Ireland's Innovation Index 2025.

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01. Executive Summary

2025 marks the 3rd edition of Ireland's Innovation Index. In 2023 IRDG and KPMG set out to examine attitudes to Research and Innovation in Ireland and the improvements needed to enhance our progress. The survey has grown in strength and detail over the 3 years from 396 responses in the first year to 556 in 2025 and with more detailed questions on Innovation added to the survey.

Research and Innovation drive economic progress and enable us to address the fundamental economic, societal issues - including digitalisation and public health - and environmental challenges we face. We see an increasingly fractured global environment and key hurdles that are becoming increasingly difficult to address.

Strengthening and deepening Research, Development, and Innovation (RDI) capacity is essential to ensure the continued prosperity of Ireland's innovation economy. As the global economy becomes increasingly competitive, marked by rapid technological advancements, talent shortages, and evolving consumer preferences, the pathways to growth have become more challenging than ever before.

Our 2025 survey is split 63% SME and 37% large enterprises. The companies are 62% Irish owned and 38% foreign owned with 19% or exactly half of them 38% US headquartered. They are widely spread across sectors with no one sector representing more than 19% of respondents and employ between 120K and 350K staff.

The Key Takeaways:

1. Over the past three years, 65% of businesses conducting RDI in Ireland increased their overall Research and Innovation spend; 71% expect to increase their RDI investment over the next three years.

2. Lack of budget / perceived high cost of innovation activities, and time to plan and administer (identified by 64% and 41% of respondents respectively) are the biggest factors impacting companies' ability to innovate. The amount of respondents choosing recruitment of key talent as a key barrier has declined year on year since 2023 (46%), 2024 (39%), 2025 (33%).

3. Admin time related to grant drawdowns or R&D tax credit (RDTC) claims (39% of respondents) and the grant application process (30%) remain the biggest barriers stopping companies from applying for RDI supports.

4. 54% of companies have between 1 and 10 people directly involved in RDI in Ireland, 28% have 11-50, 11% have 51-250, 6% have 251-1000 and 1% have over a thousand employees directly involved in RDI.

5. 61% of respondents indicated that state funding supports allowed them to conduct more R&D and 47% noted that the funding supported more employment.

6. 53% of respondents feel that Ireland's RDI grants and RDTC supports compare equally or favourably to other countries. 16% feel that the Irish system compares negatively to other jurisdictions. 31% responded that they weren't sure.

7. Of multinational corporations (MNCs) over half responded that 10% or less of their R&D would take place in Ireland without the RDTC. 82% indicated that 50% or less of their R&D would be carried out in Ireland without the presence of the RDTC.

8. According to survey respondents, the main factors Ireland needs to look at to remain competitive in the evolving international landscape are; simplifying the claims process/ reducing admin work and increasing funding amounts/expanding eligibility criteria and improving access for Small and Medium Enterprises (SMEs).

9. In relation to improving supports for SMEs conducting RDI, 33% suggested making the application process for grants/tax credits easier, 21% recommended increasing funding/ grants available to SMEs and 11% said that improvements could be made on the education/ training provided to them.

10. 36% of companies are engaged in incremental innovation (extension of products/services with existing customers) to a great extent, 23% engage in breakthrough innovation (Breakthrough product market changing products/services) to a great extent and 19% engage in disruptive innovation (Technology or new business model that disrupts the existing market) to a great extent.

11. 81% responded that new product, process or service development is one of their key innovation priorities. 49% of companies conducting RDI in Ireland are prioritising disruptive technologies / leveraging Artificial Intelligence (AI).

12. 76% of respondents stated that they think a RDTC of 50% would incentivise increased R&D of Green and Sustainable Technologies.

02. Introduction

Research, Development, and Innovation (RDI) are key catalysts for economic development. They are essential to tackling our economic and social challenges, including geopolitical instability, climate change, digitalisation, and public health. To sustain the growth of our innovation-driven economy, we must significantly enhance the RDI capabilities of Irish businesses. Given the evolving economic landscape and the establishment of global minimum effective corporate tax rates, a robust and effective innovation policy and practice will be vital for continued economic growth and progress.

Business investment in RDI occurs within both national and international contexts. Over 25 years, Ireland has gone from a base of 800 R&D active firms, with research spend of €300 million, to 2,351 RDI active enterprises spending €7bn in 2023. In that year, Ireland had the highest proportion of business RDI in Europe, with 87.5% of our total investment being performed in private enterprises.

An increasingly competitive global economy, characterised by rapid technological progress including the emergence of AI, talent shortages, and changing consumer preferences, means the pathways to growth have become ever more challenging. Businesses around the world are increasing their knowledge investments which is changing the global RDI landscape. The KPMG and IRDG survey indicates that 71% of companies expect an increase in R&D expenditure in next 3 years.

Companies are always looking for new talent and skills to help them achieve their business goals, as they face constant change. They want to remain competitive, satisfy complex consumer needs, create innovative products, processes and services or improve them, so they are upskilling and growing their teams with the talent they need to advance their businesses.

Ireland's journey through the changing world of innovation requires an awareness of the interconnectedness of research, development, and innovation. Research provides the foundation for generating new knowledge, while development involves transforming that knowledge into practical applications and solutions. Innovation focuses on the successful implementation and commercialisation of these solutions, driving economic growth and societal progress.

The 2025 Innovation Index survey on attitudes towards RDI in Ireland provides valuable insights into the current state of RDI activities within the country. By gathering feedback from 556 companies engaged in Research and Innovation, the survey offers a comprehensive overview of the challenges, opportunities, and areas for improvement. Such information supports the development of evidence-based policies and strategies to strengthen Ireland's innovation ecosystem and enhance its RDI position. The report also provides commentary on topical issues relating to RDI in Ireland including global trade challenges and Ireland's international innovation performance.

The survey sheds light on how Ireland compares to other countries in terms of RDI investment and support, allowing for benchmarking. This comparative analysis is essential for Ireland to continuously enhance its performance and foster a favourable environment that encourages and supports RDI activities across various sectors.

By leveraging these findings, policymakers, industry leaders, and other stakeholders can collaboratively shape a vibrant RDI landscape that will drive Ireland's economic progress while addressing critical societal challenges.

03. Innovation Index Results

3.1 Respondent Profiles

During March and April 2025, we carried out a survey of companies actively engaged in Research Development and Innovation (RDI) across Ireland. We received responses from 556 companies from large multinationals to High Potential Start-ups on their attitudes to the Research and Innovation landscape in Ireland.

The respondents included US owned multinational companies operating in Ireland (19%), non-US owned subsidiaries (13%) and Irish-owned businesses (62%) across a diverse set of industry sectors with the largest categories being, Business Software (ICT/Cloud/ Saas) (19%), Engineering/ Technology (19%) and Medical Health/ Wellbeing/Devices (14%). The profile of respondents is very similar to the 2023 and 2024 Index with the number of respondents increasing year on year.

FIG.01: RESPONDENTS BY COMPANY SIZE

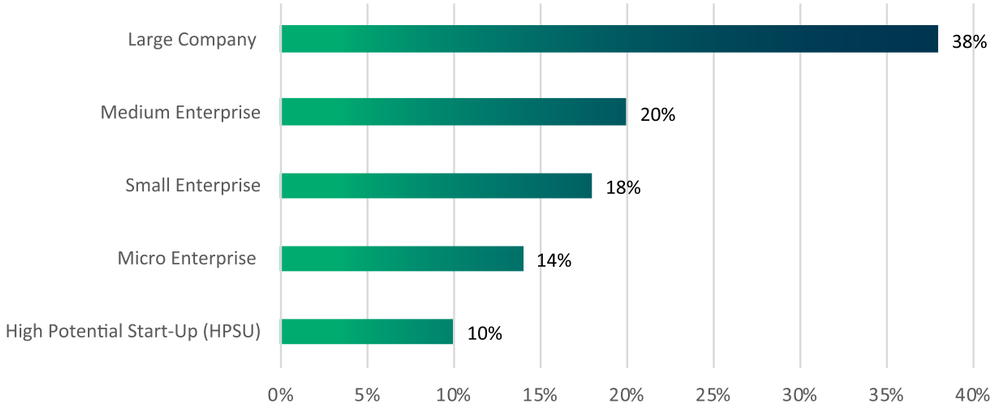
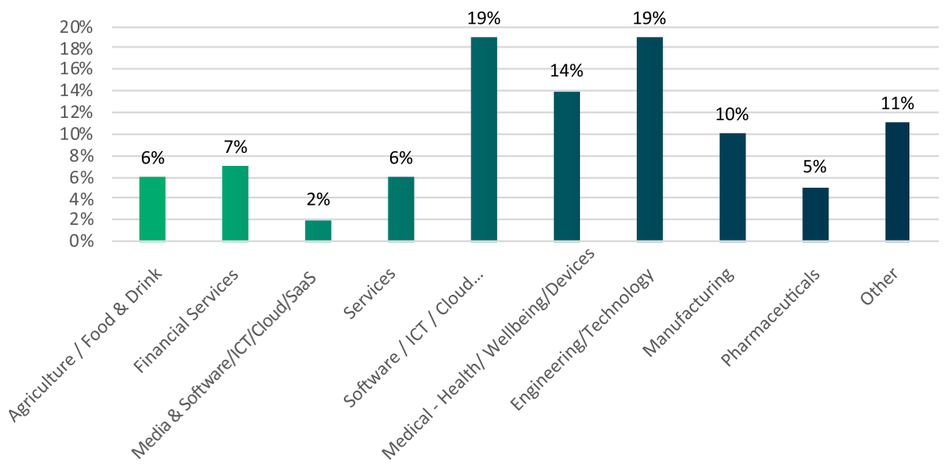


FIG.02: RESPONDENTS BY SECTOR



The figures below show the breakdown of how many full-time equivalent employees (FTE) are working within the surveyed companies and also how many of these employees are directly involved in RDI in Ireland. The data shows that 54% have between 1 and 10 people, 28% have 11-50, 11% have 51-250, 6% have 251-1000 and 1% have 1001 or more employees directly involved in RDI.

FIG.03: NUMBER OF FTES (FULL TIME EQUIVALENTS) EMPLOYED IN IRELAND

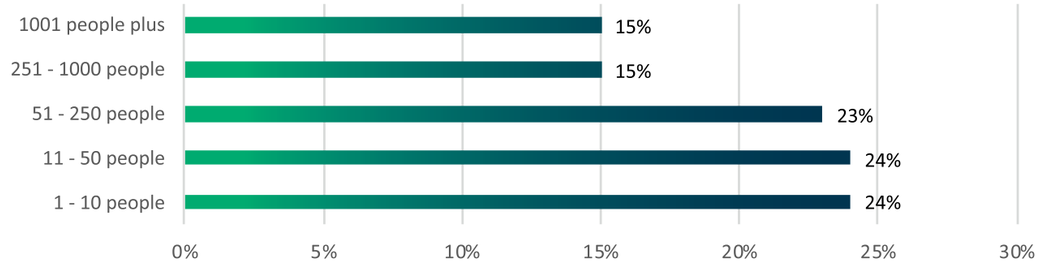
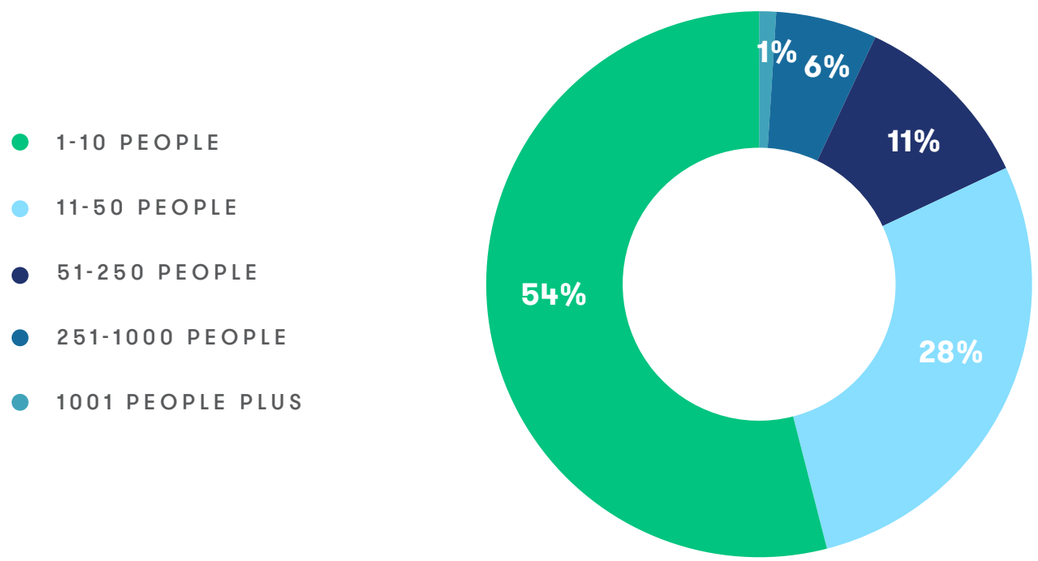


FIG.04: NUMBER OF FTES DIRECTLY ENGAGED IN RDI IN IRELAND



3.2 Innovation Activity & Barriers

72% of businesses have a dedicated structure to drive RDI indicating the importance of RDI to the business which is similar to the findings from last year (75%). Product innovation is the key focus of Irish innovation, as cited by 76% of respondents with 81% citing it as a key innovation priority in the next 1 to 3 years. Specifically, improving existing products and services over the next 1 to 3 years is a key priority for 77%. Organisational redesign / restructuring and customer experience remains the lowest RDI priority area.

Leveraging AI / disruptive technology is also a big focus area with 46% of respondents prioritising this over the next 1 to 3 years. Cost reduction and operational improvements are growing areas of focus, being selected as a priority by 52% of respondents in comparison to 31% in 2024. This suggests a greater focus on enhancing operational efficiencies within businesses.

FIG.05: PRESENCE OF DEDICATED STRUCTURE DRIVING RDI IN THE BUSINESS

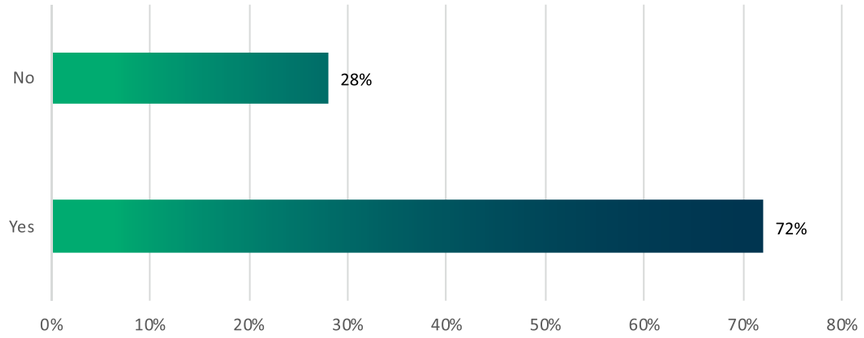


FIG.06: RESPONSIBILITY FOR INNOVATION

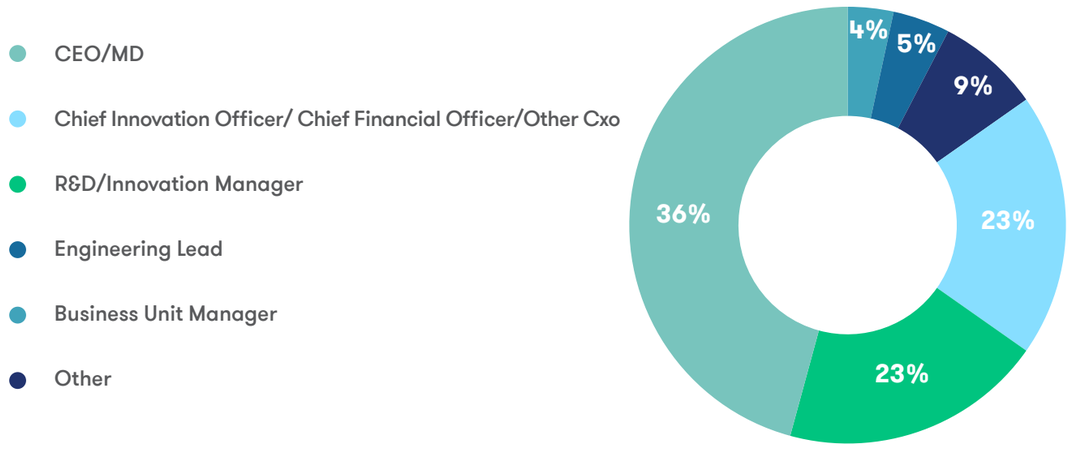
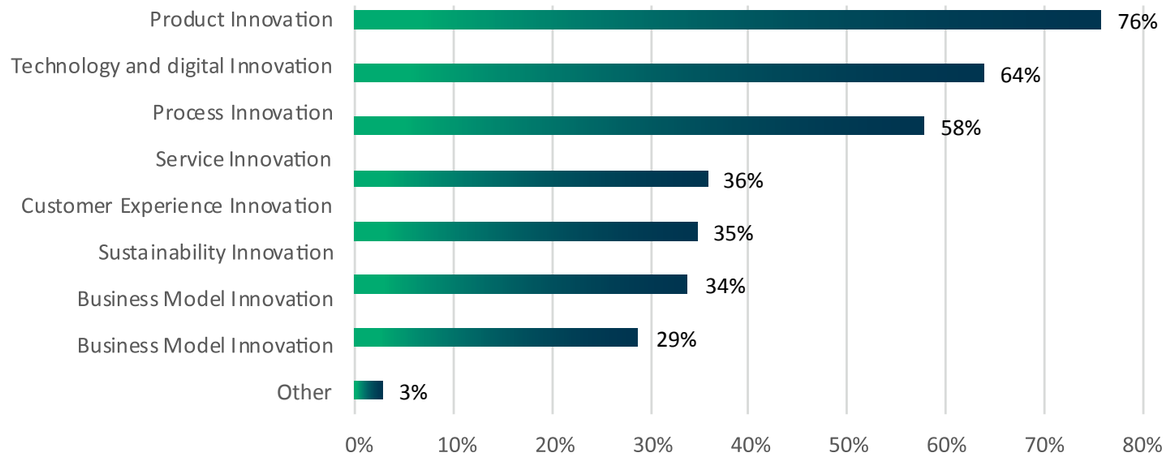


FIG.07: MAIN CATEGORIES OF RDI ENGAGED IN



There is a bigger focus on process, customer experience, sustainability, technology and digital innovation in large companies compared to SMEs. Service innovation is the only innovation category focused on more by SMEs.

FIG.08: MAIN CATEGORIES OF RDI ENGAGED IN LARGE COMPANIES AND SMES

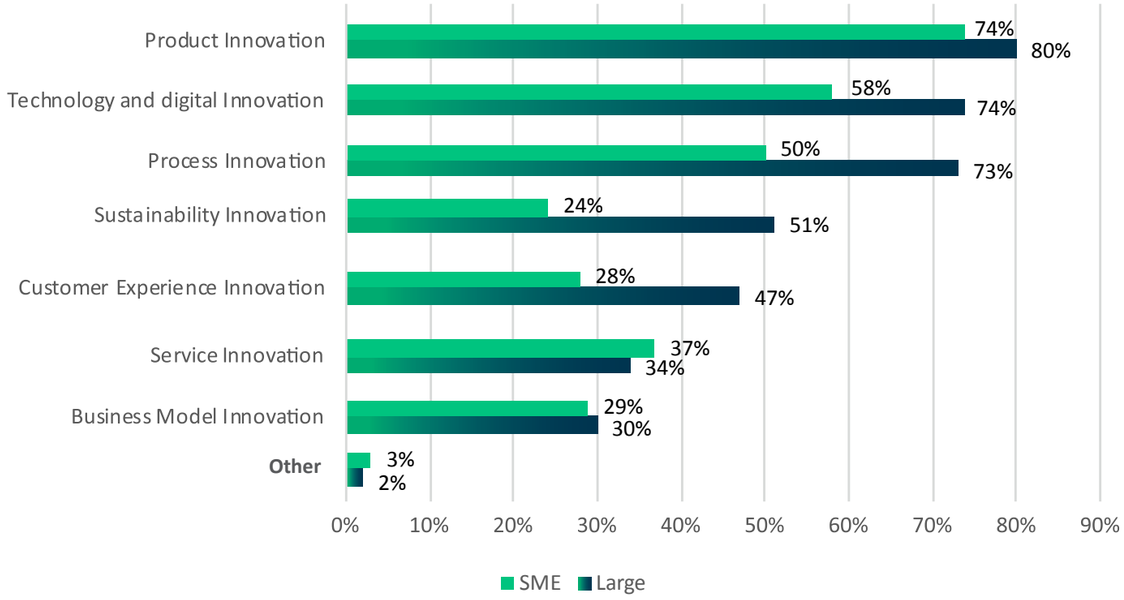
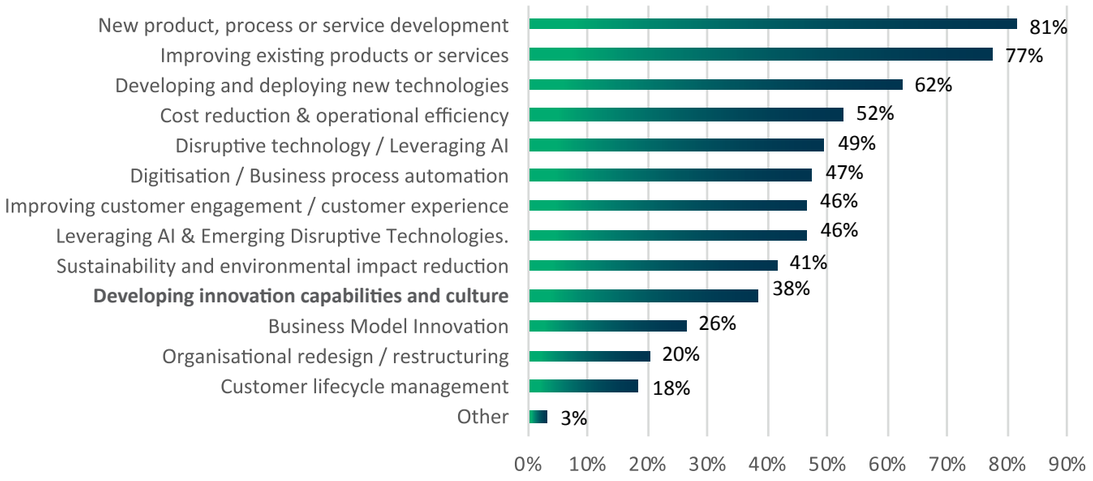
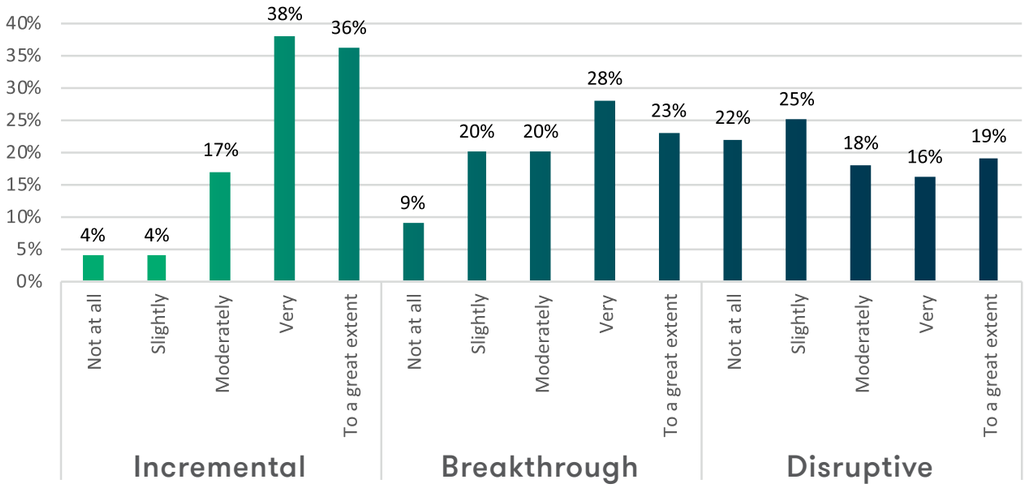


FIG.09: SPECIFIC RDI PRIORITIES FOR NEXT 1-3 YEARS



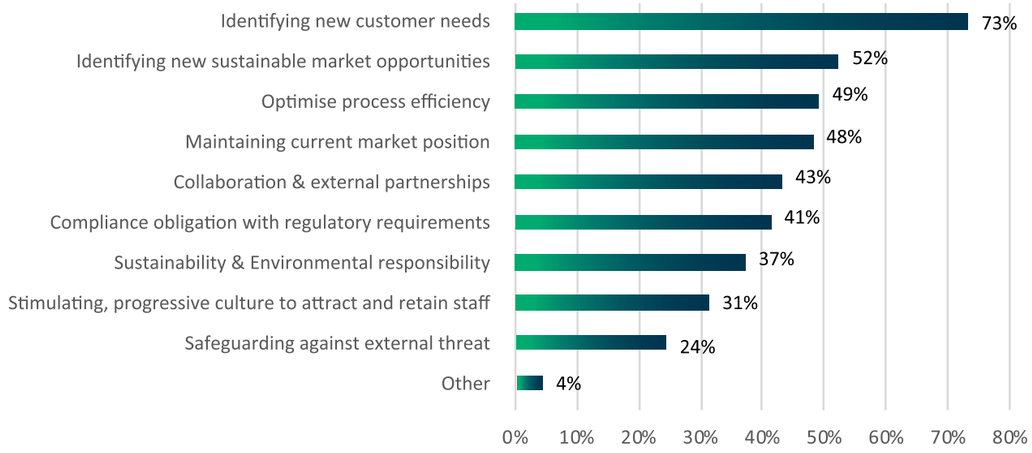
In relation to the type of change that companies RDI activities are generating, incremental change is the most popular with 74% focusing strongly on this, with only 8% giving incremental little focus. This is followed by breakthrough change at 51% and disruptive change at 35%

FIG.10: TYPE OF INNOVATION ENGAGED IN



In terms of what drives companies operating in Ireland to innovate, identifying new customer needs (73% of respondents) is the main factor inspiring companies to innovate. Identifying new sustainable market opportunities and optimising process efficiency are also significant drivers.

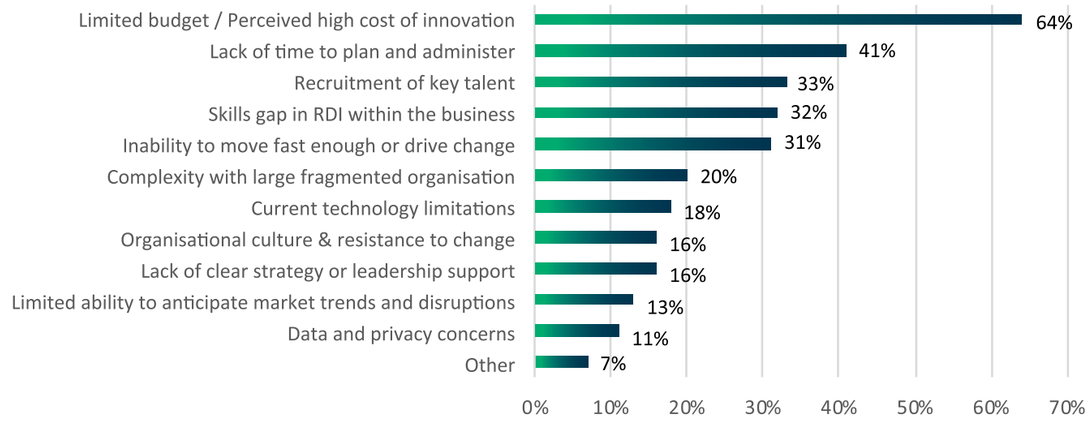
FIG.11: MOST IMPORTANT DRIVERS OF RDI



As it was for the last two years, limited budget continues to be the biggest factor impacting companies' ability to innovate with 64% of respondents (up from 60% last year and 50% in 2023) stating it to be one of the biggest factors, affecting their ability to innovate. Time to plan and administer (41%); Recruitment of key talent (33%); skills gap in RDI within the business (32%) and inability to move fast enough to drive change (31%) were selected as other major factors.

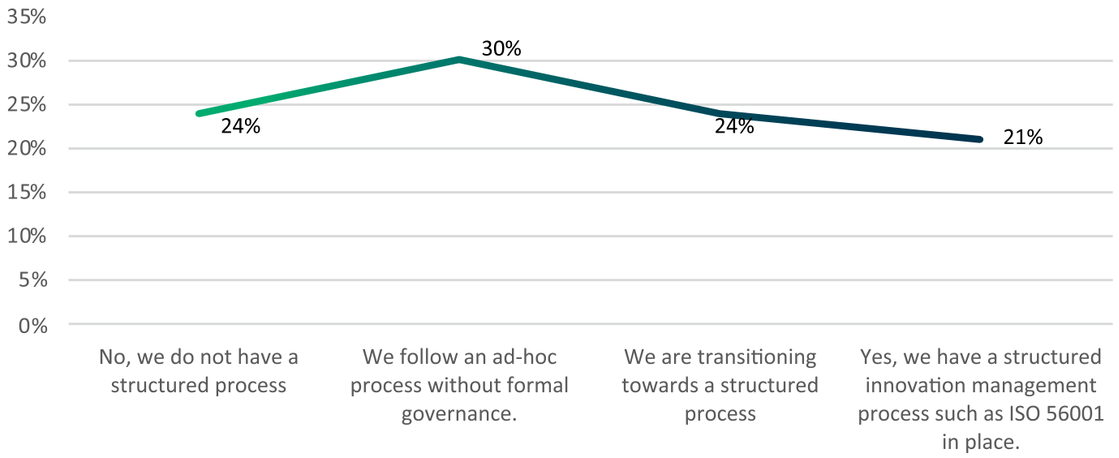
The number of respondents who selected recruitment of key talent continues to fall year on year from 46% in 2023 to 39% in 2024 to 33% in 2025. This indicates companies are finding less difficulty in recruitment albeit it remains a key factor impacting innovation.

FIG.12: FACTORS AFFECTING ABILITY TO INNOVATE



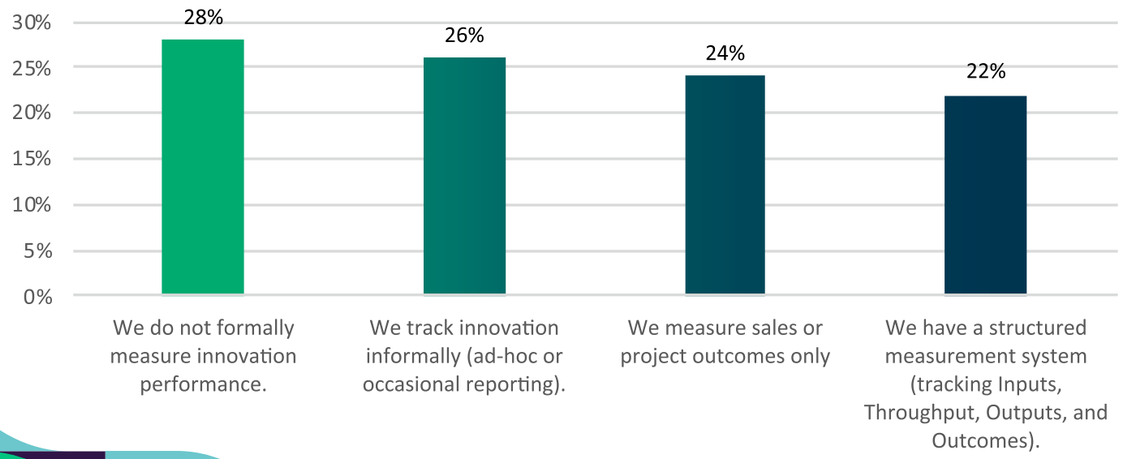
55% of respondents either do not have an innovation management process in place or follow an ad-hoc process without formal governance. The remaining 45% are either transitioning towards a structured process or have a structured innovation management process such as ISO56001 in place.

FIG.13: PRESENCE OF A STRUCTURED INNOVATION MANAGEMENT PROCESS



In relation to measuring innovation performance, only 22% have a structured measurement system, which tracks critical data such as inputs, throughputs, outputs, and outcomes. 28% do not formally measure innovation performance in any way.

FIG.14: MEASUREMENT OF INNOVATION PERFORMANCE



3.3 Business Innovation Outlook

Our survey respondents were asked about the changes in the level of their Research and Innovation investment over the last 3 years. 65% stated that their Research and Innovation spend increased over the last 3 years. This is down from 74% in 2024, perhaps indicating a reduction or levelling off in the last 12 months. Just 7% indicated that their investment decreased and the balance 28% noted that their Research and Innovation spend remained unchanged over this period. In comparison to last year's survey, there is a rise in companies who stated that their spend over the last 3 years has remained unchanged.

In relation to innovation outlook, 71% of respondents indicated that they expect their overall Research and Innovation spend to increase over the next 3 years. 23% expect their spend to remain unchanged over this period.

While the percentage is small, there is a concern that the percentage of those surveyed that expected RDI expenditure to decrease over the next three years rose from 2% in 2024 to 6% in 2025. It's important that this is not a continuing trend where international threats can affect industry confidence.

The survey 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. This is perhaps not surprising given the uncertainty faced by multinationals (MNCs) in relation to US tariffs.

FIG.15: PROFILE OF RDI SPEND OVER PREVIOUS THREE YEARS

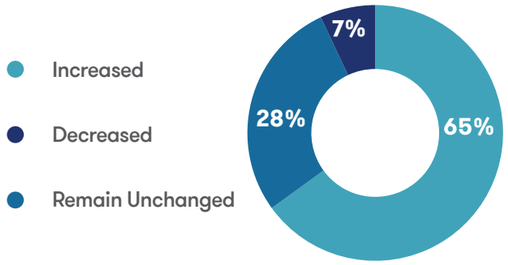


FIG.16: EXPECTED PROFILE OF RDI SPEND IN COMING THREE YEARS

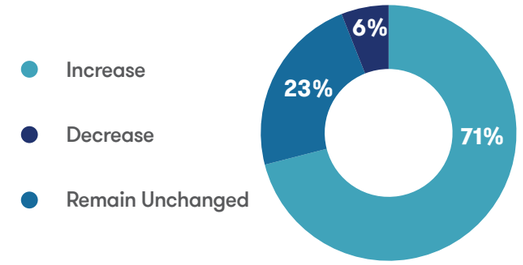
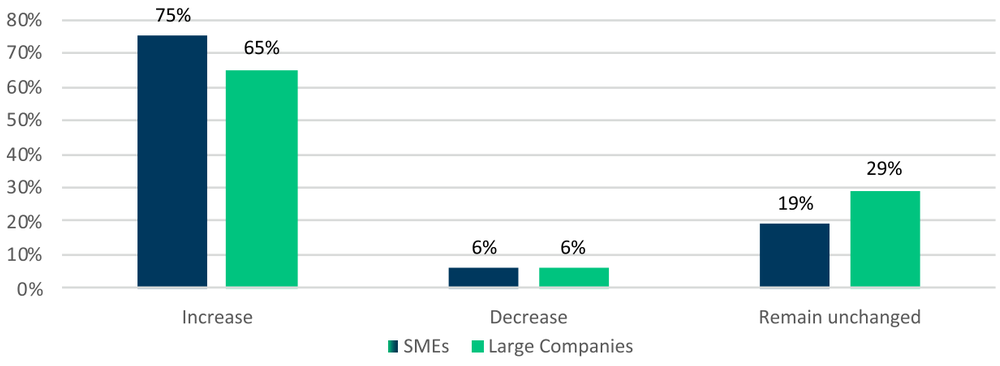
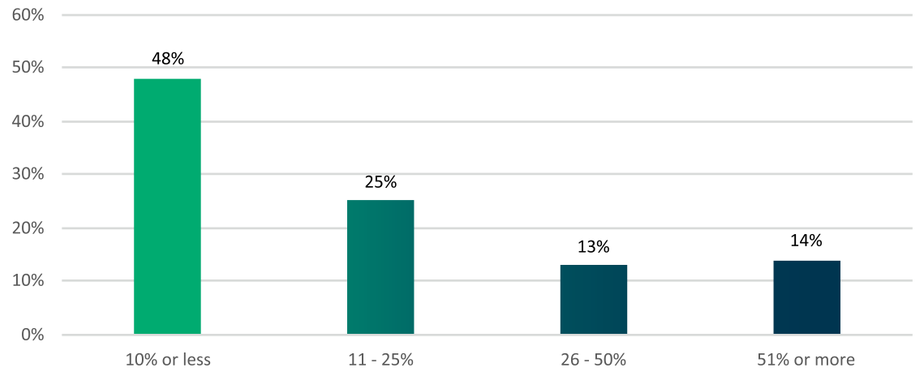


FIG.17: EXPECTED PROFILE OF RDI SPEND IN THE COMING YEARS (SMES VS LARGE COMPANIES)



It is positive to see that the majority of companies expect their RDI spend to increase over the next 3 years. An increase in Research and Innovation activity is, for good reason, one of the key focus areas when it comes to policy and incentives. The sustaining of R&D activities at a particular level is often overlooked or taken for granted. In an increasingly competitive and uncertain international environment, the ability to retain a level of Innovation activity at an Irish site of an MNC can be a challenging endeavour and retaining existing levels of RDI is as important as attracting new jobs and investment. The retention of employment in high value RDI jobs can often have an impact on the ability of a company to also retain large numbers of high-skilled manufacturing roles, particularly where R&D is co-located with the manufacturing of the output of the R&D.

FIG.18: PERCENTAGE OF OVERALL EXPENDITURE ON RDI



Somewhat surprisingly, only 24% of respondents feel that the current uncertainties of the global political landscape will have a negative impact on their business. Encouragingly, over two thirds believe recent international developments and challenges with global trade will not impact their RDI plans. However, this sentiment differs across sectors, for example Medical Health/Wellbeing/Devices companies are more pessimistic than companies in the Software ICT/ Cloud / SaaS sectors.

FIG.19: IMPACT OF GLOBAL POLITICAL LANDSCAPE AND INTERNATIONAL TAX CHANGES ON RDI PLANS

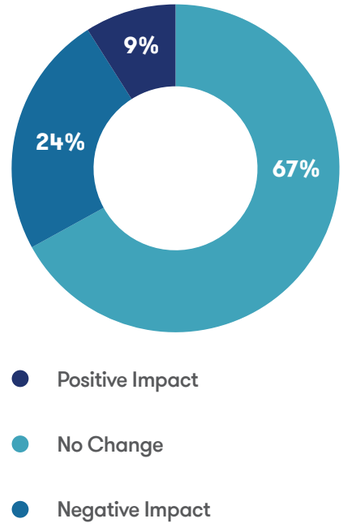


FIG.20: MEDICAL HEALTH/WELLBEING /DEVICES

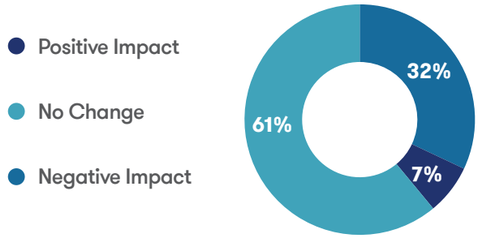
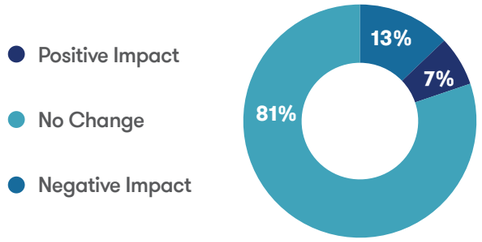


FIG.21: SOFTWARE / ICT / CLOUD / SAAS

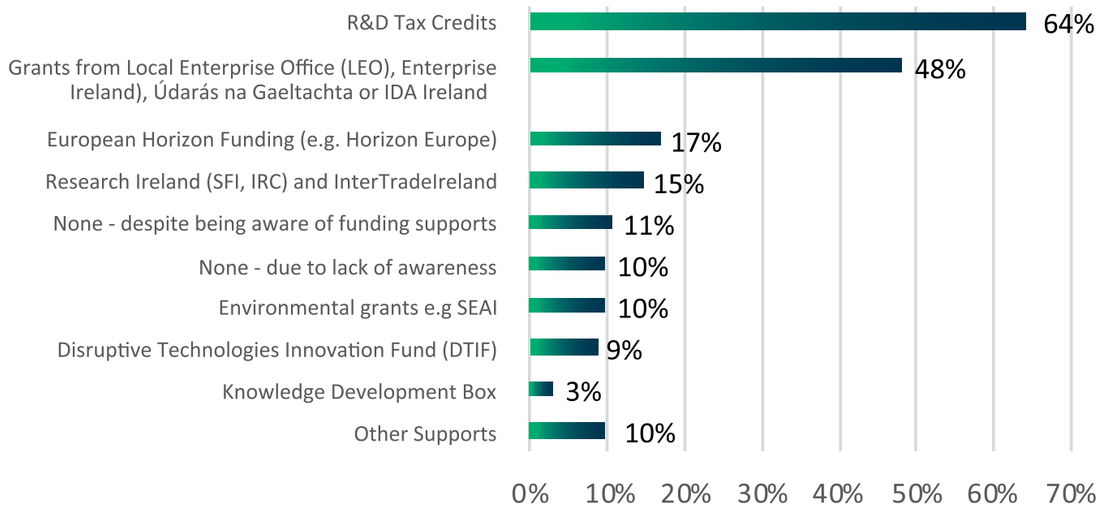


3.4 R&D Supports Take Up

According to the survey, the RDTC is the most used incentive by companies conducting RDI in Ireland, 64% of companies surveyed have claimed the credit. The most recent figures from the Irish Revenue show that 1,631 companies availed of the RDTC in 2022.

Of the other available incentives 48% claimed R&D Grant Supports from an Enterprise Support Agency (Local Enterprise Office (LEO); Enterprise Ireland (EI); IDA Ireland; Údarás na Gaeltachta); 15% claimed Grant Supports from a Research Funding Body (Science Foundation Ireland (SFI); InterTradeIreland and the Irish Research Council (IRC)); 9% used the Disruptive Technologies Innovation Fund (DTIF); 10% claimed Environmental grants (e.g SEAI). With regards to European funding, only 17% availed of European Horizon Funding (e.g. Horizon Europe). 21% of respondents did not avail of any of these incentives, with 10% responding that they did not because of lack of awareness and 11% not availing despite being aware of the funding supports.

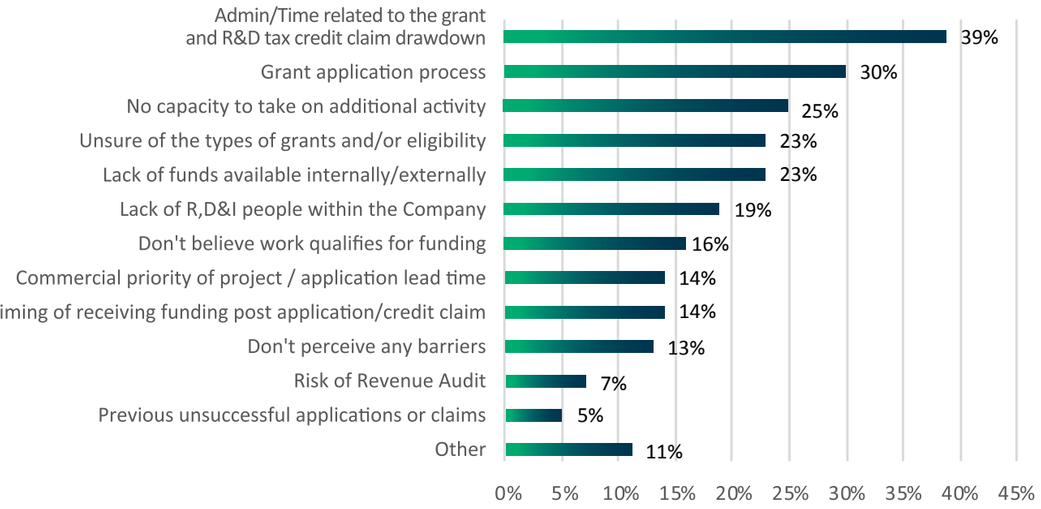
FIG.22: R&D FUNDING SUPPORTS AVAILED OF



3.5 Barriers To Innovation

According to our survey the biggest barriers preventing companies from applying for R&D state funding, RDTC etc were admin/time related to the grant drawdown or RDTC claim, the grant application process and lack of funds available internally/externally. Only 13% of respondents stated that they didn't perceive any barriers to applying for incentives.

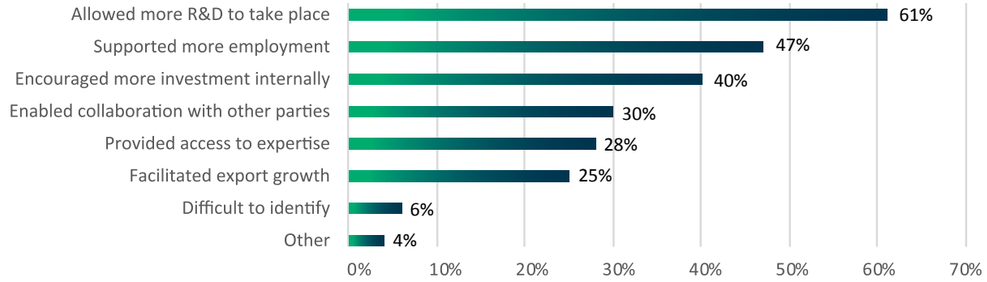
FIG.23: BARRIERS TO ACCESSING STATE SUPPORTS



3.6 The Impact Of Funding Supports On Business Innovation In Ireland

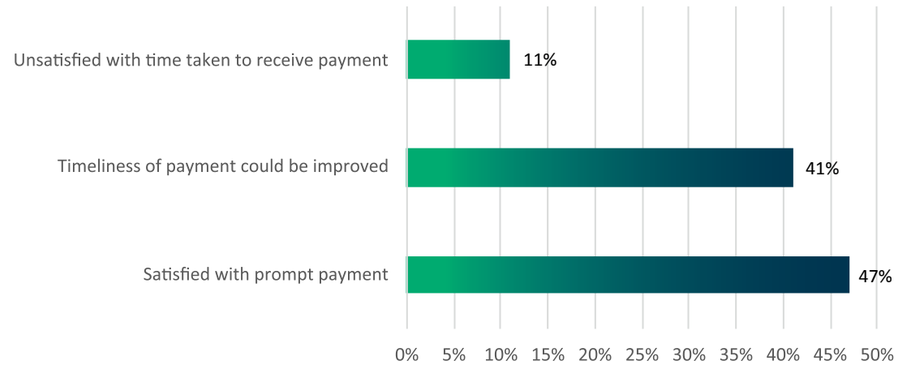
We asked our survey respondents what impacts funding supports have had on their business. The responses demonstrate the importance of R&D/Innovation incentives. 61% of respondents indicated that these funding supports have allowed more R&D to take place, 47% stated that they supported more employment and 40% noted that the funding supports encouraged more investment internally.

FIG.24: IMPACT OF STATE SUPPORTS ON THE BUSINESS



In relation to taxpayers satisfaction with the timing of payments. Less than half (47%) are satisfied with the timing of payments while 41% believe that the timing of payments can be improved. SMEs are less satisfied with the timings of refunds compared to larger companies, with 58% of SMEs either unsatisfied or believe the timings of payment can be improved (50% for large companies), this is an important consideration given the vital importance of cashflow to SMEs. Given the importance of funding in a company's ability to innovate, this is an area that should be improved.

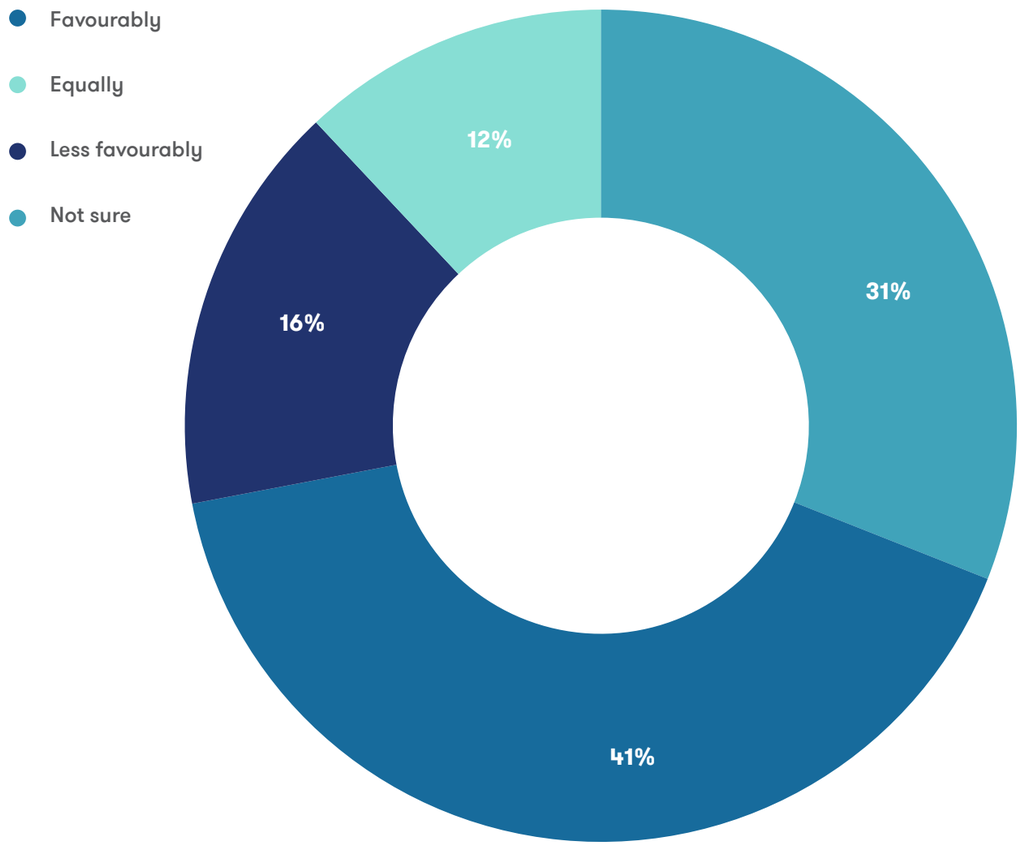
FIG.25: SATISFACTION WITH TIMING OF PAYMENTS



3.7 International Comparison

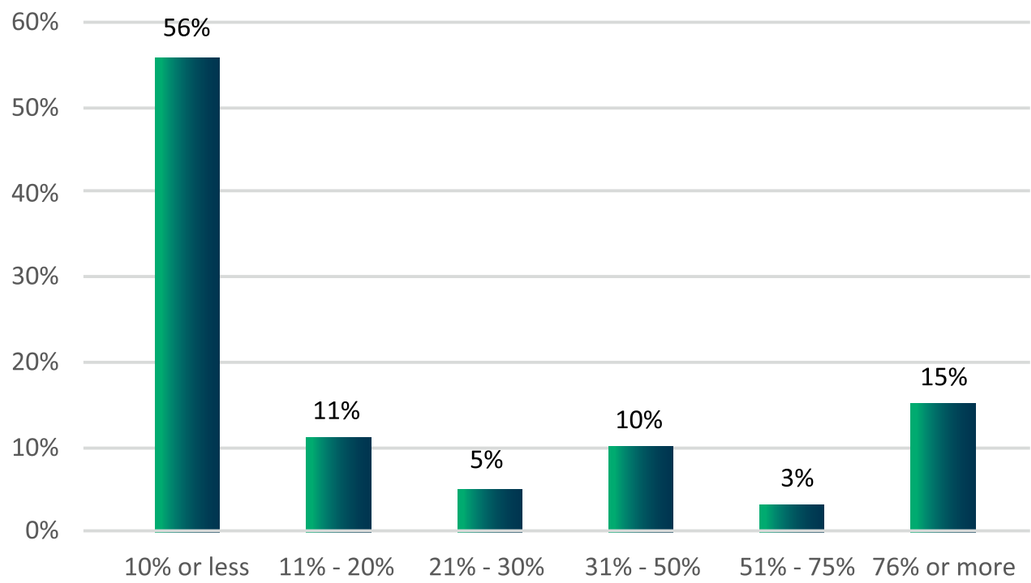
We asked MNC's that conduct R&D in other countries how they felt Ireland's RDI grant and tax supports fared in comparison to those other jurisdictions. While this was a broad question and did not ask about specific elements of Ireland's grants or RDTC, responses were mixed, with 41% responding that Ireland's R&D grant and tax supports compares favourably to other countries. 12% feel Ireland compares equally and 16% feel Ireland compares less favourably to other countries. The remaining 31% were unsure about how Ireland compares to other jurisdictions.

FIG.26: HOW IRELAND'S R&D GRANT AND TAX CREDIT SUPPORTS COMPARE TO OTHER JURISDICTIONS



Interestingly, 56% of MNCs stated that 10% or less of their R&D activity would take place in Ireland in the absence of the RDTC. These results further emphasise the importance of the RDTC for both maintaining and increasing R&D activity in the State. With the increasing uncertainty in global markets it is now more important than ever for Ireland to safeguard our strong RDI landscape and incentivise companies to continue to invest in Ireland. Without the RDTC, it becomes very difficult for the Irish operations to compete with other lower cost territories for both R&D projects and the interrelated manufacturing process. The Irish subsidiary would likely become less central to the business with resulting loss of employment and business growth opportunities.

FIG.27: PERCENTAGE OF RDI THAT WOULD TAKE PLACE IN IRELAND WITHOUT THE R&D TAX CREDIT



3.8 Enhanced RDTC Rate for Green & Climate Technologies

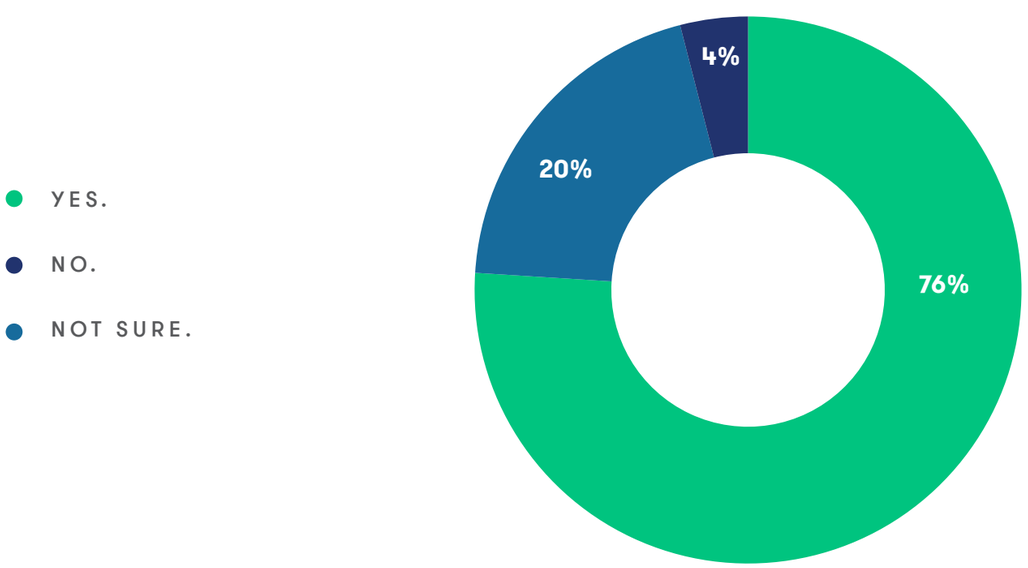
Ireland's climate performance, as captured in the Climate Change Performance Index (CCPI), has fluctuated in recent years. Despite rising 9 places in 2023, in 2024 Ireland fell 6 places and was ranked 43rd of the EU and 63 other countries that make up the CCPI. In 2025, Ireland rose 14 places to 29th and now ranks among the medium performers. We believe that more can be done in this area and Ireland should be pushing to join the high performers in the CCPI.

Although there are many incentives which are emerging for sustainability and green projects, more is needed if we are to meet our commitments made under the Paris agreement and achieve the goals set out in the Climate Action Plan and European Green deal:

- Rapid and significant reductions in greenhouse gas emissions are required if we are to meet the 2015 Paris Agreement Goals.
- The European Green Deal commits to delivering net-zero greenhouse gas emissions at EU level by 2050; with Ireland committed to achieving a 51% reduction in emissions from 2021 to 2030, and to achieving net-zero emissions no later than 2050.

76% of respondents to our survey stated that they felt an enhanced rate of RDTC (i.e. 50%) would increase R&D investment in these important green technologies. Increased grant supports were also mentioned as an incentive to increase investment in green technologies.

FIG.28: WOULD A 50% RDTC RATE INCENTIVISE INCREASED R&D ON GREEN AND SUSTAINABLE TECH?



3.9 Consultation Questions

How do you think the RDTC can remain competitive in the evolving international tax landscape?

In relation to improving Ireland's RDTC's competitiveness, simplifying the claims process and reducing the administrative burden was the most common recommendation given, as it was in 2023 and 2024. Other suggestions included, increasing the rate, increased scope of qualifying activities, higher rates for SMEs, faster payout and continued benchmarking against other jurisdictions.

The timing of payments has been a key issue in recent years. Less than half of respondents indicated that they were satisfied with the time being taken to process the refunds. SMEs in particular are vulnerable to cashflow challenges, and a faster payout would be a major advantage to them. In addition to speeding up the refund process, we suggest increasing the amount that can be paid out in the first instalment (see Section 08 for more details).

In addition to the survey findings, as part of the Department of Finance consultation into the RDTC and options to support innovation, both KPMG and IRDG conducted roundtable events with the Department of Finance and companies. We gathered insights from companies we work with and similar points that came up in the survey responses arose during these discussions. We have incorporated all of these insights into our recommendations (see Section 9 for more detail).

If you are a SME, having regard to overall Exchequer cost, what other measures could be taken to improve supports for SMEs carrying out R&D?

From the responses to this question, 33% suggested making the application process for grants/tax credits easier, 21% recommended increasing funding/grants available to SMEs and 11% said that improvements could be made on the education/training provided to them. Other suggestions included increasing collaboration opportunities, increasing awareness of supports available and speeding up the timing of payments.

Enhancing the SARP (Special Assignee Relief Programme) regime so that it is opened to new hires is something which has been cited as leveling the playing field for SMEs (SME Taskforce Report Action 2.6.4). In addition to being of immediate benefit to Irish SMEs, it would also open the regime to our universities, allowing them to compete more effectively in attracting global talent to lead research and development here. This represents an opportunity to create a powerful positive feedback loop, driving the carrying on of cutting-edge research in Irish Universities while contributing to the education of highly skilled graduates from these same institutions, thereby further promoting Ireland as a global hub for Irish R&D activities with our universities at its centre.

What would incentivise increased investment in Green & Sustainable Technologies in your organisation?

Besides introducing an enhanced 50% RDTC rate for green and sustainable technologies or increasing the amount grants available, the simplification and easing of admin burden in relation to environmental grant applications and increasing education/awareness on the supports available were called out as measures that would incentivise increased investment in green and sustainable technologies.

One response explained that the company is already strongly committed to green and sustainable technology projects within the organisation but that targeted grants and/or tax incentives would help sustain the efforts especially if the company is faced with headwinds. Projects/ initiatives that don't directly contribute to the bottom line are typically the first to be questioned when the pressure comes and therefore it would be good to have such projects well supported.

04. International Landscape & Ireland's Competitiveness

Ireland has been a notable beneficiary of globalisation which has facilitated a significant transformation in our economy, and has allowed Ireland to become a thriving hub for international business and technology. Substantial foreign direct investment, particularly from multinational corporations in the tech and pharmaceutical sectors amongst others has played a vital role in this progression. Ireland's attractiveness was, and still is, underpinned by political stability, access to a skilled and educated workforce and a competitive tax offering, with best-in-class tax incentives such as the RDTC. This has led to job creation, economic growth, and increased levels of innovation.

Additionally, Ireland's membership in the European Union has facilitated access to a larger market, enhancing trade opportunities and economic integration. The development of third level education has also played a role, with Irish universities attracting international students and fostering a diverse academic environment. Overall, globalisation has been a key driver in Ireland's economic development, positioning it as a competitive player on the global stage.

In 2025 however, international events have presented fundamental challenges around the globe but for Ireland that has reaped the rewards of a global trading environment, there is a heightened risk.

International Trade Challenges And Tariffs

Five years ago, the COVID-19 pandemic exposed vulnerabilities in global trade, as countries grappled with supply chain disruptions and reconsidered their reliance on foreign production. These challenges prompted discussions on the need for more resilient and diversified trade strategies, highlighting the delicate balance between global interdependence and national interests.

In 2025, a rise in protectionism and trade tensions, particularly between major economies like the United States and China, have disrupted global supply chains and increased uncertainty in international markets. This has been further amplified through the introduction of tariffs with reciprocal tariffs introduced as a response measure.

The announcement of tariffs on 2 April 2025 by the US, followed by the European Union's announcement of countermeasures, have introduced considerable uncertainty for Irish businesses. Further actions from both sides are anticipated which could create significant challenges to companies engaging in manufacturing activities in Ireland. The key example being the manufacturing of pharmaceutical products. Currently, pharmaceuticals are exempt from the general tariffs introduced by the US on the EU. However, it is widely expected that there will be further developments on this over the coming months. It was reported that Irish medical and pharmaceutical exports to the US surged in 2025 with a year-on-year increase above 450% in February 2025, according to data released on 15 April and reported by Reuters . This is most likely as a result of stock piling of products ahead of the possible introduction of tariffs, as opposed to growth due to additional demand.

If tariffs were not enough for pharmaceutical companies to contend with, the US administration is seeking to reduce the cost of prescription drugs by up to 80%. It is not yet known how such a target will be achieved but it has led to further uncertainty in the industry which is likely to lead to a cautious approach to future investment.

Changes in global trade policies, such as tariffs and related 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 corporation 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 will likely cause delays and increased costs in the procurement of essential materials and components needed for R&D activities.

Geopolitical conflict and the push for economic nationalism have led some countries to prioritise domestic industries over international cooperation, potentially reversing decades of trade liberalisation. Such geopolitical instability will likely impact foreign direct investment (FDI) flows into Ireland, while companies adopt a 'wait and see' approach. Any reduction in FDI would lead to a decrease in available funding for R&D initiatives, thereby stifling the growth of innovation-driven sectors. 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.

The current international 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.

Annual Progress Report 2025

In May 2025, the Department of Finance published their 'Annual Progress Report'. This annual report outlines the department's economic growth projections and the anticipated financial resources for the forthcoming budget. This year's report was published several weeks later than usual due to the uncertainty posed by US tariffs.

The report underlines various risks to the Irish economy if the EU and the US fail to secure a trade deal. With consideration given to the tariffs which are currently in place, it is predicted that economic growth, which is measured by Modified Domestic Demand (MDD), will slow to 2% this year and 1.75% in 2026. Such a decline is predicted to lead to 25,000 fewer jobs being created over this period.

The report also outlines a baseline scenario where a trade deal between the EU and the US is secured. In this instance the 10% tariffs are removed; it is estimated that the Irish economy grows by 2.5% in 2025 and 2.8% in 2026. This rate is still lower than previously estimated in autumn forecasts because of the general disruption to global trade.

European Competitiveness And Innovation Challenges

In the midst of these macro threats and their potentially damaging impact on the Irish economy, it is critical for Ireland to increase its competitiveness and ensure it can continue to be a key hub for businesses to perform RDI. More broadly speaking, competitiveness is a key priority for the EU and in September 2024, "The Future of European Competitiveness" more commonly referred to as "The Draghi Report", outlined a competitiveness strategy for EU Members whilst also highlighting deficiencies in European productivity and competitiveness. The report outlined four key areas for objectives for improving competitiveness and increasing growth:

www.gov.ie/en/department-of-finance/press-releases/minister-donohoe-notes-the-publication-of-analysis-estimating-the-impact-of-tariffs-on-the-irish-economy/

FIG.29: ECONOMIC GROWTH - MEASURED BY MDD

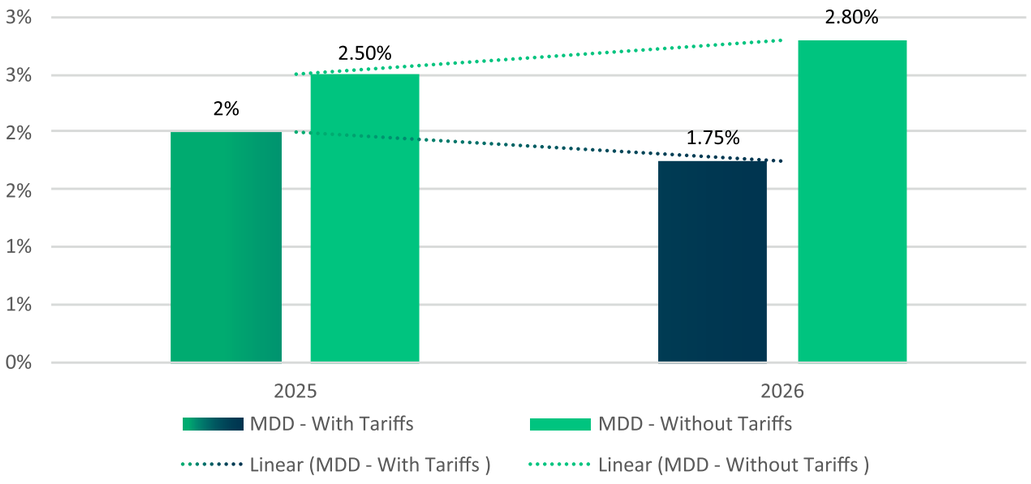


Figure 29: Data taken from the Department of Finance Annual Progress Report.

1. **Closing the innovation gap:** Focus on high tech areas such as AI, clean technology and bridge the innovation gap with others such as China and US.

2. **New industrial strategy:** Combining multiple policies (tax, trade, and foreign policy) and reforming competition law to facilitate mergers of European corporations.

3. **Financing investment:** Reduction of market fragmentation, finalise the banking union and revive securitisation.

4. **Regulatory reforming:** Reduce burden of regulation on companies, particularly SMEs, reduction of reporting obligations.

Exploring the first objective in more detail, the report outlines that Europe's failure to capitalise on the first digital revolution in the 1990's, led to a divergence in productivity rates vs the US. Interestingly, the report shows that excluding the tech sector, EU and US productivity growth was broadly similar over the last 20 years. Fast forward 30 years to 2025, and it appears that Europe are set to continue on the same path. The EU tech players currently lack the scale to support R&D and deploy investments in telecoms, cloud services, AI and semiconductors when comparted to their US and Asian counterparts.

When considering how best to bridge the gap between the EU and its competitors, it's important to understand what stands in Europe's way. The report details some key barriers to innovation within Europe. They are:

1. Europe's static industrial structure which produces a vicious circle of low investment and low innovation,

2. Weaknesses along the "innovation lifecycle" that prevent new sectors and challengers from emerging

3. Public spending on RDI in Europe lacks scale and is insufficiently focused on breakthrough innovation

4. Fragmentation of the Single Market hinders innovative companies

5. Regulatory barriers to scaling up are particularly onerous in the tech sector

6. The lack of a true Single Market prevents enough companies in the wider economy from reaching sufficient size to accelerate adoption of advanced technologies

7. Competition for computing power and lack of investment in connectivity could soon translate into digital bottlenecks

8. The EU's position in other innovative sectors like pharma is declining due to the same challenges of low investment in R&I and regulatory fragmentation

As can be seen, funding and regulatory burdens are key barriers to companies' ability to innovate, which can also be seen in responses to the Ireland Innovation Index survey. To meet the objectives within the Draghi report, it estimates that a minimum annual additional investment of between €750 - €800 billion is needed, or approximately 4.4% - 4.7% of EU GDP for 2023 – by no means an easy task. This would mean delivering private investment of close to 4% of GDP and achieving such investment through market financing alone would require a reduction in the private cost of capital and targeted incentives to unlock the required private investment along with an increase in publicly funded RDI.

In January 2025, the EU outlined its plan for Europe's sustainable prosperity and competitiveness which aims to begin implementing actions to address the key issues highlighted in the Draghi report . As part of this, the 'competitiveness compass' was the first major initiative of the newly elected Commission, which presents a framework designed to reignite economic productivity and secure the EU's competitive edge. The three core areas of action are i) Innovation, ii) Decarbonisation and competitiveness and iii) Security and resilience. The launch of the Clean Industrial Deal in February outlines the EU's plan of action to transform

decarbonisation into a driver of growth in Europe. Other initiatives include proposals to cut red tape and simplify EU rules for citizens and businesses, presentation of an action plan to secure competitive and decarbonised steel and metals, launch of the industrial action plan for the European automotive sector and the presentation of the artificial intelligence continent action plan which aims to shape the next phase of AI in Europe. The substantial measures are positive steps by the EU but it is important that the proposal and plans presented are fully implemented and lead to real action in addressing gaps in Europe's competitiveness and productivity.

FIG.30: PROGRESS OF NEW INITIATIVES, PROPOSED LAWS AND LEGISLATIVE CHANGES UNDER EU'S PLAN FOR EUROPE'S SUSTAINABLE PROSPERITY AND COMPETITIVENESS

May 2025

- The Commission unveils the REPowerEU roadmap to ensure the EU's full energy independence from Russia

April 2025

- Presentation of the artificial intelligence continent action plan to shape the next phase of AI in Europe

March 2025

- The Commission presents the union of skills, a plan to improve high quality education, training, and lifelong learning
- Launch of the industrial action plan for the European automotive sector
- Presentation of an action plan to secure a competitive and decarbonised steel and metals industry
- The Commission unveils the savings and investments union strategy to enhance financial opportunities for citizens and businesses
- The Commission proposes a critical medicines act to bolster the supply of critical medicines

February 2025

- Presentation of the first package of proposals to cut red tape and simplify business environment
- Adoption of the affordable energy action plan to lower energy costs for households and industries
- Launch of the Clean Industrial Deal for EU's competitiveness and decarbonisation

January 2025

- Launch of the strategic dialogue on the future of the automotive industry
- Presentation of the competitiveness compass to boost EU's sustainable prosperity
- Presentation of the action plan on the cybersecurity of hospitals and healthcare providers

https://commission.europa.eu/priorities-2024-2029/competitiveness_en

How Ireland Can Stay Competitive

For Ireland to remain competitive it is essential that the Government continues to incentivise companies carrying out RDI to remain here and that they continue to invest in RDI projects. In 2023, the business sector accounted for 87% of total Gross Expenditure on R&D ("GERD") (which includes R&D expenditure incurred by business, academic and government sectors) , performing well above the EU average . Recent CSO statistics showed that Foreign-owned enterprises spent €5.9bn on R&D in 2023, accounting for 84% of all R&D expenditure, highlighting the significance of FDI investment in R&D in Ireland.

An attractive RDI incentives system can be a major differentiator to companies who are considering where to locate their mobile R&D investment. Uncertainties surrounding changes in global trade policies, such as tariffs and related protectionist measures 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.

Earlier this year, the Department of Finance launched its Public Consultation on the Research & Development Tax Credit and on Options to Support Innovation. Both KPMG and IRDG have separately provided its responses to the Department of Finance's consultation and we await further developments.

The RDTC plays a central role in the suite of tax measures that ensures Ireland is an attractive location for both domestic and inward investment. Further enhancements to the RDTC and the introduction of a new Innovation Tax Credit will no doubt be very positive contributions to ensuring Ireland continues to remain a premier location for businesses to carry out RDI and help to offset the negative economic impacts of the tariffs outlined in the Annual Progress Report.

We believe that it is vital that Ireland increases the RDTC rate from 30% to 35% to stimulate critical additional business investment in RDI. The headline rate is the most persuasive tool available to Irish companies and MNCs alike to enhance the cost effectiveness of Ireland as a location for conducting RDI projects. While Finance Act 2022 increased the rate from 25% to 30%, this has had no real impact on the net benefit received by many MNCs within the scope of the OECD Pillar 2 framework as after top up taxes apply, the net benefit can reduce to as low as 25.5%.

In addition, the limits on outsourcing (payment to a third party or third level institution is limited to the greater of 15% of the company's overall R&D expenditure or €100,000.) can often significantly impact on the availability of RDTCs, particularly for SMEs where their 'in-house' R&D resources are not at the scale of larger companies which requires certain aspects to be subcontracted to third parties. This impacts where there is a high level of subcontracted costs in parallel to a lower 'in-house' R&D expenditure and often means that many SMEs incur excess outsourced R&D expenditure and receive no RDTC incentive for this.

Finally, it is very welcome to see the Department of Finance considering a new incentive focussed on innovation and/or digitalisation, separate from the existing RDTC. This suggests that Ireland is serious about exhausting all avenues to consider ways to further incentivise key activities undertaken by companies in the area of RDI that provide tangible benefits to the Irish economy. The key for any innovation/ digitalisation incentive will be to ensure that it will have a broad application and not limited to a small cohort of tax payers and that it can come within the confines of the GBER rules without the need to seek notification for State Aid approval.

Ireland is in a fortunate position that despite the international threats we are faced with, our future is still in our own hands. Record levels of corporation tax receipts in recent years has meant that targeted strategic investment in areas like innovation, digitalisation, decarbonisation and green energy can be a route to safeguarding long term economic growth. Now is the time for Ireland to be brave and navigate through the international challenges.

05. International Innovation Performance

Since 2023 the Index reports have been calling attention to the challenges Ireland faces in its underinvestment in R&D at a national level. After three years we are disappointed to note that this under investment continues and that there has been a huge opportunity cost in not increasing this investment over the past three years. We are at critical juncture for the State and there is a concern over long term viability of government revenue and at the same time we're underinvesting in R&D our only path out of this crisis.

Multiple sources of data and several different sets of analysis underline the key challenges. We perform poorly across several areas. One of the major factors dragging Ireland down in terms of innovation performance is the low levels of patents, utility models (known in Ireland as short-term patents), and industrial designs that originate from Ireland. This is a recurring problem that was previously noted. Ireland ranked 22nd in WIPO's Global Innovation Index 2023, partly due to low domestic patenting levels despite strong IP income flows. Ireland currently ranks low on non-R&D innovation indicators – e.g. design, eco-innovation outputs at 30-40% of the EU average as measured by the European Innovation Scoreboard.

The 2024 Global Innovation Index ranks give three different summary rankings of expected performance for countries tied to their level of development. These are

1. 'above expectation for level of development and includes many of the countries we compete with and benchmark ourselves against including Sweden, Singapore, and Denmark.
2. in line with expectation level of development like Austria, Norway, and New Zealand
3. Other countries (effectively below expectation for level of development). Ireland is grouped here with Poland, Romania, Croatia and Qatar.

A point that threads across all analysis and explains why Ireland sometimes increases in one index and decreases in another on a year to years base is that while Ireland's overall innovation performance is relatively strong (9th in EU), it relies heavily on outputs, which is distorted by our large FDI sector. Ireland underperforms on innovation inputs (ranked 26th globally for inputs) (NCPC 2024) Ireland is also over weighted in terms of BERD – Business Expenditure in R&D with 87.5% of R&D Expenditure coming from Business in 2023 based on provisional figures released (1bn Government Expenditure and 7bn Business Expenditure). This compares with a more typical 65% internationally.

Despite the large investment by businesses, we are significantly behind in research intensity as a state. R&D Intensity is defined as R&D Expenditure as a percentage of GDP. In 2023, 5 EU countries registered an R&D intensity above 3%. The highest R&D intensity was recorded in Sweden (3.6%), Belgium and Austria (3.3% each). Germany and Finland followed with 3.1% each. We are significantly behind the EU's 3% target by any measure and behind countries like Sweden, Austria and Finland that are already spending over 3% of GDP on Research and Innovation and continuing to increase their spend with Finland already one of the leading performances to increase its spend to 4% of GDP.

This is not simply a GDP/GNI* distortion issue. On a very simple comparison of Euros spent, Denmark spent €3.2bn by government in R&D in 2023 versus €1bn for Ireland. Denmark spends €3 for every €1 Ireland spends. While the gap is narrower with Sweden its effectively a 2:1 ratio.

Ireland urgently needs to significantly enhance public R&D investment. Government Budget Allocations for R&D (termed GBARD) currently stand at just 0.43% of GNI* (GNI* is the modified version of GDP – see footnote below) , far below the 2010 level of 0.65% and the EU's recommended 1.34% (Eurostat, 2024). Increasing public investment to the 1.34% of GNI*—an injection of approximately €1.2 billion annually—would be transformative, with the EU's 1.34% target as a baseline rather than an aspirational ceiling.

One comment to the innovation index summed up these issues

"Ireland invests just 1.1% of GDP in R&D—far below the EU average of 2.3% and well behind leaders like Sweden, 3.6%, Belgium, 3.3%, and Germany, 3.1%. Outside the EU, countries like the U.S., at 3.6%, and Japan, at 3.4%, continue to invest well above the EU average. South Korea, investing 4.9% of GDP in R&D, stands out globally, demonstrating the economic power of sustained research development and an innovation-centric culture. When I visited South Korea in 2022, I saw for myself how deeply integrated R&D is across sectors. The Irish Government's own long-standing target is 2.5% of GNP, but current levels fall well short".

The National Competitiveness Council (NCPC 2023) has noted Ireland must invest more in research talent and innovation infrastructure to support any big R&D increase (Index 2024) In other words, money alone isn't enough – human capital and labs/pilot facilities must grow in tandem. And all are increasingly important to support investment by domestic companies in R&D and also foreign direct investment.

Where you spend your money in business tells your organisational priorities and what you value. Where you spend your money as a state tells you what the state prioritises. For over a decade since the financial crash, Ireland has underinvested in R&D and Innovation. This input gap has left us with aging lab equipment in universities and an increasing input gap in key areas of the economy. To murder a metaphor, we should think less about saving our spare cash for a rainy day and use the money to build an ark to enable us to weather the storms ahead. There is a large and growing opportunity gap in not investing properly in R&D.

Addressing this deficit will help narrow the public and private investment gap relative to our competitors. This in turn will help chart Ireland's course to a knowledge- based economy, one that drives Research and Innovation, develops talent, creates high-value jobs and pushes the country forward both socially and economically. Ireland remains highly dependent on the pipeline of FDI companies whose investments in R&D, along with those of larger indigenous companies are highly mobile. Ensuring Ireland retains its attractiveness as an RDI destination will be of critical importance particularly in comparison to the other countries that are aggressively improving their international positioning

Modified gross national income (also Modified GNI or GNI*) is a metric used by the Central Statistics Office (Ireland) to measure the Irish economy rather than GNI or GDP. GNI* is GNI minus the depreciation on Intellectual Property, depreciation on leased aircraft and the net factor income of redomiciled PLCs.

06. Critical Gaps: Sustainability & Non-R&D Innovation

Ireland stands at a critical juncture, with significant untapped potential in innovation and sustainability, hindered by gaps within the current support infrastructure. Specifically, the nation's performance in non-R&D innovation—such as design, eco-innovation outputs, customer experience innovations, and digital-first business models—remains alarmingly low, trailing at just 30–40% of the EU average.

Research, development, and innovation (RDI) in Green Technologies will be pivotal in reducing emissions while fostering economic growth. Yet currently only 35% of companies surveyed are actively investing in Sustainable Innovation (developing products or services that drive sustainability v's investing in off the shelf products like solar etc). And only an additional 6% of companies have indicated they plan investment in the area over the next three years. A striking 76% of respondents say that a 50% enhanced tax credit for green innovations would stimulate investment by them in sustainable technologies.

This highlights a significant opportunity for Ireland to lead in climate innovation by aligning fiscal policy with sustainability targets under the Paris Agreement and EU Green Deal. Ireland faces the potential for significant financial penalties, ranging from €8 to €26 billion, if it fails to meet its EU-agreed climate targets. Creation of a new incentive linked directly to decarbonisation outcomes would not only deliver jobs and revenue, but it would also be fiscally prudent for the state. We have to address key barriers such as insufficient targeted financial support, administrative complexity, and market adoption barriers, all constraining progress toward Ireland's climate neutrality ambitions and interim 2030 sustainability targets.

Shortcomings in Existing Frameworks:

The current RDTC scheme is structured narrowly around 'scientific uncertainty,' excluding significant innovation activity critical for Ireland's economic future. Notably, vital innovation activities such as customer experience enhancements, certain circular economy initiatives that fall outside the science test, radical UX designs, and innovative digital-first business models frequently fall beyond these rigid definitions, leaving a considerable portion of Ireland's innovative efforts unsupported and underdeveloped. This work is high-risk, high-skill, highly uncertain and mission-critical for tomorrow's economy. Furthermore, despite ambitious climate targets, Ireland's green R&D investment remains relatively low, exacerbated by administrative hurdles and market uncertainties that disproportionately deter SMEs and start-ups.

Complementary Solutions for Broader and Deeper Impact:

To effectively address these intertwined challenges, two complementary policy instruments are proposed:

1. **Innovation Tax Credit (ITC):** A dedicated Innovation Tax Credit would support high-risk, high-skill innovations beyond the confines of traditional R&D definitions. This new incentive directly targets Ireland's existing underperformance in design-driven and eco-innovation. By specifically incentivising areas such as design, customer experience, circular economy solutions, and new digital business models, the ITC would catalyse broader innovation activity, substantially lifting Ireland's overall innovation outputs. The creation of this credit aligns with global best practices, empowering SMEs and scaling businesses to pursue innovative initiatives crucial to Ireland's long-term economic competitiveness.

2. **Enhanced 50% Sustainability-focused RDTC:** Addressing specific sustainability challenges, this enhanced credit would significantly de-risk green technology projects by providing targeted financial support. Currently, Ireland trails significantly behind competitors like France and Portugal, which offer substantially higher incentives for green innovation. Surveys indicate that 76% of companies would increase their investment in sustainable innovations if a 50% tax credit were introduced. This targeted incentive, designed with simplified administration and rapid refundability for SMEs, would bridge the existing funding gap, accelerating green R&D investments from €300 million to €1 billion annually by 2030.

These should be supported by key measures that will improve the whole Research, Development and Innovation system.

1. **Streamlined Administrative Processes:** Establish a simplified "green innovation fast-track" with standardised procedures and dedicated SME assistance. Reduced administrative burdens will enhance participation, ensuring broader SME engagement in sustainability initiatives.

2. **Expanded Direct Funding:** Scale up competitive grants through a dedicated Green Innovation Fund, prioritising projects with high commercial potential in renewable energy, sustainable agriculture, and circular economy sectors. Increased public–private collaboration is essential.

3. **Market and Procurement Incentives:** Leverage public procurement and consumer rebates to stimulate market demand for innovative green solutions, creating secure early-stage markets for emerging technologies.

Synergistic Impact and Immediate Benefits:

These two tax credits complement each other strategically. The broader ITC fosters innovation diversity, capturing high-value opportunities currently overlooked, while the targeted 50% Sustainability Credit directly incentivises critical green R&D. Together, they create a powerful policy package, enhancing Ireland's innovation landscape comprehensively through the following:

- **Economic Growth and Job Creation:** Thousands of high-quality, regionally balanced jobs will emerge, addressing rising demand for innovation-driven skills.
- **Enhanced R&D and International Competitiveness:** Innovation intensity would substantially increase, significantly improving Ireland's patent activity, eco-innovation outputs, and global competitive positioning.
- **Accelerated Climate Goals Achievement:** Robustly incentivised sustainability projects would yield substantial environmental and economic benefits, significantly reducing the risk of EU-imposed climate penalties, which could otherwise range between €8 billion and €26 billion.

Immediate, coordinated policy action adopting these dual incentives would decisively position Ireland as a global leader in innovation and sustainability, strategically capitalising on its untapped potential and future-proofing its economy and environment.

Ambition: By establishing a dedicated Innovation Tax Credit distinct from traditional R&D support, together with a 50% sustainability credit Ireland boldly commits to becoming a global frontrunner in fostering broad-based innovation. This measure positions the nation not merely as a follower but as a leader, driving pioneering efforts in user experience design, digital business models, and sustainable innovation.

07. Conclusions

Ireland is faced with significant headwinds arising from the stormy geopolitical environment and the challenges presented to the global trading landscape. Ireland has borne the fruits of globalisation and free trade which has led to long-term economic growth and prosperous location for businesses and citizens alike to call 'home'. The ability for Ireland to attract significant FDI over the last 30 years has led to the creating of tens of thousands of new jobs and opportunities for local communities and has supported further necessary public investment in Ireland's infrastructure. However, there are now real international challenges that threaten to destabilise Ireland as being a key location for business operations.

To protect against such threats, innovation must play a key role in Ireland's defence strategy. Ireland's R&D tax and grant supports are considered favourable among companies operating in Ireland. Our survey shows that 53% of companies feel that Ireland's RDI grants and RDTC supports compare equally or favourably to other countries. 16% feel that the Irish system compares negatively to other jurisdictions. 31% responded that they weren't sure. However, now is the time for Ireland to boost its competitiveness by improving its RDI incentives and increasing its attractiveness for RDI investment as well as encouraging domestic companies to innovate.

While important enhancements have been made in recent years, Ireland must be brave with its next step and strive to get ahead in the changing global scene. The main items Irish policy should concentrate on are:

1. Increasing funding amounts and expanding eligibility criteria to encourage broader participation in RDI initiatives.
2. Introduction of a standalone innovation tax credit aimed to support companies engaged in product and process innovation which may fall outside of criteria of the RDTC.
3. Simplifying the claims process and reducing the administrative burden associated with accessing tax and grant supports.
4. Ensuring that RDTC payments are made in a timely manner.
5. Improving access to grants and supports specifically for small and medium-sized enterprises (SMEs).
6. Enhancing supports and incentives for investment in "Green Technologies" to promote sustainable and environmentally friendly innovation.
7. Reducing barriers that hinder companies from applying for RDI supports, streamlining the process to facilitate greater engagement.
8. Significantly increasing government spending on R&D to surpass the minimum recommended levels set by the European Union, demonstrating a strong commitment to Research and Innovation.

Increasing RDI Funding Amounts / Expanding Eligibility Criteria

Lack of budget was the biggest single factor identified that is impacting companies' ability to innovate, with 64% of businesses stating that more funding would allow them to conduct more RDI. To reach the Government's ambitious goal of doubling BERD (Business Expenditure in R&D) by 2030 (Impact 2030), more funding will need to be made available to businesses.

The RDTC is the primary incentive that RDI engaged companies avail of and this is confirmed by the survey which highlights that 64% of those conducting RDI in Ireland avail of the credit.

Smaller companies rely on RDI incentives to support their ability to innovate and continue to conduct RDI projects. Larger MNCs also focus very closely on the cost of doing R&D in Ireland and frequently are required to 'pitch' for significant RDI 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 RDTC, it would become significantly more difficult to compete against these lower cost locations.

Given the significant role that the RDTC plays in not only attracting new investment into Ireland but also with maintaining significant R&D and manufacturing operations on these shores, it is crucial that the R&D credit continues to be enhanced to provide a further incentive for companies to invest in RDI in Ireland.

The current rate of 30% must be increased to 35% to boost Ireland's competitiveness and ensure that Irish companies can continue to attract high value RDI projects in Ireland. A rate increase is essential to help mitigate against other domestic and international challenges. For Irish companies operating within an international group, the headline rate is the most persuasive tool to attract RDI projects to Ireland. For domestic Irish companies, the additional benefit provides a much needed boost to incentivise further RDI projects which could be seen as 'risky' in the current climate.

An expansion of the eligible expenditure for the RDTC and RDI grants will also increase uptake of these supports which our survey findings suggest inspire more innovation investment (61% of respondents indicated that these funding supports have allowed more RDI to take place). Enhancements to the outsourcing limits, an allowance for certain overheads/ supporting costs essential to core R&D and a legislative update to the definition of qualifying R&D expenditure are items which should be considered.

Innovation Tax Credit

As part of the Department of Finance's Public Consultation into the RDTC, it is also considering options around supporting innovation, separate to the RDTC.

We propose creating an innovation tax credit (ITC) to incentivise product and process innovations that may fall short of being considered research and development activities as currently defined in tax legislation. This new incentive would directly target Ireland's existing underperformance in design-driven and eco-innovation. By specifically incentivising areas such as design, customer experience, circular economy solutions, and new digital business models, the ITC would catalyse broader innovation activity, substantially lifting Ireland's overall innovation outputs. The creation of this credit aligns with global best practices, empowering SMEs and scaling businesses to pursue innovative initiatives crucial to Ireland's long-term economic competitiveness.

Other countries such as Belgium, France, Spain and Portugal already have a tax incentive in place for Innovative activities (either an innovation credit or innovation included under their RDTC).

Reduce Barriers to Applying For RDI Supports

RDI supports are a significant contributor to Ireland's economy, with just less than half of respondents (47%) saying R&D funding has supported more employment, while almost two-thirds 61% say it has allowed them to conduct more R&D activity. However, some companies find it quite difficult to access these funding supports.

"Administrative time related to grant drawdowns or R&D Tax Credit claims" was cited by (39%) as the most significant barrier stopping their companies from applying for RDI supports, with the grant application process itself cited by 30% as a barrier.

A lot of the people working on projects that qualify for RDTC are usually the busiest people working on key projects. There is a lot of administration and time involved in preparing the technical reports, having them reviewed and finalising all of the elements of the claim.'

These barriers need to be eliminated or reduced to allow more companies access to these supports and increase their ability to fund their RDI projects. Revenue's R&D Guidelines provide a concession for small and micro companies who are in receipt of an RDI grant and who have an R&D tax claim of less than €50k. The concession aims to reduce the administrative burden by outlining that Revenue will generally not challenge the 'science test' where the same activity has already been accepted for an RDI grant. However, the concession only applies to a small cohort of claimant companies due to the criteria which apply. This is an example of something that could reduce the administrative burden to companies but is not broadly available.

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.

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. 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.

We would also recommend that R&D refunds be processed automatically to ensure speedy payment to taxpayers, as opposed to the current approval process which frequently leads to significant delays in payments issuing. This would not impact on Revenue's ability to enquire into an RDTC claim or raise an audit but would streamline the current process with respect to the issuing of refunds.

Improving Access for SMEs

Responses to the survey show that SMEs feel that it is very difficult for them to avail of funding supports, with one respondent commenting: 'Grants, drawdowns and administrative burden along with time required to avail of incentives is often beyond what a micro business can afford'.

In relation to improving supports for SMEs conducting RDI, about a third (33%) of SMEs feel that increasing grants and funding will significantly enhance supports for SMEs, while over one in five (21%) indicated increasing funding/grants available to SMEs would better support them. 11% also feel that increasing education and training will improve supports.

Enhanced Supports for Investment in Green Technologies

Without a sustained national investment in Sustainability Research and Innovation, Ireland will be reliant on technological solutions and expertise from outside the country, reducing our competitiveness both at home and abroad.

76% of respondents stated an enhanced rate of RDTC (i.e. 50%) would increase R&D investment in these important green technologies. Increased grant supports were also mentioned as an incentive to increase investment in green technologies.

08. Recommendations

We have outlined below a summary of our recommendations based on the current international climate and responses to the survey. Many of the recommendations below have fed into both KPMG's and IRDG's respective responses to the Department of Finance Public Consultation of the RDTC and Other Options to Support Innovation. For further details on both responses, please access through the links below:

IRDG Response to Department of Finance Consultation: https://www.irdg.ie/wp-content/uploads/2025/06/IRDGRDInnovationConsultation2025.pdf

KPMG Response to Department of Finance Consultation: https://assets.kpmg.com/content/dam/kpmg/ie/pdf/2025/05/ie-2025-Department%20of%20Finance%20Consultation%20RD%20and%20Innovation%20-%20KPMG%20Response.pdf

1. Increase Government spend on R&D to .8% of GNI to align with Innovation Leaders and set an explicit target of Business and Government spend (GERD) to reach 2.5% of GNI over the next three years, a key objective within Impact 2030.
2. Address the barriers that impact on claims for RDI state supports such as an acceleration of payments of RDI support funding to companies and the streamlining of the RDTC intervention process.
3. Increase in RDTC rate from 30% to 35% to maintain Ireland's competitiveness in a challenging international environment. Simply put, a rate increase is the largest lever Ireland possesses for enhancing Ireland as the primary location for RDI.
4. Increase the RDTC rate to 50% for R&D carried out on green technologies to help establish Ireland as a hub for green technology. Increase the awareness, accessibility and amount of grant aid available for RDI in developing Green technology.
5. Introduction of a standalone 'Innovation Tax Credit' which supports companies involved in product and process innovations. There are a number of ways to achieve this and both IRDG and KPMG have considered in further detail as part of their respective submissions to the Department of Finance.
6. Simplify the definition of "expenditure on research and development" for RDTC purposes to align with other sections of the taxes act and to align with the original policy intention. This should also be looked at in the context of an allowance of certain overheads and indirect/ancillary activities which are integral to core R&D activities.
7. Increase of the outsourcing limits and provide an allowance for outsourcing to connected companies to reflect the current landscape and how companies collaboratively work together on RDI projects.
8. Extend the RDTC to include building expenditure related to all buildings used for R&D rather than limiting to 'industrial buildings.

Delivering these 8 recommendations will make the goal of doubling BERD much more achievable, safeguard Ireland against threats brought about by geopolitical instability and help us remain competitive with the UK and other European countries and can help us challenge and indeed become one of the European and Global 'Innovation Leaders'.

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Survey Methodology

The survey was carried out online during March and April 2025. A total of 556 responses from Innovation leaders across the country were received.

Respondents could reply anonymously to the survey or submit their email address to receive a copy of the completed Index.

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