R&D Tax Credit and other options to support Innovation- Public Consultation

KPMG Ireland

May 2025

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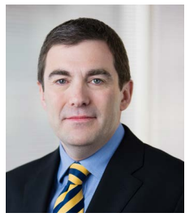

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Research and Development Tax Credit and Other Options to Support Innovation- Public Consultation

Research & Development Tax Credit
– Public Consultation,
Department of Finance,
Government Buildings,
Upper Merrion Street,
Dublin 2, D02 R583

Email:businesstaxpolicy@finance.gov.ie
19 May 2025

Dear Sir/Madam,

Research & Development Tax Credit Review 2025 – Public Consultation

KPMG is pleased to respond to the public consultation on Research & Development (R&D) Tax Credits and Other Options to Support Innovation.

KPMG is a leading provider of business taxation advice in Ireland and has Ireland's largest R&D Incentives practice. Our clients include businesses engaged in R&D activities operating in a wide range of industry sectors and with differing degrees of R&D intensity.

Our feedback to the consultation questions draws on insights from detailed soundings taken from businesses conducting R&D activities, some of which arose during an in-person roundtable event KPMG hosted on 30 April with the Department of Finance and representatives from client companies, which included SMEs and MNCs across multiple industries.

Our responses also draw from the findings from KPMG/IRDG Ireland's Innovation Index 2025 survey. 559 survey responses were received, providing a significant representation of companies performing R&D in Ireland.

KPMG has reviewed the data from this survey to inform our responses to the questions raised by the Department of Finance in its consultation document along with some additional questions which we believe provide valuable insights to the importance of R&D incentives to Irish businesses, both SMEs and MNCs.

In framing our responses to the consultation, we have also drawn on these insights as well as our experience in advising our clients on R&D tax credit claims since 2004 when the R&D tax credit was introduced. In this submission, we have set out recommendations for improvements which we believe would further enhance the impact of the R&D tax credit in supporting and sustaining business investment in R&D activity.

The contact points for this submission are Ken Hardy and Damien Flanagan. Should you wish to discuss any aspect of the attached submission please do not hesitate to contact us.

Ken Hardy
Partner

Damien Flanagan
Partner

01 Executive Summary

Ireland stands at a critical juncture, facing a rapidly changing geopolitical and tax landscape. These uncertainties re-emphasise the need for Ireland to ensure that its incentive offerings are best-in-class in order to encourage global businesses to establish new and maintain existing substantial operations here. This, in turn, would create a knowledge spillover to Irish indigenous businesses and should also create a positive feedback loop when seeking to attract further operations here.

Ireland should continue to encourage innovation to sustain long-term economic growth and development. By fostering a culture of innovation, Ireland can stay ahead of its competitor jurisdictions. This will involve not only investing in technological advancements and talent but also in rewarding those that collaborate with their international colleagues and our National Institutes.

The R&D tax credit (RDTC) plays a central role in the suite of tax measures that ensures Ireland is an attractive location for both domestic and inward investment. Reform of the RDTC and a new Innovation incentive is needed to ensure Ireland continues to remain a premier location for businesses to carry out Research and Development and Innovation (RD&I).

Business Expenditure on R&D ("BERD") in Ireland has increased every year since 2011, and in 2023 it amounted to €7bn. In 2023, the business sector accounted for 80% of total Gross Expenditure on R&D ("GERD") (which includes R&D expenditure incurred by business, academic and government sectors)[1], performing well above the EU average of 66%[2]. What this demonstrates is that Ireland, relative to our EU neighbours, disproportionately relies on the private business sector to fund RD&I.

We believe that it is vital that Ireland increases the RDTC rate from 30% to 35%. For Irish companies operating within an international group, the headline rate is the most persuasive tool to attract RD&I projects to Ireland. While Finance Act 2022 increased the rate from 25% to 30%, this has no real impact on the net benefit received by many multinational companies as after top up taxes apply, the net benefit reduces to 25.5%.

As the leading provider of R&D tax advice in Ireland, our response to the consultation has been informed by:

01 Our extensive experience in assisting companies with the preparation of their RDTC claims since the inception of the RDTC in 2004,

02 Responses to the KPMG and IRDG "Ireland's Innovation Index 2025" survey,

03 Practical feedback from businesses at our roundtable discussion with the Department of Finance as part of the consultation process.

1 The Research and Development Budget 2022 to 2023

2 EU spent €381.4 billion on R&D in 2023 - News articles - Eurostat - https://ec.europa.eu/

R&D Tax Credit Proposed Enhancements

- Increase in RDTC rate from 30% to 35%
- Accelerate the payment of R&D cash refunds
- Simplify the definition of "expenditure on research and development"
- Allow an appropriate allowance for overheads related to R&D
- Broaden the scope to include certain supporting and ancillary activities linked to core R&D
- Increase the outsourcing limits and allow outsourcing to connected companies
- Facilitate a mechanism for correcting errors contained in the RDTC return
- Extend the RDTC to include building expenditure related to software development
- Increase the RDTC rate to 50% for 'Green Technologies'
- Streamline the R&D intervention process

> "The headline rate is the most persuasive tool to attract RD&I projects to Ireland

New Innovation Incentives

- Introduce an 'Experimental Development and Innovation Tax Credit'
- Introduce a 'Digital Transformation Tax Credit'

02 Ireland's Innovation Index – Key Observations

Irelands Innovation Index 2025 which ran in March/ April 2025, and received 559 detailed responses from Irish and foreign owned businesses who engage in R&D activities in Ireland reaffirmed what has been widely accepted since the RDTC was first introduced in 2004 - the RDTC plays an important role in attracting investment (i.e. jobs and capital expenditure) in R&D activity as well as sustaining the R&D activity already here.

The key insights from the Ireland's Innovation Index survey are as follows:

- Over the past three years, 65% of businesses conducting Research, Development and Innovation ("RD&I") in Ireland increased their overall Research and Innovation spend, and 71% expect to increase their RD&I investment over the next three years.
- Of multinational corporations (MNCs), more than half responded that 10% or less of their R&D would take place in Ireland without the R&D Tax Credit. 82% of respondents indicated that without the presence of the R&D tax credit, the amount of R&D that would be carried out in Ireland would be less than 50%.
- 64% of businesses cite a lack of funding as the primary barrier to increasing innovation.
- 76% of respondents believe that an enhanced 50% green credit would incentivise R&D within the 'green technology' space.
- 61% of respondents indicated that state funding supports allowed them to conduct more R&D and 47% noted that such funding directly supported more employment.
- 53% of respondents feel that Ireland's RD&I grants and R&D tax credit supports compare equally or favourably to other countries. 16% feel that the Irish system compares negatively to other jurisdictions with 31% unsure.

Economic Impact of the R&D Tax Credit

In 2022 (most recent statistics available[3]), the cost of the RDTC to the Exchequer was €1.16 billion - meaning claimant companies invested over €4.6 billion on qualifying R&D expenditure, a large proportion of which is made up of salary costs. In reality, the actual cost of conducting R&D activities, which also includes non-qualifying expenditure for RDTC purposes that facilities and enables R&D such as including support staff, activity outsourced to third parties above the current limits, and ancillary supporting activities in the local community (facilities, maintenance, canteen etc), is far greater than €4.6 billion. This is a crucial contribution to Ireland's economy.

We believe that enhancing the RDTC and introducing other options to support innovation will play a major role in achieving some of the ambitious targets set out in *The Programme for Government* in relation to R&D and innovation.

3 Research and Development Tax Credit statistics - Revenue

These targets include the following:

Continuing to build up Ireland's research capacity and to increase the level of research and development being undertaken in our enterprise base, ensuring that innovation is supported, from concept to commercialisation and scaling up.

Examining options to enhance the Research and Development Tax Credit, reward innovation and digitalisation and ensure Ireland has the global best in class incentive to encourage innovation by domestic and international companies.

Working to ensure that Ireland becomes a global innovation leader, ensuring we are agile and Ireland is positioned to support fast-growing, new companies.

In Section 3, we have provided a detailed response to each of the Department of Finance Consultation questions along with a full detailed list of all of our recommendations in Section 4.

03 Responses to Consultation Questions

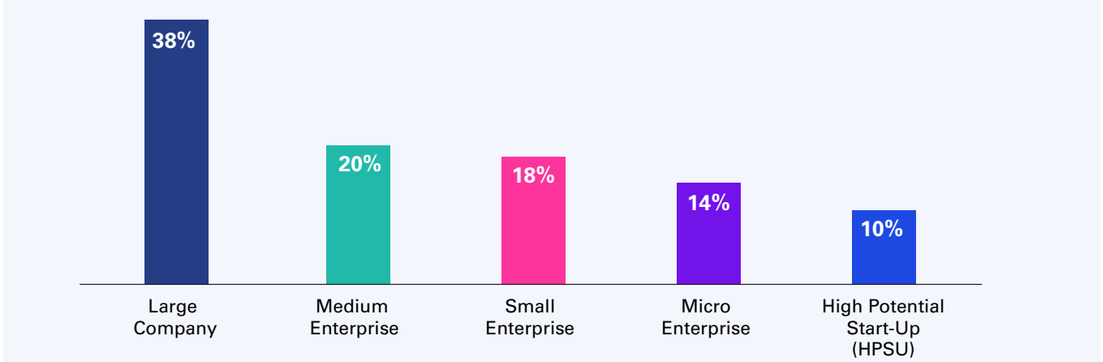
1. General Queries

- **For R&D-active companies, please provide a general overview of your company (sector, headcount, size) and the role that the R&D tax credit has played in supporting your company to survive, thrive, or to grow.**

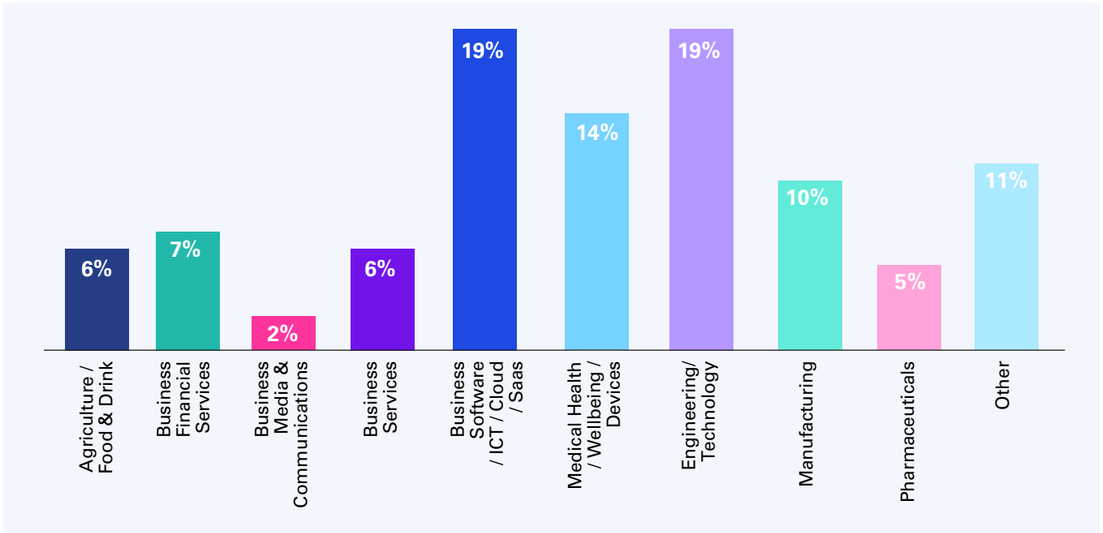
  KPMG as Ireland's largest and leading advisors in the R&D Incentives space, our insights are taken from businesses of all sizes, across multiple industries.

  The survey results from Ireland's Innovation Index 2025, completed in conjunction with IRDG, provides a valuable insight into companies that are involved in Research, Development and Innovation within Ireland. The graphs below show the profile of the survey respondents.

Company Size



Industry of respondents

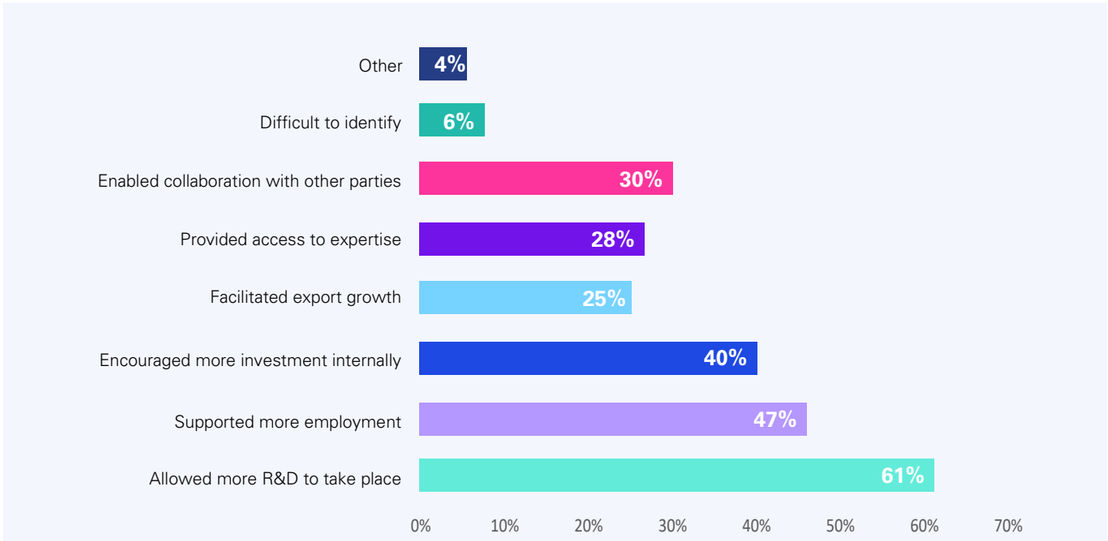


The role of the R&D tax credit on supporting companies to survive, thrive, and grow

One of the key messages highlighted by the vast majority at our in person roundtable event with the Department of Finance in April 2025, was how important a role the R&D tax credit plays in supporting R&D investment in Ireland. One attendee representing an SME said that without the support of the R&D tax credit and Enterprise Ireland grants, there would be no investment or headcount based in Ireland.

The findings from our Ireland's Innovation Index survey further highlight the importance of state supports such as the R&D Tax Credit to companies conducting R&D in Ireland. 61% of respondents indicated that these funding supports have allowed more R&D to take place, 47% stated that they supported more employment, and 40% noted that the funding supports encouraged more investment internally.

Impact of state supports on the business



- **Have the recent measures which were introduced in Finance Act 2022, Finance (No.2) Act 2023 and Finance Act 2024 encouraged additional spending on R&D in your organisation? Please provide some detail in your answer.**

  The changes brought in by Finance Act 2022 have safeguarded the Irish R&D tax credit by ensuring it meets the Pillar Two definitions of a "qualified refundable tax credit" ensuring that it does not disproportionately reduce the effective rate of corporation tax for companies that are within the scope of Pillar Two. This has provided MNCs with the confidence to continue their R&D here and seek to bring additional R&D investment opportunities to Ireland as they would be able to receive the full value of the R&D tax credit and in some instances, companies furthered their investment in Ireland off the back of these updates.

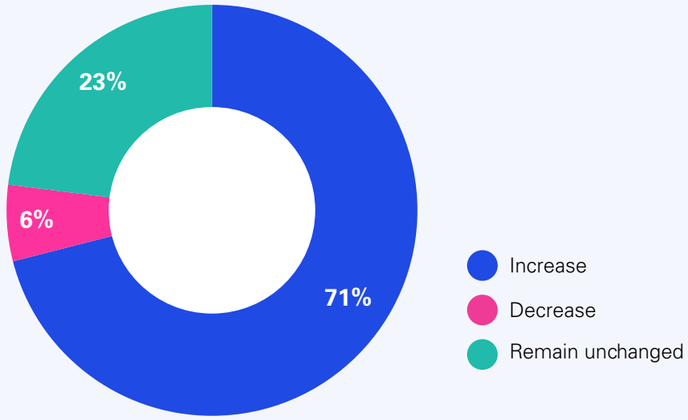
  The RDTC rate increase to 30% introduced in by Finance (No.2) Act 2023 was a very welcome enhancement. For SMEs, this rate increase further supports investment in R&D and for MNCs, it ensures that the net R&D tax credit rate (after taking into account additional top-up tax arising on the RDTC) is retained at (slightly above) 25%.

For MNCs, the rate is what grabs the headlines when local entities are making the case for sustaining existing or seeking additional investment in Ireland. Continuing to increase the rate will have a significant impact on investment decisions when compared to any other potential enhancements. The increase in rate for MNCs resulted in the 'status quo' but did increase the attractiveness of investing in Ireland.

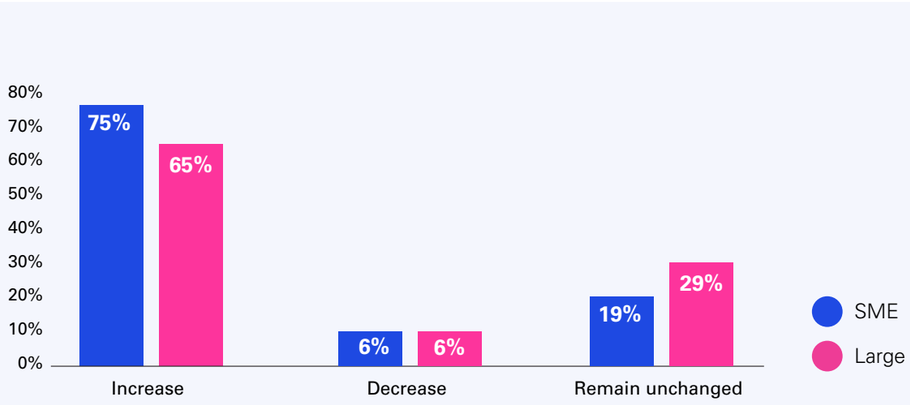
What is the R&D outlook for the company over the short to medium term, both in terms of currently ongoing projects and potential future projects, and what are the key challenges to continuing R&D activities in Ireland?

In relation to RD&I outlook, 71% of respondents to the Ireland's Innovation Index 2025 survey indicated that they expect their overall RD&I spend to increase over the next 3 financial years. Only 6% expect their investment to decrease over this period with 23% expecting their spend to remain unchanged. While this is positive, there has been a decrease in the percentage of companies planning to increase their investment in comparison with the findings from the 2024 Index where 77% of respondents indicated that they planned to increase their investment over the next 3 years. This is perhaps not surprising given the recent US tariff uncertainty. The 2025 Index also found that SMEs are more positive in their outlook for the next 3 years with 75% expecting to increase their investment compared to 65% of large companies. It would be safe to assume that the financial support under the RDTC is factored into these projections.

Expected profile of RDI spend in coming 3 years

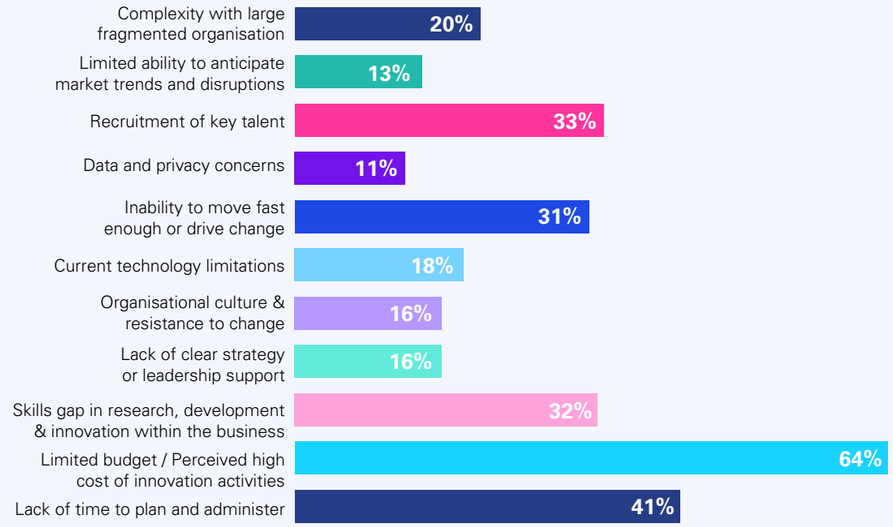


Expected profile of RDI spend in the coming years (SMEs vs Large Companies)



In relation to challenges in continuing R&D activities in Ireland, as part of the survey we asked what are the biggest barriers to conducting RD&I in Ireland? 64% highlighted lack of budget as one of the main factors affecting their ability to conduct RD&I. Lack of time to plan and administer, recruitment of key talent and skills gaps were also selected as major factors.

Factors affecting ability to innovate



Is R&D a continuing activity every year, or an intermittent activity?

Based on our experience working with companies of all sizes across multiple industries, we have rarely seen R&D as an intermittent activity for a company. The significant majority of the companies that we work with conduct R&D activity every year; however, the level of investment in R&D may vary from year to year. This can also be seen in Revenue's most recent statistics on the RDTC where the total number of claimants each year has remained almost static across the last 10 years, while the cost of the R&D tax credit has increased significantly over the same period.

Are you undertaking R&D activity for the benefit of your company or for an unconnected third-party?

The significant majority of companies we work with are undertaking R&D for their own benefit.

Are there instances where a claim for the credit has not been submitted in respect of potentially qualifying activities, and if so, what considerations informed this decision?

The level of information required to support an R&D tax credit claim, regardless of value, is significant and takes time and resources for a company to review and prepare. We have heard from client companies, particularly SMEs, who feel the administrative burden required to support a claim can outweigh the benefit of the claim itself, particularly where the claim value is at the lower end of the scale.

In Appendix 3 of the R&D Tax Credit Guidelines, Revenue provide an outline of a "Suggested File Layout", which is their guide to the type and level of documentation that they would expect to see in the event of an intervention. While it is intended to provide guidance to tax-payers, the level of information outlined is extensive with 37 individual queries/ requests to be addressed, many of which contain numerous sub sections.

There is one specific provision in Revenue's R&D Tax Credit Guidelines that seeks to reduce the administrative burden for a small sub-set of R&D claims, which only applies to small and micro companies that are in receipt of an RD&I grant where the R&D tax credit claim value is €50,000 or less. It provides that where such conditions are met, "Revenue would not, as a rule, seek to challenge the science test". This is on the basis that the granting body has already reviewed the activities within the context of the RD&I grant eligibility. However, we are yet to experience any taxpayer that was able to avail of this concession due to the narrow conditions that apply, particularly with respect to the quantum.

Recommendation: With this in mind, we recommend that consideration is given to reducing the administration burden for companies for R&D claim amounts which are below a certain threshold in order to try and align the extent of the time and effort required to support a claim with the benefit to be obtained. The administrative relief with respect to small and micro companies is a first step but the conditions should be broadened so that it is applicable to more claims. We would suggest extending the conditions by increasing the total R&D credit amount threshold to €200k. Based on Revenue's most recent statistics, 75% of R&D tax credit claimants claimed a tax credit of €200k or less, with the total cost of these claims estimated to be approximately €100M (less than 10% of the total cost of the R&D tax credit). It should be noted that of these claims, not all will be in receipt of the RD&I grant and therefore the availability of this administrative relief will be limited.

Separately, the risk of a Revenue intervention is frequently a key consideration ahead of making an R&D claim. The additional resources required to support an R&D tax credit claim through a Revenue R&D audit, coupled with the risk of reputational damage, does lead companies to weigh up the benefit vs the risks associated with an audit.

As with all aspects of a company's Corporation Tax return, Revenue may audit an R&D claim up to four years from the end of the accounting period in which the claim was filed (i.e. effectively 5 years from when the R&D activities were undertaken). There is a concern among companies that after a length of time, during which software systems may have changed/ evolved, documentation retention policies may require deletion of materials, or key R&D personnel may have left the company, it can be very challenging to retrospectively prove the 'science test' compared to say if an audit was carried out within 24 months after the claim was submitted. This would still provide the Revenue with ample time to consider whether they wish to examine a claim.

- **What proportion of R&D activity and expenditure undertaken to date would have been incurred by the company / group in Ireland in the absence of the R&D tax credit?**

  We asked MNCs that conduct R&D in Ireland and other jurisdictions what percentage of their RD&I would take place in Ireland without the R&D Tax Credit. 56% of MNCs stated that there would be a significant reduction – responding that only 10% or less of their current R&D activity levels would take place in Ireland in the absence of the R&D Tax Credit. 82% have said that their current R&D activity levels would reduce by 50% or more.

  These results further emphasise the importance of the R&D Tax Credit for both maintaining and increasing R&D activity in the State. It is quite clear that the absence of the credit would mean the immediate loss of opportunities to compete effectively for new R&D projects. The volume of R&D activities taking place in Ireland would reduce over time with the Irish operations becoming less central to the business resulting in loss of employment and business growth opportunities.

2. Subcontracted R&D activities to a University or Institute of Higher Education

"A company which incurs expenditure in the carrying on by it of qualifying R&D and pays a sum to a university or institute of higher education to carry out qualifying R&D activities in a relevant Member State, can claim relief. Relief will be restricted to 15% of the expenditure incurred by the company itself on R&D activities or €100,000, whichever is the greater, subject to the company incurring at least the same level of expenditure on qualifying activity which it carries out itself." [3]

As part of overall policy to develop, sustain and promote growth of our economy into the future, the importance of a highly-skilled workforce and of continuing education with a view to upskilling the workforce is often cited. Collaboration between universities or institutes of higher education and companies actively undertaking R&D has been noted as playing an important role in developing a knowledge-based ecosystem and supporting quality education and employment prospects for students and graduates.

- **During the period in which R&D activities were undertaken by the company, did the proportion of the company's overall headcount with STEM qualifications increase? If so, what specific areas of STEM were of relevance?**

  We work with companies across all industries and in general we have seen that they tend to grow and upscale their R&D operations over time, meaning they increase their headcount of employees with relevant STEM qualifications where additional R&D activities and projects are required to be undertaken.

- **Where elements of R&D activity were outsourced to a university or institute of higher education, please provide information on relevant considerations. For example, was outsourcing required to access particular expertise or equipment? Was it a standalone project or did it result in longer-term collaboration?**

In our experience outsourcing some or all of an R&D project is generally undertaken to access expertise or specific specialist equipment.

R&D activity is mostly outsourced to universities or institutes of higher education for standalone projects. However, we also see longer term industry-academia partnerships, within the Research Ireland Centres for example. These typically take shape on a project-by-project basis. From our experience assisting companies with the preparation of R&D tax credit claims, we have found that it would be more common for companies within the life sciences, food and drink, and manufacturing sectors to engage universities as part of their R&D process. It would be less common for software companies to outsource R&D activities to universities.

- **Are there instances where the current cap has specifically limited outsourcing plans to universities or institutes of higher education?**

  In our 20-year experience of advising on R&D tax credit claims, rarely have we seen the outsourcing cap for universities being reached. This suggests that the cap itself is not a key factor in influencing whether a company wishes to work with a university. That said, considering the clear aim of government in supporting additional R&D collaboration between the business sector and academia, we do not see the rationale for including a limit on R&D activity outsourced to universities or institutes of higher eduction and consideration should be given to its removal.

  We would generally see companies working with National Institutes such as Tyndall, NIBRT and Teagasc Food Research Centre, Moorepark more frequently than Universities or Institutes of Higher Education. It appears that these National Institutes do not fall under the legislative definition of a "university or institute of higher education" and thus must be included under the non-university cap, which is often already utilised by other third-party payments.

  Recommendation: Removal of limits on outsourcing of R&D activities to qualifying universities and institutes of higher education. In addition, broadening the definition of "university or institute of higher education" to also allow "National Institutes" to come within the remit of the 'University' outsourcing limits.

- **Are there any factors other than the cap which would be relevant in encouraging additional collaboration on R&D between companies and universities or institutes of higher education?**

  Strengthening R&D collaboration between industry and academia is an important aim within Ireland's Impact 2030 Research and Innovation strategy[4]. To support this goal, we believe there are a number of strategic enhancements that should be made to the R&D tax credit that will improve the attractiveness for companies to engage in industry-academia collaborations. We believe the following enhancements should be considered:

  - There should be enhanced benefit where a company embeds 'researchers in residence' within a university or institute of higher education. Locating company researchers within a university or institute of higher education, provides important benefits to both the academic institute and the company: for example, it facilitates access to cutting-edge research facilities and expertise, promotes knowledge exchange, and enhances innovation through interdisciplinary research. This leads to enhanced R&D outcomes and the potential for competitive advantage for companies that engage in collaboration with academia.
    - **Recommendation:** To encourage companies to place technical experts as 'researchers in residence' within a university or institute of higher education, we recommend the introduction of an enhanced level of relief within the existing RDTC framework. For example, a company could claim 200% of the expenditure incurred on 'researchers in residence' that spend >50% of an accounting period working in a university or institute of higher education.
    - **Recommendation:** The inclusion of an allowance to account for the increased overheads for this type of activity. Collaborations, whilst useful, can result in additional costs beyond those seen with non-university collaborators such as extended time consumed in administration to agree publishing and IP rights and ownership. In recognition of the beneficial impact increased private sector funding has on the university sector and the employment opportunities that can arise out of such collaborations, we would recommend an allowance for certain related overheads up to a cap of 25% of the investment in the collaboration, including both the university spend and the corresponding internal spend.

3. Spill over effects of collaboration with Universities and Institutes of Higher Education

It is recognised that a cornerstone of Ireland's economic success has been our highly skilled and talented workforce. The Programme for Government sets out the aim to improve our education system to equip students with the skills they require to succeed in a rapidly changing world. The importance of fostering the interest of students in STEM subjects at primary and secondary levels is recognised, and the presence of R&D-active businesses in local economies can contribute to this process.

4 Impact 2030: Ireland's Research and Innovation Strategy", published by the Department of Further and Higher Education

- **Does your company have engagement with any university or institute of higher education other than for the outsourcing of elements of R&D activity, for example offering work placement opportunities to students; input into curriculum development, sponsorship of programmes at PhD level or at another level, etc?**

  Many companies, particularly in lifesciences, collaborate with university or institute of higher education students in relevant STEM courses for work placements. In addition, companies often provide input into curriculum development and also sponsorship of programmes at PhD or at another level.

- **Does your company have any engagement on STEM initiatives with schools at primary or secondary level, or with other civil or social groups?**

  As noted during our in person roundtable meeting with the Department of Finance, one company commented that they, together with RAISE (Research, Application, & Inclusion in STEM Education) support a third level Initial Teacher Education ("ITE") Bursary which aims to support the promotion of STEM in the community. This bursary is part of an overall strategy that aligns with the company's STEM Strategy, where it is dedicated to inspiring a global and diverse future generation of innovators through high-quality STEM education by working with schools and organisations to increase student aspiration, ability, and access. The aim of this Bursary is to highlight the important role that teachers have in supporting and encouraging students and to celebrate the part they play in our education system. The intent is that STEM education becomes more attractive and accessible to student teachers across Ireland and that indeed, the uptake of STEM is celebrated.

4. Subcontracted R&D activities to other unconnected third parties

In addition to the provision for outsourcing to third-level institutions, "a company which incurs expenditure in the carrying on by it of qualifying R&D and pays a sum to another person (not to a university or institute) who is not a connected person, in order for that person to carry out qualifying R&D activities for the company, can claim relief. Relief will be restricted to 15% of the expenditure incurred by the company itself on qualifying R&D activities or €100,000, whichever is the greater, subject to the company incurring at least the same level of expenditure on qualifying activity which it carries out itself."

- **Where elements of R&D activities were outsourced to unconnected third parties, please provide detail on the impetus for this action – for example was outsourcing required to access particular expertise, equipment or services?**

  In our experience, the primary reason for outsourcing R&D activity is to access specialised expertise and/or capabilities within a distinct area of science or engineering. Where a company is conducting a multi-faceted R&D project, it is common for certain aspects of the project to be outsourced to a subcontractor that specialises in a specific area or indeed has access to specialist equipment or resources required to carry out the required work.

  For example, a company operating in the life sciences sector that is developing a new drug may outsource certain testing (e.g. stability testing, analytical testing etc.) to a third-party subcontractor that specialises in this field and has access to the appropriate laboratory facilities, equipment and skilled resources. Depending on the scale of operations, such testing and analysis may be done 'in-house' where the company has direct access to the appropriate equipment / facilities and expertise. However, for smaller companies without the same level of 'in-house' resources available, it is more likely that outsourcing is required. In addition, smaller companies may not have a requirement for a full-time resource with the specific skill set required.

  Another reason for the outsourcing of R&D activities is when companies require additional skilled personnel at short notice. In such circumstances they may engage an agency staff provider to provide agency staff or temporary headcount. Such individuals typically work 'side by side' with the employees of the company in carrying out the R&D work, as opposed to being engaged to carry out a distinct aspect of the R&D project.

  In many ways, while the R&D claimant may pay the agency staff provider directly in relation to the agency worker, the workers are in effect carrying out the same tasks as the R&D claimant's employees.

- **Having regard to the credit's policy objectives of supporting high value-add employment and economic activity, are there amendments to the outsourcing provision that you believe would be beneficial and cost-efficient for the Exchequer.**

  The findings from the Ireland's Innovation Index 2025 survey further highlight the importance of the R&D Tax Credit to companies conducting R&D in Ireland including 30% of respondents indicating that these funding supports enabled collaboration with other parties.

Currently, companies that claim the R&D tax credit can outsource activity to unconnected third parties. However, outsourced expenditure to such third parties is currently subject to a restriction being the greater amount of:

a) 15% of a company's non-outsourced R&D expenditure, or

b) €100,000 (subject to this amount being incurred and matched by non-outsourced R&D expenditure).

Keeping in mind the primary policy objective of the R&D tax credit which is to incentivise business R&D in Ireland thereby increasing economic activity while contributing to high value-add employment, we have outlined below our recommendations with respect to subcontracted and outsourced expenditure. We have also sought to factor in methods to ensure that the suggested updates are beneficial and cost-efficient for the Irish Exchequer.

Recommendation: We believe the following updates should be made with respect to outsourced expenditure for the purposes of the R&D tax credit regime:

1) An increase in the existing sub-contracted limits from 15% to 25% and from €100,000 to €1m.

2) Agency staff, which almost always work on site, should not be subject to the outsourced limits

3) Allowance of subcontracted R&D to connected third parties, where the R&D activity is managed and controlled within Ireland and/or and where any Intellectual Property ("IP") created is to be held in Ireland.

See further details below with respect to our recommendations:

1. *Subcontracting to unconnected third parties – i.e. current outsourcing regime*

   The RDTC legislation requires that any claim in respect of outsourced expenditure be matched by an equivalent amount of in-house expenditure. We recognise the importance of linking the allowable outsourced expenditure to the total of non-outsourced expenditure incurred by the R&D claimant. Without any limits, Irish resident companies would be able to claim significant R&D tax credits without fulfilling the key policy objective of the R&D tax credit which is to create highly skilled and valuable jobs in Ireland. However, we believe that the current limits which are in place are excessively restrictive and disproportionately impact SMEs who do not have the same 'in-house' resources or capabilities as available to larger companies.

   Therefore, we suggest that the limit on outsourcing R&D activity to third parties is increased.

   Recommendation: We recommend an increase in the current outsourcing limit to unconnected third parties to the greater amount of:

   a) 25% of a company's non-outsourced R&D expenditure (up from 15%), or

   b) €1m (up from €100,000). This limit remains subject to this amount being incurred and matched by non-outsourced.

   An increase in the €100,000 limit to €1m, will help take into account the increased cost of doing business in Ireland, including rising inflation, since the introduction of the current €100,000 limit in Finance Act 2012. In addition, and based on experience, the €100k limit is more commonly reached by smaller companies, where the €100k limit is greater than the 15% option.

2. *Agency Staff*

   Recommendation: We propose amending the legislation for payments to agency staff providers, where:

   i) the agency staff provided to the claimant company carries out R&D activities within Ireland,

   ii) agency staff provider is regarded as the employer of the individual, and

   iii) the agency staff member is subject to Irish payroll taxes.

   Where these conditions are met, the payment to the agency staff provider should not be subject to the outsourced limits. The agency providers cannot make an R&D tax credit claim for the activities undertaken so there is no 'leakage' or double claim.

3. *Subcontracting to connected companies*

Currently, Ireland's R&D tax credit regime only allows for outsourced expenditure to be claimed (within the applicable limits) where the R&D activity has been carried out by an unconnected third party. Other R&D tax relief regimes, such as the UK and Singapore, allow companies to claim for subcontracted expenditure to connected companies. The UK regime allows companies to outsource internationally (to connected or unconnected parties) where the conditions to undertake the subcontracted activity within the UK were not present and it would be "wholly unreasonable" for the company to replicate the conditions in the UK.

Recommendation: We recommend considering an allowance for outsourcing of R&D activities to connected companies where the overall R&D activity is managed and controlled in Ireland. This would ensure that where group outsourcing costs are allowable for R&D tax credit purposes, that there is activity and substance in Ireland. Consideration could also be given to linking the ability to claim connected company outsourced costs with a requirement that any IP arising from the R&D activity will also be held in Ireland.

Having regard to the exchequer cost, this allowance could be limited to (say) €1m - €2m of outsourced to connected party expenditure (i.e. no more than €300k - €600k of R&D tax credit per claim) where the connected companies are located in the EEA or a DTA territory. Importantly, there could still be a requirement that there is matching R&D expenditure within the Irish claimant company i.e. to claim the R&D tax credit on €1m of outsourced expenditure, the claimant company must incur €1m of non-outsourced expenditure.

Furthermore, under other R&D regimes such as the UK, connected third party costs are limited to the lower amount of the payment made or the sum of eligible R&D costs incurred by the connected company in conducting the R&D work (e.g. staff costs, materials etc. incurred by the connected company). The intention seemingly is to restrict any amount of markup applied through transfer pricing arrangements in the payment made by the R&D claimant to the connected company. A similar restriction could also be considered here.

- **Are there instances where the existing cap has limited plans to outsource activities, resulting in an overall reduction in R&D activities?**

Many smaller companies rely on R&D incentives to support their ability to innovate and continue to conduct R&D projects. Larger multinationals also focus very closely on the cost of doing R&D in Ireland and frequently are required to 'pitch' for significant R&D projects to be located in Ireland instead of other countries, many of which may be considered 'lower cost territories' such as Central America, South America, certain parts of Europe and Asia. Without the availability of the R&D tax credit, it would become significantly more difficult to compete against these lower cost locations.

R&D investment plans are usually planned well in advance of the actual R&D activity being undertaken. We would expect that when budgeting for an R&D project where a certain level of expenditure would be incurred on the outsourcing of R&D work, it would be challenging for companies to establish the portion of the payment that may be eligible for R&D tax credits. This is partially due to the existing limits attached to outsourced expenditure and how allowable outsourced expenditure is calculated, i.e. by reference to 'in-house' R&D expenditure in the relevant accounting period.

Other jurisdictions such as the UK apply a restriction to the outsourced payment (as opposed to a restriction based on the percentage of non-outsourced R&D expenditure) and this makes it easier to estimate the portion of the outsourced costs that are likely to be eligible for R&D tax credits.

We do believe that an increase to the existing outsourcing limits should, for many companies, result in larger portion of their overall outsourced expenditure being eligible for R&D tax credits. This means that where outsourcing is expected to be a fundamental part of an Irish R&D project, Irish subsidiaries will be able to further demonstrate the attractiveness of Ireland's R&D tax credit and how it supports Ireland as cost effective R&D location. For SMEs, it would provide vital support for those involved in R&D projects, many of whom have no option but to outsource certain aspects of an R&D project where the required skills, facilities, equipment etc. is not available 'in-house'.

5. Grant funding

Has your company undertaken R&D which qualified for the R&D tax credit and which has also qualified for grant funding as set out below? If so:

- **During the period in which R&D activity was carried on by the company, what proportion of R&D projects undertaken received grant support from:**
  - **IDA or Enterprise Ireland:**
  - **European Union (e.g., Horizon Europe, Horizon 2020, European Framework Programs):**
  - **Other Sources (e.g., UK or non-EU bodies/institutions):**

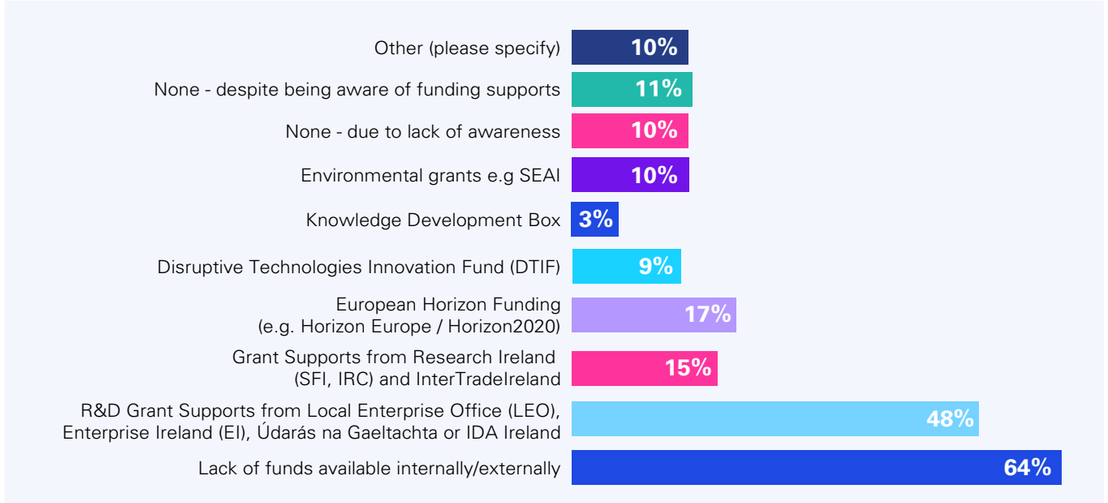
From experience, many companies but particularly MNCs, avail of both direct grant funding and the R&D tax credit. The most common grants which we see companies avail of are the RD&I grants which are available through Enterprise Ireland and IDA. 48% of respondents to the Ireland's Innovation Index 2025 survey reported receiving support from these agencies. This indicates a strong reliance on domestic funding mechanisms and highlights the importance of maintaining and expanding these supports.

Only 17% of respondents have accessed EU-level funding. This suggests a potentially under utilised support, possibly due to complexity, lack of awareness, or resource constraints in navigating EU application processes.

None of the surveyed companies reported receiving R&D grant support from sources outside the EU.

The findings from our survey underscore the need for enhanced guidance, outreach, and administrative support to help Irish companies—particularly SMEs—access a broader range of funding sources, including EU and international programs.

R&D funding supports availed of



Are there any impediments to identifying and/or claiming grant supports?

There are several notable impediments to identifying and claiming grant supports in Ireland, as highlighted by the findings in our survey.

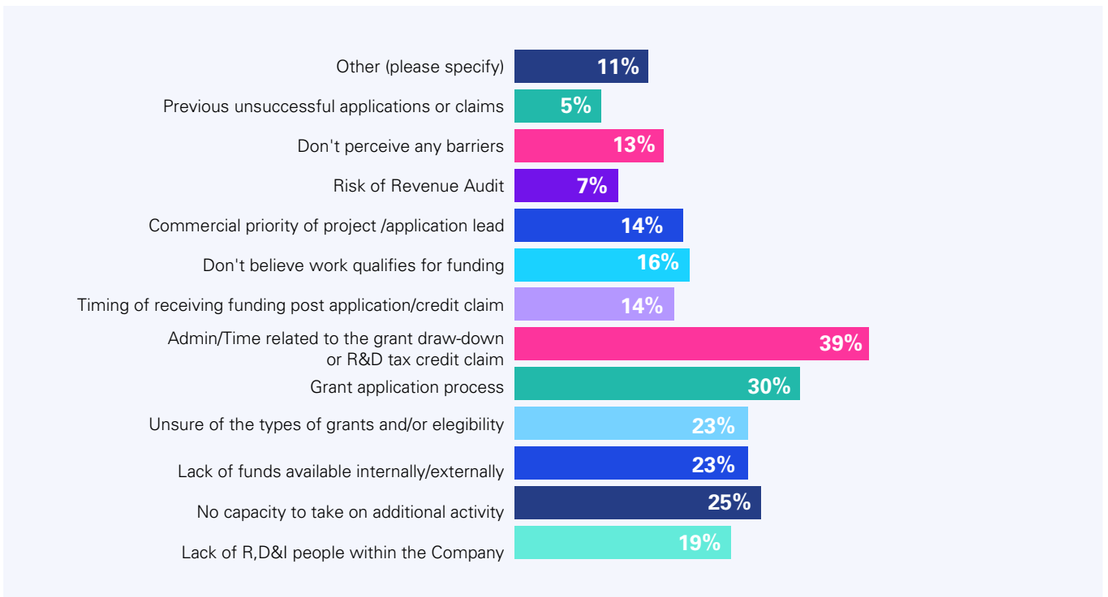
Ireland's Innovation Index 2025 found that the administrative burden and time commitment associated with both the grant draw-down process and R&D tax credit claims is the largest barrier to companies accessing State supports. This is followed by the grant application process which was flagged by 30% of respondents as being the second largest barrier for accessing RD&I supports. This includes the complexity of application procedures, documentation requirements, and the time needed to manage compliance and reporting obligations.

It is clear from the survey findings that the administration involved in grant applications and drawdowns is a challenge that companies need to overcome when applying for grant funding. We understand the importance of having an appropriate application and drawdown review process which aims to ensure that vital grant funding is issued to only those that are entitled to it. However, where the application/ drawdown process can be made slightly less burdensome for companies, this should lead to further engagement by industry.

In addition to administrative challenges, companies also cited lack of internal or external funding and limited capacity to take on additional RD&I activity as key obstacles to accessing state supports. These factors are particularly acute for SMEs, which often operate with constrained resources and may lack dedicated personnel to manage grant applications.

Only 13% of respondents reported that they did not perceive any barriers to applying for incentives in Ireland.

Barriers to accessing state supports



Furthermore, Ireland's Innovation Index 2025 revealed a critical issue around awareness and engagement. Of the respondent companies that do not avail of supports in any capacity (i.e. 94 in total):

- 49% of these respondents relate to companies conducting R&D that do not claim available supports due to lack of awareness.
- The remaining 51% are aware of the supports but still do not claim them, suggesting that barriers extend beyond awareness to include perceived complexity, uncertainty about eligibility, or lack of confidence in the process.

These findings underscore the need for targeted policy interventions to simplify access, improve communication, and provide tailored support—particularly for smaller enterprises—to ensure that Ireland's innovation supports are fully utilised.

6. The Future of Research & Development

As we look to the future of the R&D tax credit and the economy, where do you believe the focus of future R&D in your sector will be and what emerging technologies or areas should be considered.

What is the company's biggest threat or competitor to growth and in attracting R&D investment in the future?

Macro Threats

Based on our interactions with a large number of Irish companies, both indigenous and subsidiaries of MNCs, there are several significant threats that these companies are actively monitoring with regards to their own ability to attract R&D investment in Ireland and grow their R&D capabilities here.

One of the main threats that has become even more relevant in recent times is geopolitical instability. Changes in global trade policies, such as tariffs and protectionist measures, are disrupting supply chains for companies, which will ultimately lead to adverse effects on the profitability of both indigenous and multinational companies operating in Ireland. A corresponding reduction in corporate tax receipts to the exchequer can be expected. Companies may find themselves needing to diversify their supply chains or seek alternative sources, which can be both time-consuming and financially draining. This instability can cause delays and increase costs in the procurement of essential materials and components needed for R&D activities.

Geopolitical tensions can also affect the regulatory environment. Changes in international agreements and standards can lead to increased compliance costs for companies, limiting their ability to invest in R&D. For example, new regulations might necessitate alterations in product designs or manufacturing processes, diverting resources away from research and innovation.

Additionally, geopolitical instability can impact foreign direct investment (FDI) flows into Ireland, while companies adopt a 'wait and see' approach. This reduction in FDI will lead to a decrease in available funding for R&D initiatives, thereby stifling the growth of innovation-driven sectors.

The current climate creates risks for R&D activities and large manufacturing operations based in Ireland. A company with established R&D capabilities often wins new high end manufacturing projects which provide significant high value employment opportunities for local communities in Ireland. Without an established R&D operation, it is less likely that Ireland will be selected as the location for the new or improved product manufacturing.

During our client in person roundtable with the Department of Finance, this was highlighted by a number of life sciences companies that had a significant R&D and manufacturing presence in Ireland. One such company explained the challenges presented through a defect on the manufacturing line and the benefit that co-location brought. It was explained that without the R&D operations being co-located with manufacturing, the defect would have been very challenging to fix, and the product would have been discontinued in Ireland. With the recent introduction of tariffs, Ireland will face enhanced challenges when it comes to attracting new manufacturing projects. The R&D tax credit is a crucial incentive not only for securing R&D activity, but also for the high value manufacturing that typically follows.

In Ireland, the benefits previously offered to companies through the Knowledge Development Box have been significantly reduced in recent years due to the introduction of the Pillar 2 regime. Due to Ireland's 12.5% corporation tax rate, companies within scope of Pillar 2 are unlikely to benefit from the KDB while companies outside of scope of Pillar 2 will only receive a maximum net tax savings of 2.5%. Consideration must be given to developing effective mechanisms that incentivise companies to keep IP in Ireland and that there also continues to be a benefit for companies that develop and exploit IP here.

In a similar vein, economic uncertainty in both Ireland and internationally creates an unpredictable environment for investment, particularly in R&D. Fluctuations in global economic conditions, such as inflation and rising interest rates, can lead to a reduction in investment by companies in areas such as R&D. With inflation, the cost of goods and services used in the everyday operations of a company increases, which has the effect of squeezing the budgets of companies and limiting the funds available for R&D activities. Any increase in interest rates can further compound this issue. This adverse climate not only hampers ongoing projects but also deters new projects, stalling innovation and progress. In addition, unstable economic conditions can lead to workforce reductions and a decrease in the hiring of skilled professionals, which are vital for advancing research and development.

Competitors

Nations like Switzerland, Sweden, the United Kingdom and the Netherlands rank higher on the Global Innovation Index and offer competitive environments for R&D activities[5]. These countries provide robust incentives and infrastructure, making them strong contenders for attracting R&D investments that might otherwise come to Ireland. We will discuss this further below in the context of the UK regime.

Reductions to the US corporate tax rates has made Ireland less attractive for American companies, this erodes the benefit of the 12.5% corporate tax rate that applies to company profits arising in Ireland. Future US tax reform already signalled could lead to a shift in R&D investments back to the United States.

Countries such as Singapore, with growing tech ecosystems and favorable investment climate, are increasingly competing for R&D investments. These nations are becoming attractive destinations due to their innovative approaches and strong support for technology and research sectors.

These competitors pose significant challenges for Ireland in maintaining and growing its R&D investment attractiveness, necessitating strategic adjustments and enhancements to Ireland's current policies and incentives.

A recent OECD study shows that other jurisdictions are providing higher levels of government tax relief for R&D expenditure as a percentage of GDP. In 2023, Portugal (0.39%), Iceland (0.38%) and the United Kingdom (0.30%), followed by France (0.28%) and China (0.24%) provided the highest level of tax supports for R&D expenditure which makes them attractive alternatives to Ireland (0.22%) for locating R&D operations[6].

Jurisdictions such as France, Belgium and Spain also offer tax incentives for Innovation, making them serious competitors. These countries also provide comprehensive support for R&D activities, which enhances their attractiveness for mobile R&D investment.

Given our closeness, both geographically and culturally, many companies looking to locate their mobile R&D investment in Europe see the UK as the leading alternative to Ireland. While the Irish RDTC still compares favorably to the UK's now recently merged R&D regime, there are a number of areas where the UK regime is more advantageous with the main advantages being related to the availability of relief on qualifying indirect activities, claim timings (both to make the claim and the response period), and ability to claim for expenditure on subcontracted activity with connected parties (as discussed in section 3).

Qualifying Indirect Activities

Under the UK R&D tax relief scheme, companies can include the costs of "qualifying indirect activities" which include clerical administrative activities to support direct R&D activities, maintenance of R&D equipment, taking on and paying staff, training, etc. For Irish R&D claims, R&D expenditure must be "incurred by the company wholly and exclusively in the carrying by it of R&D activities…". It is the phrase "in the carrying on" of qualifying activity, which the Irish Revenue considers is a narrower definition and which, in their view, means that qualifying indirect activities (similar to the UK regime) are not allowed. Prior Revenue guidance on R&D allowed expenditure on indirect activities to qualify. The February 2011 Revenue Guidelines for Research and Development Tax Credit - Updated February 2011[7] previously outlined that "allowable expenditure would include the cost of the following activities:

(a) engineering, design, operational research, mathematical analysis, computer programming, data collection, testing, or psychological research;

(b) indirect supporting activities such as maintenance, security, administration and clerical activities, finance and personnel activities;

(c) ancillary activities essential to the undertaking of research and development activities such as taking on and paying staff, leasing laboratories and maintaining research and development equipment including computers used for research and development activities;

(d) the cost of plant and machinery used wholly and exclusively for R&D activity."

Revenue's current interpretation of the provisions is that legislative change is required to allow for these costs to qualify.

Recommendation: To align with the UK regime, we would strongly encourage that the Department of Finance consider a legislative amendment to allow expenditure incurred 'for the purposes of qualifying R&D activity", to be considered eligible. The recent global trading challenges present a real threat to business operations in Ireland. Notwithstanding the EU access that Ireland offers, the attractiveness of the UK should not be underestimated, particularly where it can negotiate directly with the US and sets its own policy. Ireland needs to be conscious of what is on offer from the UK Merged R&D Scheme.

5 https://www.wipo.int/web-publications/global-innovation-index-2024/en/gii-2024-results.html
6 R&D tax incentives continue to outpace other forms of government support for R&D in most countries - https://www.oecd.org/

Revenue enquiry window

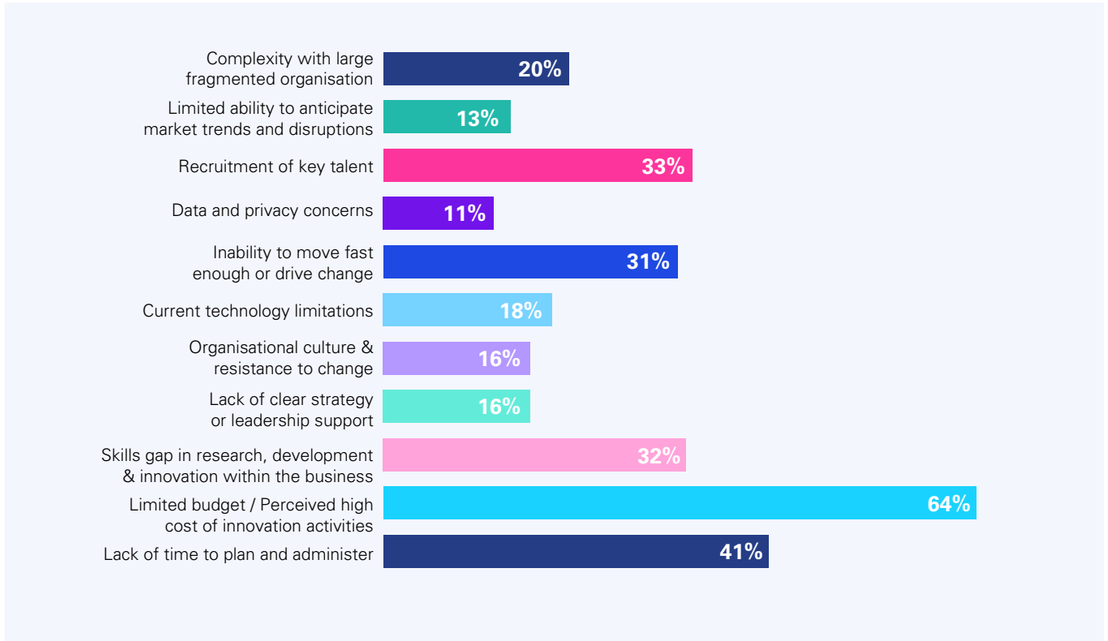
Under the UK R&D regime, the enquiry window that HMRC has to review a claim is much shorter. It typically runs to 2 years from the balance sheet date of the relevant period of accounts for companies.

Recommendation: Updating the Revenue enquiry window to align with the UK regime will help with the perceived administrative burden of the Irish R&D tax credit.

Other Considerations

Besides competition from other jurisdictions, our Ireland's Innovation Index survey findings show that 64% of companies highlighted lack of budget as one of the main factors affecting their ability to conduct RD&I. Lack of time to plan and administer, recruitment of key talent and current technology limitations were also selected as major factors.

Factors affecting ability to innovate



Are there specific categories or areas of R&D which are currently being undertaken in your sector which you believe may not currently qualify for the R&D tax credit? If yes, please indicate why such R&D activities are not encompassed in the existing definitions.

Based on our experience, there are several categories of activity that may be considered R&D by companies in Ireland that potentially may not qualify for the R&D tax credit due to the interpretation of what constitutes eligible R&D under current legislation.

- In respect of user experience in software development, projects focused on delivering novel and unique user experience may not qualify for R&D tax credits. User Experience (UX) in software development is a multidisciplinary field that intersects both computer science and behavioral sciences and requires significant technical expertise. Clearer guidance as to which elements of User Experience (UX) in software development is qualifiable would be beneficial.
- Many environmentally focused initiatives—such as carbon reduction strategies or circular economy models—may not qualify if they do not involve formal scientific experimentation, despite their innovation and societal value.
- R&D in sectors like finance, logistics, or healthcare often involves process improvements or data-driven innovation that may not meet the criteria of scientific advancement, even though they contribute to technological progress.

- In the life sciences sector, certain phases of clinical trials or regulatory-driven development may be excluded if they are not deemed to involve technological uncertainty, despite being essential to resolving the overarching technological uncertainty with respect to the development of a new drug product.

The above examples suggest that the current definitions do not fully reflect the evolving nature of research and development in Ireland's modern economy. Broadening the scope of qualifying activities could ensure that the tax credit supports a wider range of impactful R&D efforts.

Recommendation: Consideration should be given to expanding the list of qualifying fields beyond the existing science and technology categories to include, for example, specific reference to research into technologies such as artificial intelligence and machine learning, cybersecurity, quantum computing and other emerging technologies, many of which are currently included under "computer sciences and other allied subjects". Specific reference would bring further clarity to those undertaking research into these areas that they can qualify for the R&D tax credit. Broadening the scope of qualifying activities could ensure that the tax credit supports a wider range of impactful R&D efforts.

Recommendation: Consideration should also be given to specifically allowing the R&D tax credit to be claimed on certain supporting and ancillary activities which are integral to a company resolving the scientific or technological uncertainty associated with its R&D project, albeit the activities in their own right may not be considered 'core R&D activities'. Indirect supporting activities and ancillary activities are provided for under other R&D regimes internationally, such as UK, Australia, Canada and New Zealand.

Clinical Trial activities

Clinical trials are fundamental to the advancement of medical knowledge and the development of new treatments. For life sciences companies, clinical trials represent a systematic process to ensure the safety and efficacy of new drugs and therapies. Commitment to patient safety and data integrity is paramount, and innovative methodologies are employed to streamline trial processes. By conducting these trials, companies can resolve scientific or technological uncertainties and achieve significant advancements in medical science.

In some cases, the employees of a life sciences company may carry out many of the fundamental steps associated with a clinical trial. The company incurs substantial costs on employment , the purchase or manufacture of materials which are used in the course of the trial and payments to third parties such as the various clinic sites and many other related activities. At present, while we believe this expenditure should be considered qualifying for the R&D tax credit there is a degree of uncertainty as to whether this position would be accepted by Revenue. In the interests of providing certainty to the life sciences companies that may wish to locate these types of activities and the associated employment opportunities in Ireland, and in the face of increasing international competition from other jurisdictions, it is important that confirmation is provided that this expenditure is considered qualifying expenditure for the purposes of the R&D tax credit.

- **How will decarbonisation and digitalisation play a role in your company and what opportunities are there more broadly for R&D in these areas?**

Based on our discussions with our clients, we expect that decarbonisation and digitalisation are set to play transformative roles in shaping the future of Irish enterprises. Both of these areas involve strategic challenges which will offer significant opportunities for research and development.

As part of the Ireland's Innovation Index 2025, we asked respondents would an enhanced 50% rate for work carried out in relation to green/sustainable technologies, such as decarbonisation and digitalisation, incentivise increased investment in these technologies. 76% companies said that an enhanced incentive would lead to more investment in this area and help to improve Ireland's performance in the Climate Change Performance Index (CCPI) and meet our commitments made under the Paris agreement, Climate Action Plan and European Green Deal.

Decarbonisation

Ireland's ambitious climate targets are pushing companies to rethink energy use, supply chains, and production methods. Simultaneously, digital transformation is driving efficiency, innovation, and new business models across sectors.

Ireland has the potential to be a world leader in offshore wind, energy storage, hydrogen manufacture and transport, and sustainable aviation fuel, and agritech. Offering enhanced credits to businesses in these areas could accelerate innovation and propel Ireland to the front rank in this critically important space. Furthermore, certainty in energy supply arising from these additional energy providers would attract other businesses seeking to create a base in the EU to Ireland.

In respect of decarbonisation, some of the key potential R&D opportunities that we see in the near future include:

- **Renewable Energy Technologies:** including research into offshore wind, solar PV, and microgeneration systems.
- **Smart Grids and Energy Storage:** Development of grid-forming inverters, grid-scale batteries, and intelligent energy management systems.
- **Low-Carbon Transport:** R&D in electric vehicles, charging infrastructure, and hydrogen fuel systems.
- **Green Industrial Processes:** Electrification of heat-intensive processes and the use of green hydrogen in manufacturing.
- **Sustainable Construction:** Energy-efficient building materials, smart building systems, and district heating solutions.

Digitalisation

This is an area that presents a wealth of opportunities for Irish companies to innovate and grow, while R&D in these areas will drive significant advancements across a wide number of industries. Some of the opportunities for R&D in the area of digitalisation that we expect to see in the coming years include the following:

- **Smart Technologies:** R&D into the Internet of Things (IoT) may lead to the development of smart products and services that enhance connectivity and efficiency for companies
- **AI and Machine Learning:** These technologies offer vast potential for R&D, including predictive analytics, automated decision-making, and advanced data processing
- **Biopharmaceuticals:** Digitalisation in R&D can significantly reduce the cost and time required for drug development, improve patient outcomes through targeted therapies, and accelerate the delivery of treatments
- **Sustainable Technologies:** R&D in digitalisation can also focus on developing sustainable technologies that reduce environmental impact and promote green practice

Digtialisation has become crucial to the modern manufacturing process. Technologies such as AI, Machine Learning, Robotics, Internet of Things, Edge Computing, Digital Twins have all contributed to fundamental changes to how products are designed, produced, and distributed. The evolution from traditional manufacturing to a digital world is reshaping the industry and with this evolution, it is important that tax incentives continue to evolve to meaningfully incentivise such activities.

- **Other than amendments to the rate or scope of the tax credit, are there any measures or amendments to the current regime which you feel would encourage greater engagement with the R&D tax credit?**

Our extensive recommendations are outlined in the Section 4.

7. Other Observations or Feedback

We welcome any other comments or observations that you may have about the R&D tax credit regime that you feel would be beneficial to us as we review and look to shape future policy regarding the regime. Please provide specific examples and details, bearing in mind that the submission is subject to the Freedom of Information Acts. In any responses we ask that you are cognisant of the policy objectives of the regime, the need to deliver value for money to the taxpayer, and State aid implications.

In section 4 of this response, we summarise the recommendations outlined above and provide additional recommendations not already covered. These additional recommendations include:

- Increase in rate from 30% - 35%
- Efficient payment of R&D cash refund instalment
- Building expenditure related R&D credits for non-industrial buildings and removal of 35% R&D threshold
- Allowance for overheads
- Mechanism for correcting errors
- Enhanced R&D tax credit rate for 'Green technologies'
- Streamlining of R&D intervention process

8. Innovation – consultation questions

As set out above there is a commitment within the Programme for Government 2025 'Securing Ireland's Future' to examine options to reward innovation and digitalisation and encourage innovation by domestic and international companies.

While we explore and consider policy in this area and consider how it might align with government objectives such as the green and digital transitions, we would like to understand from your company:

i. How would you define innovation, having regard to the need for definitions for policy purposes to be specific, unambiguous, and focused on delivering real additionality?

The OECD Oslo Manual refers in detail to policies which support innovation and how innovation is central to the growth of output and productivity. It also helpfully refers to the importance of understanding several critical aspects of the innovation process, such as innovation activities other than R&D. This will be an important distinguishing factor when considering an additional incentive for innovation which is separate from the R&D Tax Credit.

The general definition of "Innovation" as referred to in the OIso Manual is as follows:

An innovation is a new or improved product or process (or combination thereof) that differs significantly from the unit's previous products or processes and that has been made available to potential users (product) or brought into use by the unit (process).

In addition to the above, ISO56000, which is an international standard developed by the International Organisation for standardisation, defines innovation as 'a new or changed entity realizing or redistributing value'. Key aspects of this definition are:

- 'New or changed' means the innovation can be entirely novel or just significantly improved.
- 'Entity' refers to a product, service, process, model, method, or any other result of innovation.
- Realising or redistributing value emphasises that innovation must deliver value – whether its economic, social, environmental, or otherwise – and not just be a novel idea.

The ISO56000 definition emphasises that innovation isn't limited to brand new inventions; it can also include changes to existing products, processes, or business models – as long as they deliver or redistribute value (economic, social or environmental).

Both of these definitions (i.e. OECD Oslo Manual and ISO56000) should be helpful when defining innovation for policy purposes as they are recognised international standards that give a specific and unambiguous explanation of what innovation means. Notwithstanding this, these definitions are quite broad and from a policy point of view may need to be further refined to be appropriately specific and focused on delivering real additionality to Ireland's knowledge economy.

With this in mind, we propose the following definition to be applied to an innovation-based tax credit which also incorporates "experimental development" (called the "Experimental Development and Innovation" credit) and follows a similar methodology to the requirements of the R&D tax credit:

Recommendation: To qualify for the "Experimental Development and Innovation" credit, qualifying activities must satisfy all of the following conditions. They must—

1 be systematic or investigative activities;
2 be implemented;
3 involve one or more of the following categories of innovation—
   - product innovation, or
   - process innovation.
4 involve experimental development

In addition, they must:

5 seek to achieve a new or significantly improved and meaningful advancement* for the company; and
6 involve a positive impact on the firm's performance (including emissions).

* Further consideration would be needed to clearly define a meaningful advance to avoid ambiguity. It could be defined, for example, as having a measurable and practical application that is novel, available and creates value.

This proposed definition of '*Experimental Development and Innovation*' is derived from Revenue Tax and Duty Manual and principles set forth in the Oslo Manual, IS056000 and taking into consideration General Block Exemption Regulations ("GBER"). The inclusion of experimental development from GBER may mean that the new Experimental Development and Innovation credit would not require State Aid Approval for the proposed credit.

Where companies are involved in activities which meet the definitions above, they could be entitled to say a 15% refundable ED&I tax credit on eligible expenditure incurred on such activities. The credit could be structured in a similar way to the R&D tax credit in that it is a fully refundable credit to ensure it aligns with the changes to the international tax landscape and operates as a qualified refundable tax credit for Pillar 2 purposes.

Having consideration of the cost to the exchequer, a cap could be applied to the ED&I tax credit of €1.5M in order to limit the maximum relief that could be available to claimants. It would mean that ED&I expenditure over €10M would not be eligible for the credit. This would allow for the uptake and trends of the ED&I credit in the initial years before considering whether the cap remains appropriate.

For eligible expenditure, we would like to see similar costs which are eligible for the RDTC qualify for the ED&I tax credit (with similar enhancements as proposed for R&D tax purposes to also apply for the ED&I credit). These would include expenditure incurred on:

i. Employees involved directly in ED&I activities,
ii. Employees involved indirectly in support of ED&I activities,
iii. Materials/ consumable items used for the purposes of ED&I activities,
iv. Software and cloud computing services used for the purposes of ED&I activities,
v. Outsourced expenditure to third parties and universities,
vi. Plant and machinery used for the purposes of ED&I activities,

Similar to the R&D tax credit, where expenditure is met by grant or other assistance, such expenditure would not qualify for the ED&I tax credit. In addition, where a company receives an R&D tax credit on expenditure, a claim for the ED&I tax credit would not be available on the same expenditure, and vice versa.

ii. Given the potentially broad scope of "innovation", are there specific government objectives that a support should target to ensure it is cost effective to the taxpayer, adds value to the economy, drives growth and ensures high quality employment?

Similarly to what has been outlined in the IDA's 2025-2029 strategy, we believe an Innovation support should focus on strengthening long-term RD&I investment. With growing uncertainty in the international landscape, it is critical for Ireland to incentivise Foreign Direct Investment ("FDI") companies carrying out RD&I to stay here and continue to invest in RD&I projects. Indigenous Irish companies should also be rewarded for committing to keeping their RD&I investments in Ireland.

As evidenced in the Ireland's Innovation Index 2025 survey, existing RD&I supports have led to more R&D taking place, supported more employment and encouraged more investment internally. We believe that an Experimental Development and Innovation Credit which is focused on product and process innovation would have a similar impact. Product and process innovation defined below by the Oslo Manual:

- *Product Innovation: This involves the introduction of a new or significantly improved good or service. It includes significant improvements in technical specifications, components and materials, incorporated software, user friendliness, or other functional characteristics.*
- *Process Innovation: This refers to the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment, and/or software.*

The inclusion of innovations in business practices, workplace organisation or external relations, or implementation of new marketing methods involving significant changes in product design or packaging, product placement, product promotion or pricing (marketing innovation) that improves customer satisfaction and loyalty, would typically fall outside of the new Experimental Development and Innovation credit, and consideration may be given to specific exclusions.

It is also important that the proposed Experimental Development and Innovation Credit adds value to the economy by having a measurable impact on the firm's performance. These measures could include an increase in sales or market share, profitability, productivity, operational efficiency or reduction in emissions.

iii. If an innovation support were to be targeted, for example at a specific sector, location or type of company, State aid considerations would arise. Is there a particular State aid framework or provision that you believe would be of relevance?

The R&D Tax Credits in Ireland has been successful for both large multinationals and SMEs because it is not targeted to specific sectors, locations or types of company. Similarly, any "Experimental Development and Innovation" credit should not be targeted at a specific sector, location or type of company, i.e. the credit should be available to companies within the charge to Irish corporation tax that satisfy the requirements. Where this tax credit is broadly available and is not targeted in anyway toward certain industries or geographic locations, it is unlikely to be regarded as State aid under Article 107 of the Treaty on the Functioning of the European Union (TFEU).

However, even where the tax credit would be regarded as "State aid" within the confines of TFEU, the addition of experimental development into the proposed scheme, means that the "Experimental Development and Innovation Credit" should fall under Article 25 of the GBER framework and as a result should be exempt from the State Aid notification requirements. Therefore, the "Experimental Development and Innovation Credit" may not need to be approved by the European Commission. Confining it to a specific sector / location / type of company may bring it within scope of State aid approval.

It would be important therefore that the latest definition of experimental development is used from the 2023 GBER regulations (described below) in order to ensure that the proposed scheme falls under Article 25. Please note this definition is different from the definition of experimental development which is outlined for R&D tax credit purposes within Section 766 TCA 1997.

'experimental development' means acquiring, combining, shaping and using existing scientific, technological, business and other relevant knowledge and skills with the aim of developing new or improved products, processes or services, including digital products, processes or services, in any area, technology, industry or sector (including, but not limited to, digital industries and technologies, such as for example super-computing, quantum technologies, block chain technologies, artificial intelligence, cyber security, big data and cloud or edge technologies). This may also encompass, for example, activities aiming at the conceptual definition, planning and documentation of new products, processes or services.

This definition also defines the boundaries of the experimental development:

Experimental development does not include routine or periodic changes made to existing products, production lines, manufacturing processes, services and other operations in progress, even if those changes may represent improvements.

We believe that proposed Experimental Development and Innovation Credit would not only support the key area of innovations which were highlighted as key growth drivers in the IDA's Strategy for Sustainable Growth and innovation 2025-2029 such as digitalisation, AI, sustainability and health but it would also deliver the flexibility to support areas that have yet to be imagined.

Countries such as Belgium, France, Italy, Spain, Singapore and Turkey currently offer innovation incentives, be this by having specific innovation support or including innovation under their R&D tax credit regime. Currently the UK does not offer a specific innovation incentive, other than its patent box regime.

iv. What administrative oversights do you believe would be necessary to ensure that any incentives being claimed are for true innovation?

It will be important for claimant companies that they can receive certainty from the administrators of the "Experimental Development and Innovation" credit.

04 Our recommended enhancements to Ireland's R&D tax incentives

The survey we undertook and the conversations we have had with clients has highlighted a number of areas where the current RDTC regime could be enhanced. The intention is to make Ireland a materially more attractive destination for R&D than other countries and to ensure that the R&D reliefs continue to offer a strong incentive for businesses to establish substantial operations here involving a highly skilled workforce

We recommend the following improvements, some of which are already discussed above:

KPMG Suggested Enhancements to the R&D Tax Credit

1. Increase in rate from 30% - 35%

- A rate increase is essential for making Ireland more attractive for businesses to set up their R&D operations here and help mitigate against other domestic and international challenges.
- Whilst the recent increase in the RDTC rate from 25% to 30% has been welcomed by all claimants, the ultimate benefit of this increase will only be realised by those not within the scope of Pillar Two.
- Therefore, increasing the rate to 35% would deliver the first effective increase in the RDTC rate to Pillar Two companies since Finance Act 2008.
- In an increasingly competitive and uncertain international environment, the ability to attract and retain a significant level of innovation activity at an Irish site of an MNC can be a challenging endeavour and a rate increase would support in overcoming these challenges. The headline rate is what attracts attention.
- It would also provide additional funding to SMEs and help address the Ireland's Innovation Index survey finding where 64% of respondents highlighted budgetary constraints as the biggest factor impacting companies' ability to innovate.
- Based on the most recent Revenue R&D tax credit statistics showing a total 1,631 of claimant companies in 2022 with a cost of €1.158Bn to the Irish Exchequer, we estimate that the cost of increasing the R&D tax credit rate from 30% to 35% would be in the region of €230M.
- A rate increase is vital for achieving Ireland's Enterprise Policy goal of doubling business expenditure on R&D (BERD) by 2030. Where a blanket rate increase is not pursued, consideration could be given to a staggered increase where for example, a 35% rate was introduced for the first €2,000,000 of qualifying expenditure. This would offer a measure of additional support to all claimants and would limit the additional cost to the exchequer.

2. Accelerate the payment of R&D cash refunds

- RDTC claimants frequently comment on the delays involved in issuing the instalment refunds, indeed in the Ireland's Innovation Index survey, less than half of respondents indicated that they were satisfied with the time being taken to process the refunds.
- Since Finance Act 2024, claimant companies are entitled to receive an upfront lump sum instalment of up to €75,000 in year one. To provide vital funds to companies at the earliest opportunity, we would recommend that all RDTC claims are refunded in full to companies in the year of claim. Many companies would have received an up front benefit in year one under the previous rules through a full offset against corporation tax.

  Where this cannot be facilitated, we would suggest that this year one instalment threshold should be increased to €300,000 and that the refund be automatically processed for compliant taxpayers. Based on most recent statistics, this would lead to approximately 75% of claimants receiving their full RDTC benefit up front in one instalment in year one.

- To the extent that a taxpayer claims an RDTC of more than €300,000, the remaining balance would be refundable in years 2 and 3 as appropriate.
- This administrative change would be cost neutral, would particularly benefit SMEs who are most vulnerable to cashflow challenges and would not impact Revenue's right to audit and review the claims after refunds have issued.
- Companies require clarity on the process and timing of refunds to enable them to really rely on the support provided via the RDTC system. To encourage uptake of the RTDC and to ensure that it is delivering the support required by companies, we would recommend the following;
  - A specialist unit is established within Revenue for dealing with RDTC refunds, perhaps akin to the approach adopted for SARP applications, and
  - Revenue develop and publish a framework or Service Level Agreement which provides clarity around the expected timing of;
    - the issuance of refunds,
    - the provision of a response to enquires from taxpayers or the provision of a response to information provided to Revenue following a request for information issued by Revenue.

3. Amending the definition of "expenditure on research and development"

- Legislative update to the definition of qualifying R&D expenditure to include all expenditure incurred **for the purposes of** research and development activities, as opposed to "in the carrying on" of research and development activities which is being interpreted narrowly by Revenue.
- This would provide greater clarity and certainty to claimants of the relief with respect to qualifying costs as it would be more closely aligned with the general definition of expenses which are available for a trading deduction for corporation tax purposes.
- This would be in keeping with the EU initiative to regain competitiveness and secure sustainable prosperity which highlights simplification as a key enabler for competitiveness.

4. Allowance for overheads related to R&D activity

- Revenue's current interpretation of the eligibility of expenditure on overheads restricts allowable overheads to a small number of expenditure categories including "power consumed in the R&D process". In reality, there is a much broader set of overheads incurred by a company directly in the carrying on of its R&D activities, but these are not funded by the RDTC.
- An allowance for a broader range of overheads/ indirect costs attributable to a company's R&D activity should be made to reflect the reality that such costs must be incurred in order for a company to conduct R&D activity. This would include (amongst others); power, rent (regardless of the type of facility), rates, insurance, IT support/ connectivity, maintenance etc.
- The current IDA/ Enterprise Ireland grant approach permits a claim for (any) overheads in an amount equal to 20% of eligible R&D staffing expenditure. For the RDTC, we suggest the introduction in legislation of a safe harbour test that could allow the claimant company to claim either 20% of qualifying R&D staffing expenditure to cover overheads (which is aligned with the R&D grant aid approach and compliant with GBER rules) or should they wish to claim a higher amount, they could do so on production of supporting evidence.

5. Broaden the scope to include certain supporting and ancillary activities linked to core R&D

- An allowance for integral indirect supporting or ancillary activities which were previously accepted by Revenue prior to 2012 and which were envisaged upon the establishment of the Irish R&D tax credit in 2003, should be legislated. This reflects the reality that R&D cannot be done in a silo and would not be possible without such supporting activity.
- Other regimes such as Australia, Canada, New Zealand and the UK envisage core R&D activities and supporting activities and allow companies to claim for both where there is a link between both the core and supporting activities.

6. Updates to the outsourcing limits

- Increase the limit on the amount of allowable expenditure on outsourced activities to third parties to the greater of 25% of a company's non-outsourced R&D expenditure (up from 15%) or €1,000,000 (up from €100,000).

- An allowance for expenditure on agency staff without being subject to the subcontracting limits where; i) the agency staff provided to the claimant company carries out R&D activities within Ireland, ii) the agency staff provider is regarded as the employer of the individual, and iii) the agency staff member is subject to Irish payroll taxes.
- Similar to R&D regimes in other jurisdictions, consideration should be given to the allowing (within certain limits) payments to connected companies based within the EEA or a DTA territory who undertake R&D on behalf of R&D tax credit claimant companies where the overall R&D activity is managed and controlled in Ireland. This allowance could be limited to (say) €2M of connected company expenditure (i.e. no more than €600k of R&D tax credit per claim).
- Removal of the limits around outsourcing R&D activities to qualifying universities/ institutes of higher education. In our experience, we have never seen a situation where a taxpayer has incurred expenditure in excess of limits which apply to payments to universities/ institutes of higher education. However, the consultation document notes clearly the importance of collaboration between universities or institutes of higher education and companies actively undertaking R&D in developing a knowledge-based ecosystem.
- Broadening the definition of "university or institute of higher education" to also allow "National Institutes" to come within the remit of the 'University' outsourcing limits.

7. Extend the RDTC to include 'non-industrial' buildings and removal of 35% test

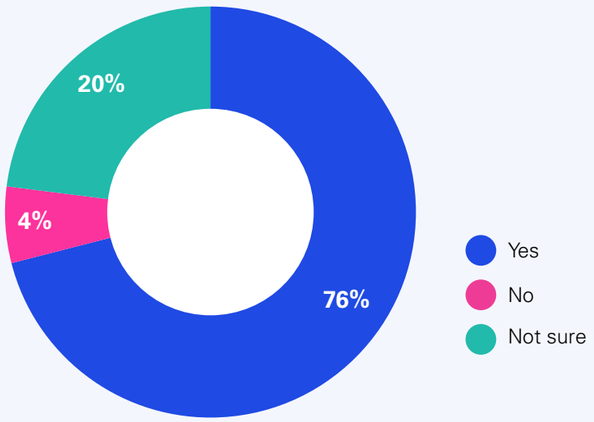
- Extending the building R&D tax credit to all buildings used for R&D activities to include any buildings or structures which are used to produce new, or improve existing, materials, products, devices, processes, systems or services. Currently, only 'industrial buildings' are allowable for the purposes of the buildings R&D tax credit. This results in many software companies being excluded from claiming.

  While traditional manufacturing would have relied pre-dominantly on manual labour and mechanical processes with factories filled with workers operating machinery producing tangible goods, Industry 4.0 has led to a significant change in manufacturing processes to embrace digital technologies. Simulated production processes are changing how products are designed, produced, and distributed with software development and desk based R&D becoming a core component of the manufacturing process. Therefore, evolving the R&D buildings credit in the digitisation era is something that needs to be considered. We recommend extending the building R&D tax credit to all buildings used for R&D activity to include any buildings or structures which are used to produce new, or improve existing, materials, products, devices, processes, systems or services.
- Removal of the 35% 'de-minimis' R&D usage threshold so that building expenditure is allocated to R&D based on its use for R&D during the 'specified relevant period', but not subject to being above a 35% usage threshold.

8. Increase the RDTC rate to 50% for 'Green Technologies'

- Enhancing our existing R&D tax credit regime to allow for a 50% credit on expenditure incurred on R&D activities undertaken in the 'green technology' space. This could include R&D with respect to solar, wind, hydro, or biomass energy technologies, as well as other green technologies such as soluble or compostable materials for packaging, air filtration methods, ocean cleaning technology, etc.

Would a 50% RDTC rate incentivise increased R&D on green and sustainable tech



9. Facilitate a mechanism for correcting errors contained in the RDTC return

- The current 12-month filing deadline means that errors made in the corporation tax return related to R&D tax credits that are not identified until after the 12-month limit has passed, cannot be corrected. Consequently, this strict approach can lead to the disallowance of the entire R&D tax credit claim where mistakes in completing the corporation tax return are made.
- To address this issue, we propose the introduction of an additional 12-month window to allows taxpayers to rectify legitimate errors in their R&D tax credit claims after the 12-month deadline has expired. This amendment would provide a fair and reasonable measure, granting companies the flexibility to correct genuine errors without facing undue issues regarding their claim being disallowed.
- We would expect that any proposed mechanism would require companies to communicate the reasons for the correction to Revenue and demonstrate that the original claim was filed within the 12-month time limit in good faith. The allowance for genuine errors to be corrected would ensure that companies are not unfairly penalised for administrative mistakes, thereby promoting a more equitable and supportive environment for businesses engaging in R&D activities.
- Implementing this policy change would involve minimal costs while significantly reducing the risk of claims being disallowed due to legitimate filing errors, ultimately fostering a more conducive atmosphere for innovation and growth.

10. Streamlining of R&D intervention process

- Currently, a Revenue audit of a company's R&D tax credit claim for a particular financial year can take place up to four years after the year in which the tax return for that period was filed (effectively 5 years from when the R&D took place). We suggest the implementation of a framework or Service Level Agreement specific for R&D interventions which would limit interventions commencing long after the R&D claim was filed.

  A change to reduce the initial intervention period to two years from the end of the accounting period in which the claim was filed to allow for greater certainty in relation to R&D claims and to give companies the confidence to invest the money received in further R&D activity. Any resulting audit or follow up enquiries would follow the usual statutory period but the initial intervention should have commenced within the two year period mentioned. This will also help deal with the added consideration for R&D tax credit claims that scientist and engineers move roles relatively frequently.
- Simplification of Revenue audits for SMEs or for R&D tax credit claims which are below a certain threshold (say €200k) which balances Revenue's right to review and audit a claim with the additional burden for companies, many of whom find it challenging to dedicate sufficient resources to the current process.

Other innovation incentives

11. Introduction of an 'Experimental Development & Innovation Tax Credit'

- Additional tax credit for "Experimental Development & Innovation" derived from the OECD Oslo manual definition of innovation and GBER definition of experimental development to incentivise product and process innovations but may fall short of being considered research and development activities as currently defined in tax legislation.

12. Introduction of a 'Digital Transformation Tax Credit'

- Additional "digitisation" tax credit to encourage businesses to adopt digital technologies and improve their digital capabilities. This would be relevant for businesses investing in digital tools, software, and training to enhance their operations. It could potentially support costs relating to purchasing digital equipment, software, cybersecurity measures, and employee training in digital skills.

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