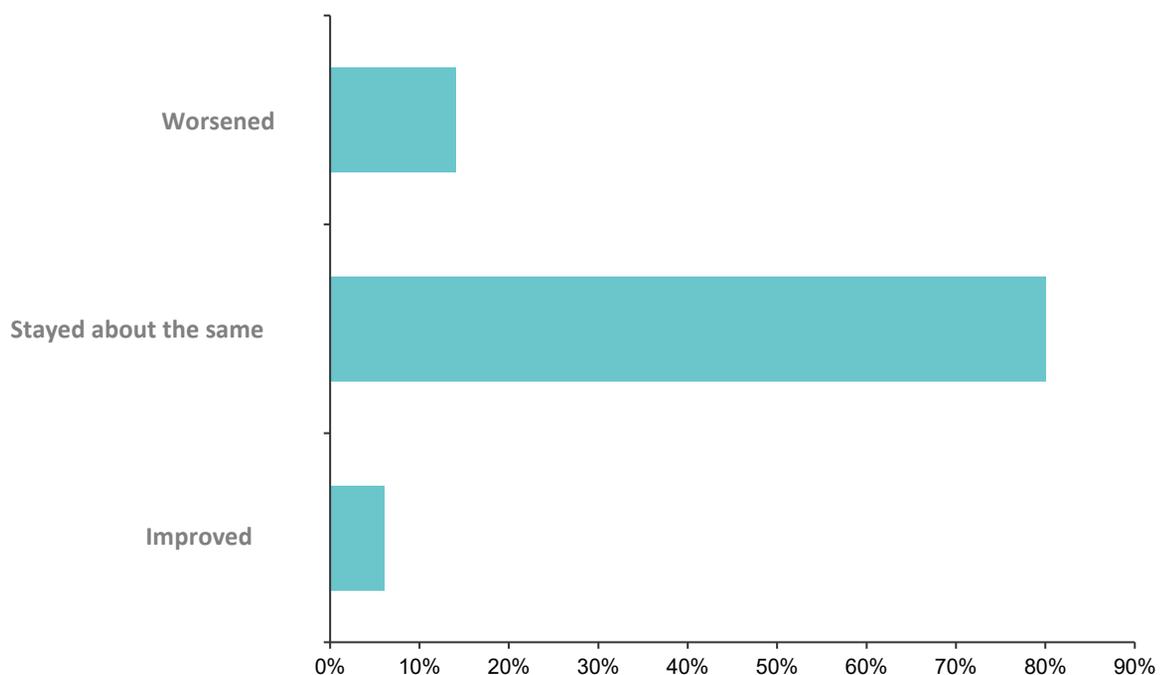
FIG.2: BARRIERS TO INNOVATION



3. Administrative Burden of R&D Tax Credit and Grant Applications

Over the last 6-12 months, 80% of respondents reported that the administrative burden of R&D tax credit and grant applications has stayed about the same, while 14% noted it has worsened, and only 6% saw an improvement.

FIG.3: ADMINISTRATIVE BURDEN OVER THE LAST 6-12 MONTHS



4. Green and Sustainable Technologies

51% of organizations are currently involved in R&D of green and sustainable technologies, 95% of those plan on additional investment in the area. Only 7% of firms not currently involved in R&D green technologies plan to do so in the near future.

FIG.4: CURRENTLY INVESTING IN R&D OF GREEN AND SUSTAINABLE TECHNOLOGY

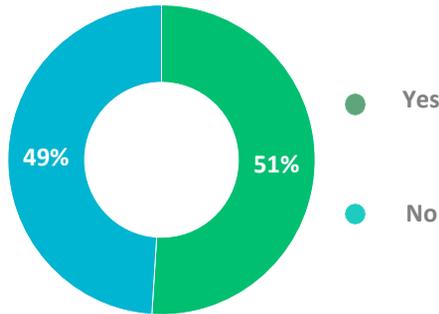
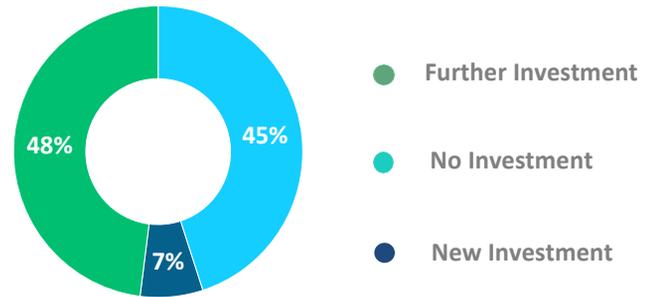


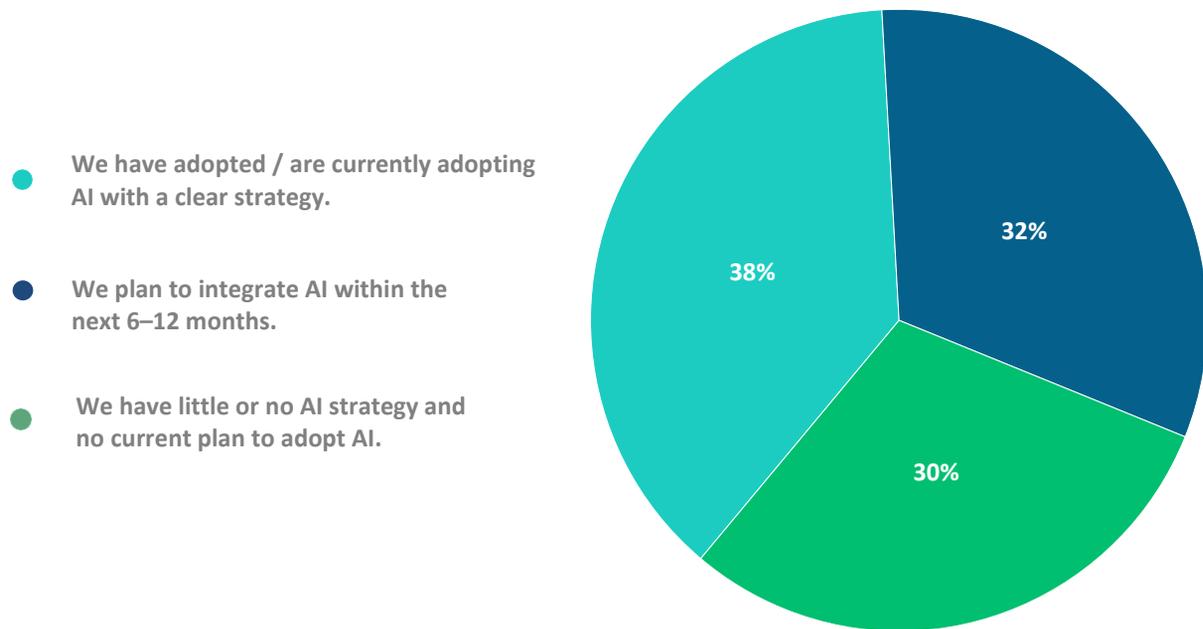
FIG.5: PLAN TO INVEST IN R&D OF GREEN AND SUSTAINABLE TECHNOLOGY



5. Adoption of AI

39% of organisations claim to have adopted or are currently adopting AI with a clear strategy, 32% plan to integrate AI within the next 6-12 months, and 30% have little or no AI strategy and no current plans to adopt AI.

FIG.6: ADOPTION OF AI





2. Consultation Question

As part of the pulse survey. We asked our survey respondents, has anything significant in the last 6 months changed your outlook on the Irish RD&I landscape? Here are the key points from the responses:

1. Positive Changes:
 - Some respondents mentioned improvements in the R&D tax rate and training grants, which have made Ireland more attractive for R&D.
 - The increased use of AI and the acceleration pace of AI were noted as significant changes, creating both opportunities and risks.
 - Support from IDA for RD&I capability grants and the launch of new research centres were seen as positive developments.
 - The increase to 50% in year 1 of the R&D Credit was highlighted as a beneficial change.
2. Challenges and Concerns:
 - Administrative and Bureaucratic Challenges: Many respondents highlighted the significant administrative burden related to R&D tax credits and grants, noting cumbersome processes and extensive documentation as barriers.
 - Talent Recruitment and Retention: Difficulty

in hiring and retaining skilled workers, influenced by factors such as the cost of living and housing availability, was frequently mentioned as a challenge to R&D progress.

- Economic and Political Uncertainty: Global economic uncertainty, U.S. elections, and international conflicts were cited as reasons for hesitancy in committing to R&D investments.
- Funding and Cost Constraints: Tightening budgets, increased costs, and limited funding were mentioned as barriers that restrict the ability to invest in new R&D initiatives.

3. Mixed or Neutral Responses:

- Some respondents mentioned that there had been no significant changes in their outlook on the Irish RD&I landscape.
- Others noted that while there were some positive developments, such as the use of AI and increased training grants, there were still significant challenges to overcome, such as the administrative burden and economic uncertainty.

Overall, the responses indicate a mix of positive developments and ongoing challenges in the Irish RD&I landscape, with a particular emphasis on the impact of AI, economic uncertainty, and the administrative burden of claiming R&D tax credits.

3. Key Issues

1. International Update

Since Ireland's Innovation Index 2024 was released, the updated European Innovation Scoreboard 2024 (EIS) and Global Innovation Index (GII) 2024 have been published. Ireland has risen two places to 7th since 2023 and we have now entered the top 20 in the GII rising from 22nd in 2023 to 19th place in 2024.

The EIS notes that R&D expenditure at a national level remains a relative weakness for Ireland and further investment is needed if we are to challenge the European Innovation leaders (Denmark, Sweden, Finland, and the Netherlands). Ireland was ranked 10th in the GII as recently as 2018, meaning we have fallen 9 places in 6-years.

It is positive to see that our performance is improving and there is still some way to go to challenge the countries currently outperforming us.

2. Budget 2025 Updates

Budget 2025 brought one significant enhancement to the R&D Tax Credit regime. Currently, companies with RDTC claims up to €50,000 get the full benefit upfront in year 1. This limit will now be extended to €75,000.

Companies with RDTC claims ranging from €75,000 to €150,000 will also see a benefit via an increase to their first instalment amount. For claims exceeding €150,000, the initial instalment remains at 50% of the total claim. This positive change will significantly enhance cash flow for companies involved in smaller R&D initiatives or those newly utilising this credit.

The Department of Finance will conduct a review of the RDTC regime in 2025. A key need will be for the Department to reduce the admin burden of claiming R&D Tax Credits. 41% of respondents perceive the admin time related to the credit to be a barrier to accessing the support and the findings from the pulse survey show that 80% of businesses feel that the admin burden has stayed the same over the last 6 months.

4. Conclusion & Recommendations

Conclusion

The pulse survey highlights a positive outlook for RDI in Ireland, with a significant number of organisations planning to increase their efforts in the coming year. Key challenges such as budget constraints, time limitations, and talent recruitment continue to pose barriers to innovation. The administrative burden associated with R&D tax credits and grants remains a concern for many businesses. The focus on green and sustainable technologies, as well as the adoption of AI, indicates a forward-looking approach by many companies to innovation in Ireland.

Recommendations

To support and enhance innovation in Ireland, we recommend:

- 1 Increase funding and resources to address budget constraints and support RDI activities.
- 2 Streamline administrative processes for R&D tax credits and grants to reduce the burden on companies.
- 3 Implement initiatives to attract and retain key talent in the RDI sector.
- 4 Promote and support the development of green and sustainable technologies.
- 5 Encourage the adoption of AI through targeted strategies and support.



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