Ireland's Innovation Index 2026.

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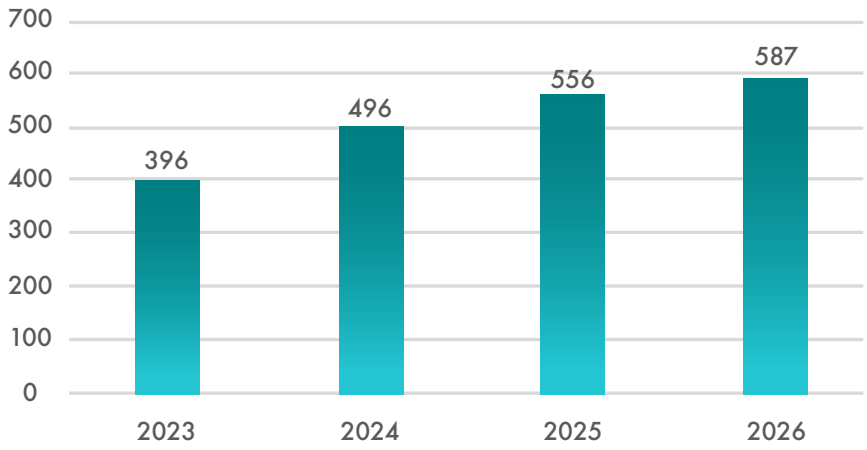
01. Executive Summary

The 2026 Index is the fourth annual IRDG-KPMG survey of attitudes to Research, Development and Innovation (RDI) among Irish businesses. 587 companies responded, the largest evidence base in the Index to date, up from 396 in 2023, 496 in 2024, and 556 in 2025. The four-year cohort allows the Index to track sustained trends rather than year-on-year noise.

FIG.01: NUMBER OF RESPONDENTS



Three findings define 2026:

1. AI and disruptive technology is now a priority for 67% of RDI-active respondents over the next one to three years, up from 45% in 2024 — a 22-point shift, the largest in any priority option in the four-year series.

2. The 30% to 35% RDTC rate increase under Finance Act 2025 is registering as additional investment intent: 58% of respondents will direct the additional credit into existing R&D projects, 57% into new ones, and 39% into hiring or retaining R&D staff.

3. 71% of respondents say an Innovation Tax Credit (ITC), currently under consideration as part of the Department of Finance's R&D Tax Credit and Innovation Compass (February 2026), would enable more innovative work in Ireland, with 45% expecting it to lift Intellectual Property (IP) creation and protection in Ireland — crucial for safeguarding Ireland's

Business RDI sentiment remains resilient despite a continuing uncertain external environment. 69% of respondents increased RDI spend over the past three years (65% in 2025); 77% expect to increase spend over the next three, against 71% in 2025 and 78% in 2024. Optimism among large companies has rebounded sharply, from 65% in 2025 to 72% in 2026, after a year in which OECD BEPS Pillar Two implementation and trade-policy uncertainty weighed on multinational planning. 22% of respondents report a negative impact on their RDI plans from the global political and tax landscape, against 16% reporting a positive impact (up from 9% in 2025) and 62% reporting no change. Furthermore, the importance of the R&D Tax Credit to Ireland's FDI offering has again been highlighted, with more than half (54%) saying that only 10% or less of their current levels of R&D would remain in Ireland in the absence of the R&D Tax Credit. The SME gap is the most consistent structural finding in the four-year series. 61% of SME respondents claim the RDTC, against 81% of large companies. SME refund-timing satisfaction sits below 50%, against 64% for large companies. 14% of SMEs are aware of State supports but do not claim them, double the 7% rate among large companies. The "Administration and Simplification" and "Innovation" workstreams in the Compass should be measured against these baselines.

The Key Takeaways:

1. AI and disruptive technology is an RDI priority for 67% of respondents over the next 1–3 years, up from 45% in 2024 — a 22-point shift over two years and the largest movement in any priority option in the four-year series.

2. The 30% to 35% RDTC rate increase under Finance Act 2025 is generating reinvestment: 58% of respondents will direct the additional credit into existing R&D projects, 57% into new R&D projects.

3. 71% of respondents say an Innovation Tax Credit would enable more innovative work in Ireland; 67% expect it would support new product or service development; 51% say it would support hiring and retention of high-skilled employees; 45% expect it to increase IP creation and protection in Ireland, directly relevant to corporation-tax base protection.

4. 69% of RDI-active businesses increased their RDI spend over the past three years (65% in 2025, 74% in 2024). 77% expect to increase spend over the next three, up from 71% in 2025; large-company optimism has recovered from 65% to 72%.

5. Limited budget remains the largest barrier to innovation but has fallen for the first time in the four-year series, from 64% in 2025 to 57% in 2026. Recruitment of key talent has fallen for the fourth year running: 46% (2023), 39% (2024), 33% (2025), 31% (2026).

6. 62% of respondents say State funding supports allowed more R&D to take place; 52% say funding supported more employment, up from 47% in 2025; 46% report more internal investment, up from 40%.

7. Among MNCs that conduct R&D in other jurisdictions, 56% say Ireland's RDI grants and RDTC supports compare equally or favourably to other countries, up from 53% in 2025.

8. 54% of MNCs say 10% or less of their R&D would take place in Ireland in the absence of the RDTC; 79% say 50% or less would.

9. 53% of respondents are satisfied with the timing of RDTC refund payments, up from 47% in 2025; satisfaction among SMEs remains below 50%, against 64% for large companies.

10. 79% of respondents say an enhanced 50% RDTC rate would increase R&D investment in green and sustainable technologies. Ireland's Climate Change Performance Index ranking slipped from 29th in 2025 to 33rd in 2026.

02. Introduction

Research, Development and Innovation (RDI) is a primary driver of productivity growth and a precondition for Ireland's response to the climate, digital and demographic transitions. Sustaining Ireland's innovation economy now requires Irish businesses, both indigenous and multinational, to deepen RDI capability.

The operating environment in 2026 is more difficult than at any point in the four years of this Index. As a small open economy, Ireland is exposed to geopolitical tensions, shifting trade policies and an evolving international tax landscape (e.g OECD BEPS Pillar Two). Domestically, energy and labour costs continue to rise; transport, energy and housing constraints have not eased; and regulatory complexity is increasing. Irish businesses are managing competitiveness, resilience and long-term planning in parallel, not in sequence.

Business RDI is increasingly the engine of that response. Over 25 years, Ireland has moved from 800 R&D-active firms with research expenditure of €300 million to 2,351 RDI-active enterprises investing €7 billion in 2023 (CSO BERD 2024). In the same year, 87.5% of overall RDI investment came from private enterprise, the highest business share in the EU.

Globally, business knowledge investment is rising. 77% of respondents to this year's KPMG–IRDG survey expect to increase R&D expenditure over the next three years. Competitor jurisdictions have continued to improve their RDI offer in parallel; competition for RDI mandates has intensified rather than eased.

Ireland's offering has also strengthened. Following the 2025 Department of Finance public consultation, the headline R&D Tax Credit (RDTC) rate increased from 30% to 35% under Finance Act 2025, a meaningful step in maintaining Ireland's attractiveness for RDI-intensive activity. In February 2026, the Department published the R&D Tax Credit and Innovation Compass,

which sets out four priority areas for further reform: outsourcing rules, capital expenditure, administrative simplification, and the design of an Innovation Tax Credit (ITC).

Ireland holds the EU Council Presidency from 1 July to 31 December 2026. The Presidency will not directly alter national R&D supports, but it coincides with critical EU debates on competitiveness, innovation and the next Multiannual Financial Framework. The legislative timetables Ireland steers will shape the policy and regulatory environment for R&D-intensive activity for years to come.

The 2026 Index draws on 587 responses and is intended to inform the work of the Department of Finance, the Department of Enterprise, Tourism and Employment, the enterprise agencies, and Respondent companies' own innovation planning.

03. Innovation Index Results

3.1 Respondent Profiles

The 2026 survey ran in March and April 2026. 587 companies responded, the largest sample to date, up from 396 in 2023, 496 in 2024, and 556 in 2025. The ownership composition has remained stable across the four-year series: 61% Irish-owned, 20% US-owned multinational subsidiaries, 13% non-US foreign-owned subsidiaries; the remaining respondents report mixed or undisclosed ownership. Sector coverage is broad, with the largest categories being Software / ICT / Cloud / SaaS (18%), Engineering / Technology (15%) and Medical / Health / Wellbeing / Devices (14%).

FIG.02: RESPONDENTS BY COMPANY SIZE

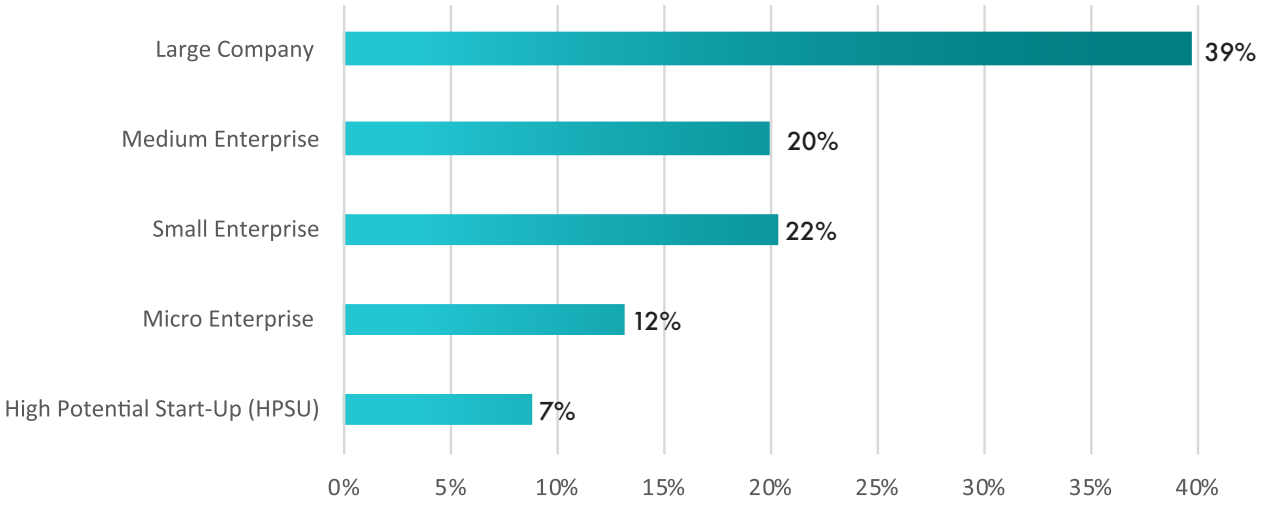


FIG.03: RESPONDENTS BY SECTOR

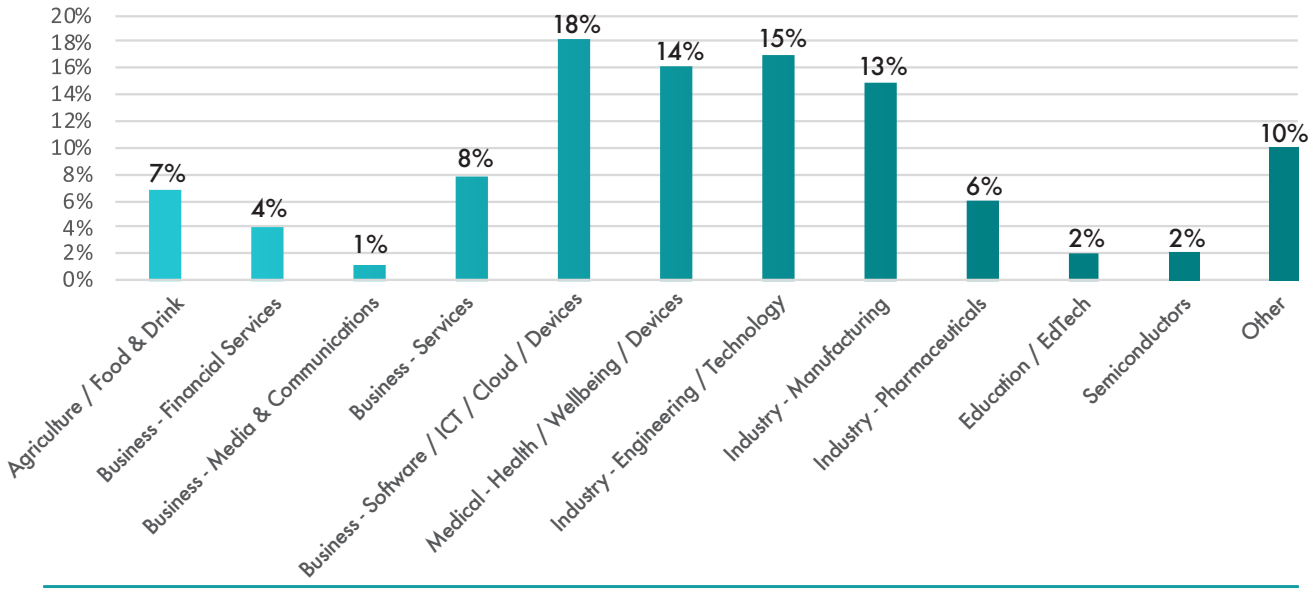


Figure .04 sets out the distribution of full-time equivalents (FTE) within respondent companies operating in Ireland.

FIG.04: NUMBER OF FTES (FULL TIME EQUIVALENTS) EMPLOYED IN IRELAND

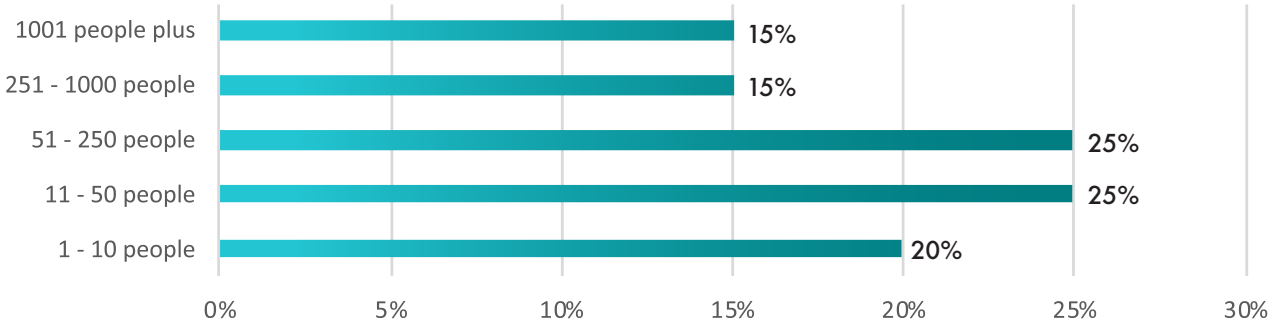
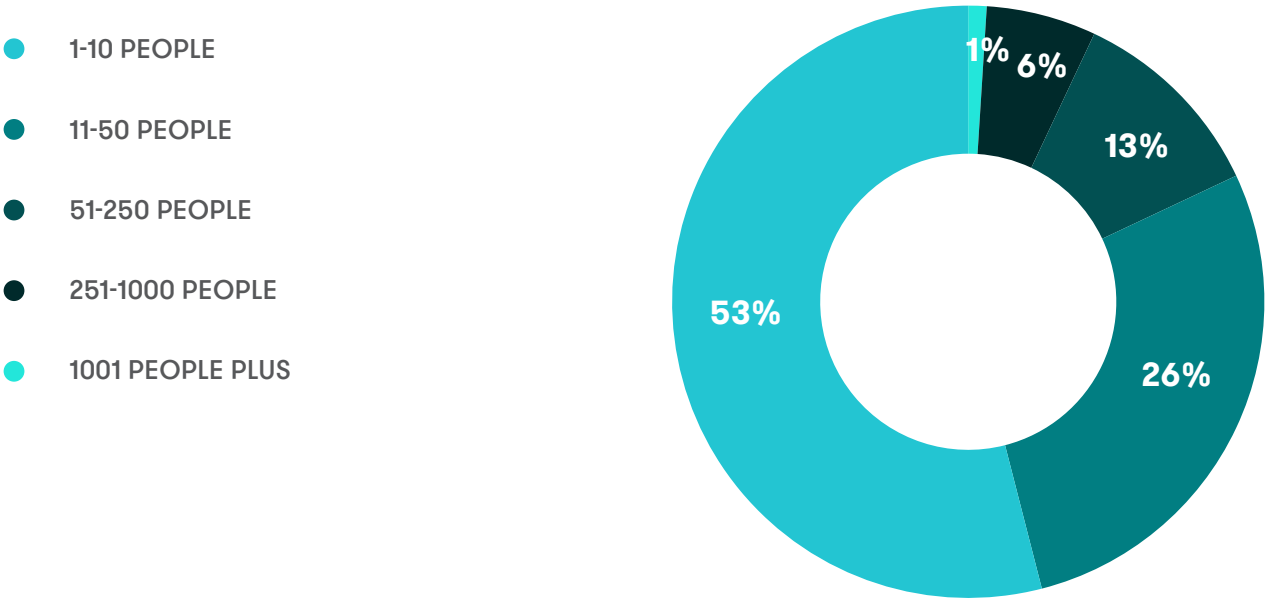


FIG.05: NUMBER OF FTES DIRECTLY IN RDI IN IRELAND



53% of respondents have between 1 and 10 people directly involved in RDI in Ireland; 26% have 11–50; 13% have 51–250; 6% have 251–1,000; 1% have over 1,000.

3.2 Innovation Activity & Barriers

Product innovation remains the principal focus of Irish RDI. 74% of respondents identify it as their main current focus; 79% identify it as a priority for the next one to three years. Improving existing products and services is a priority for 74%.

The most pronounced shift in 2026 is the rise of AI and disruptive technology as a strategic priority. 67% of respondents now identify it as a priority for the next one to three years, up from 45% in 2024. Cost reduction and operational improvement is the second growing area: 53% in 2026, against 31% in 2024.

FIG.06: RESPONSIBILITY FOR INNOVATION

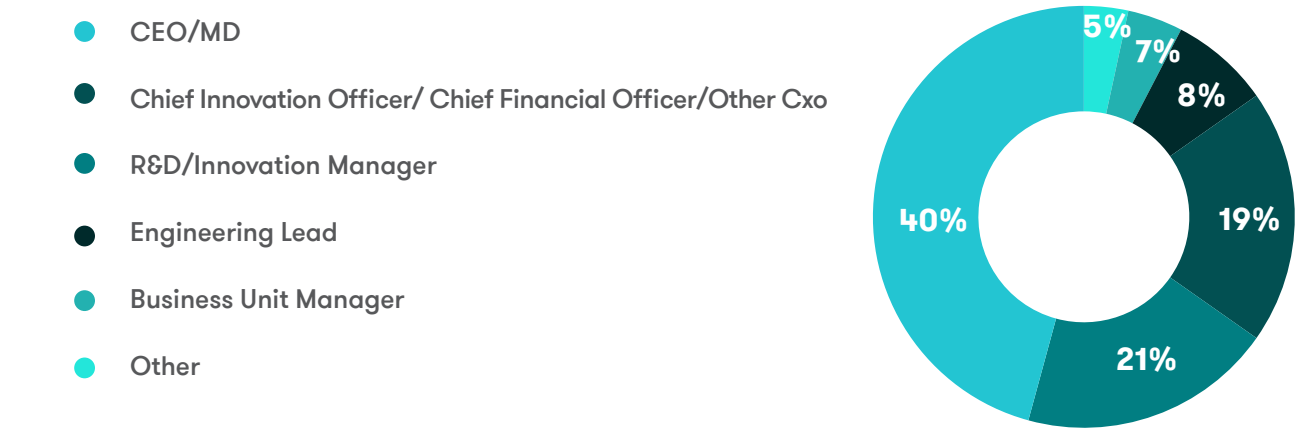
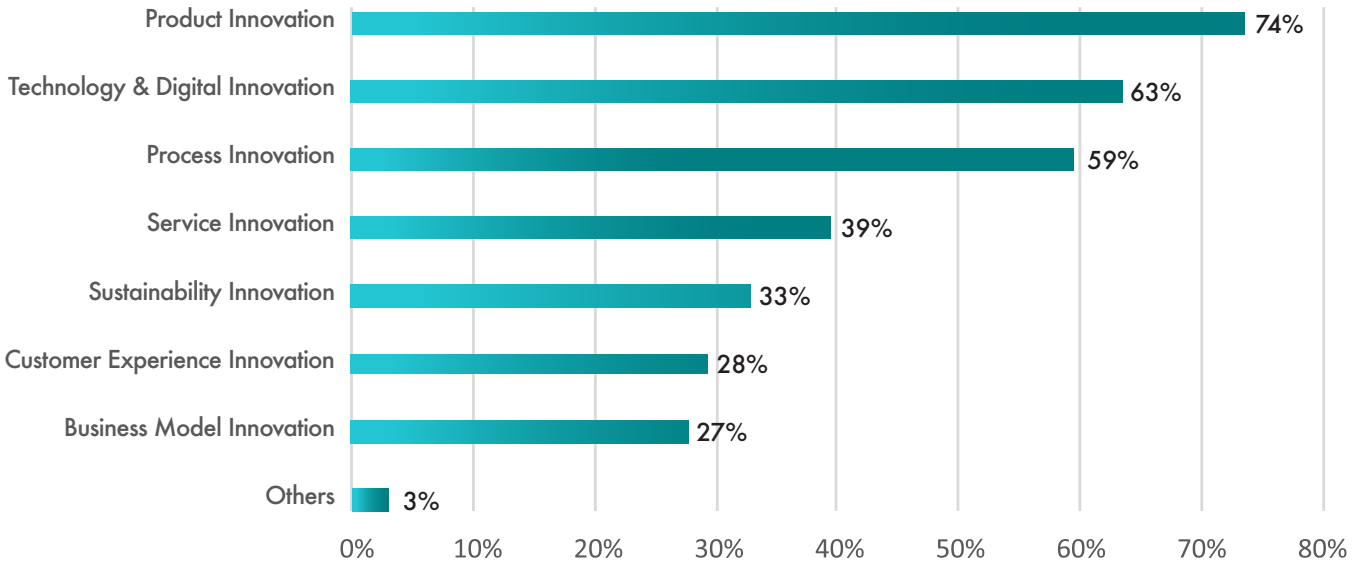


FIG.07: MAIN CATEGORIES OF RDI ENGAGED IN



The category profile differs by company size. Process, customer-experience, sustainability, and technology and digital innovation are larger priorities for large companies than for SMEs. Service innovation is the only category in which SMEs out-rank large companies.

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

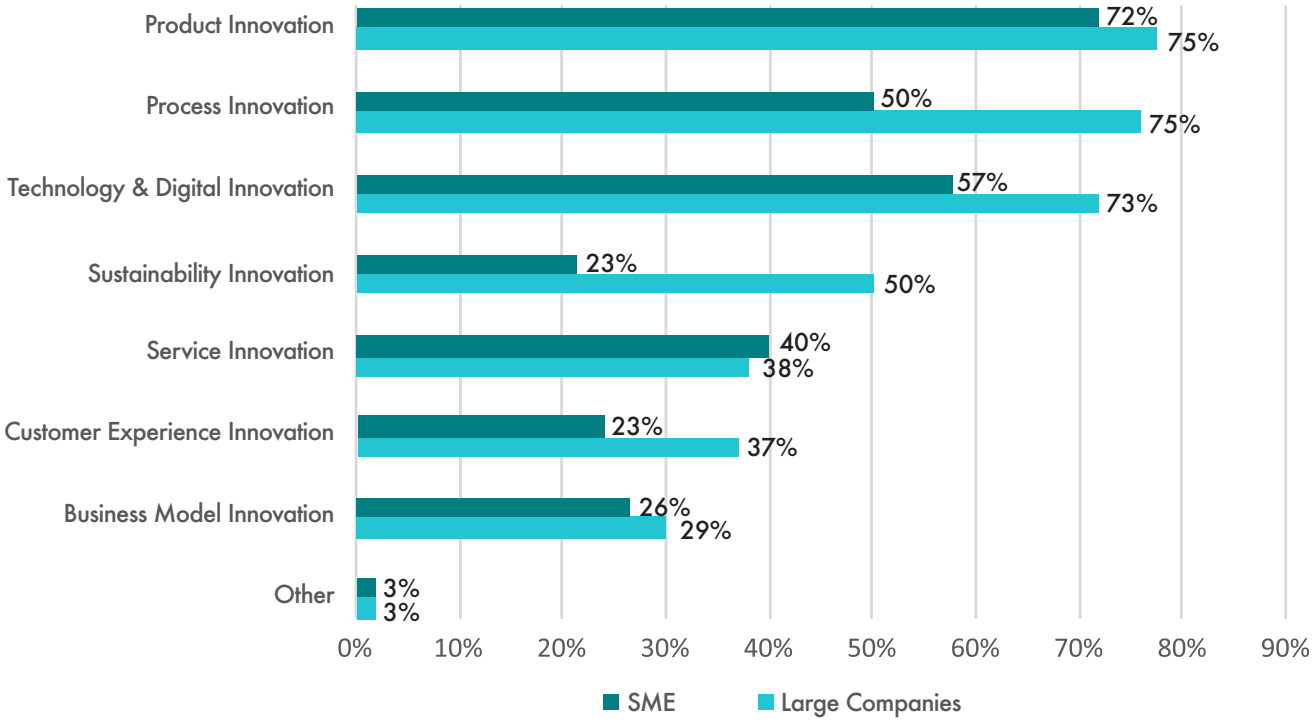
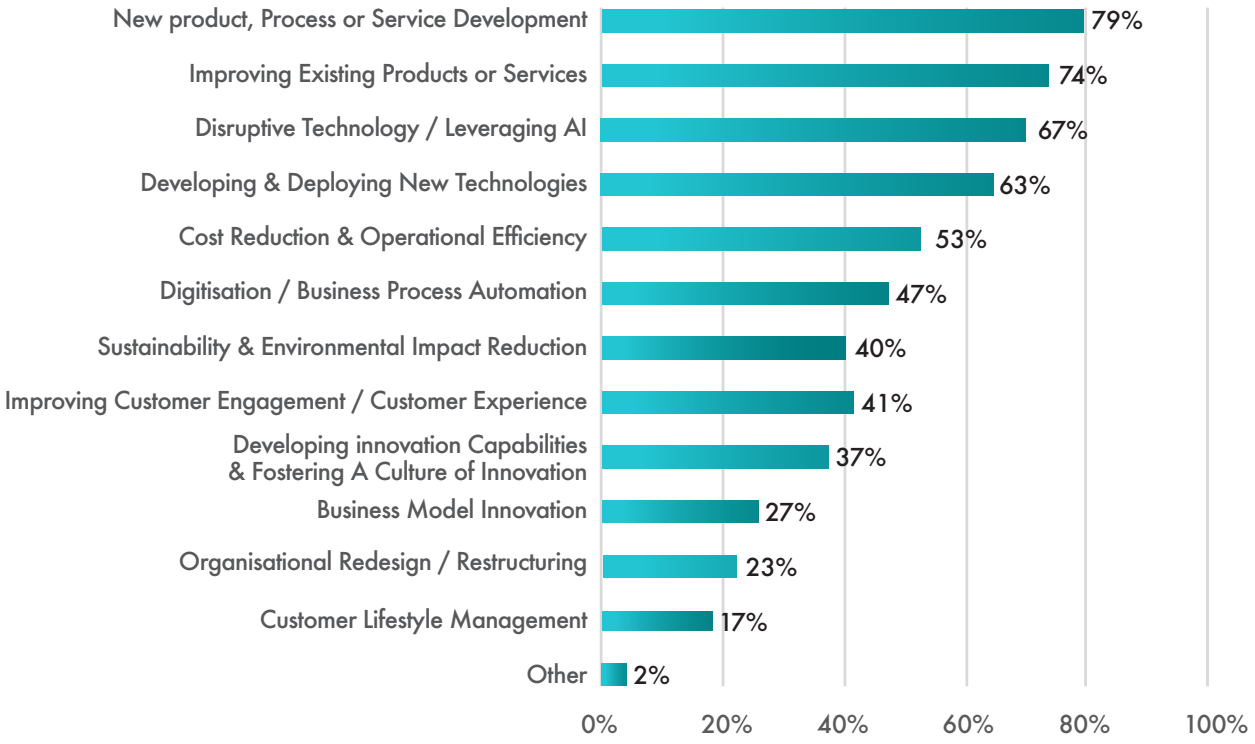
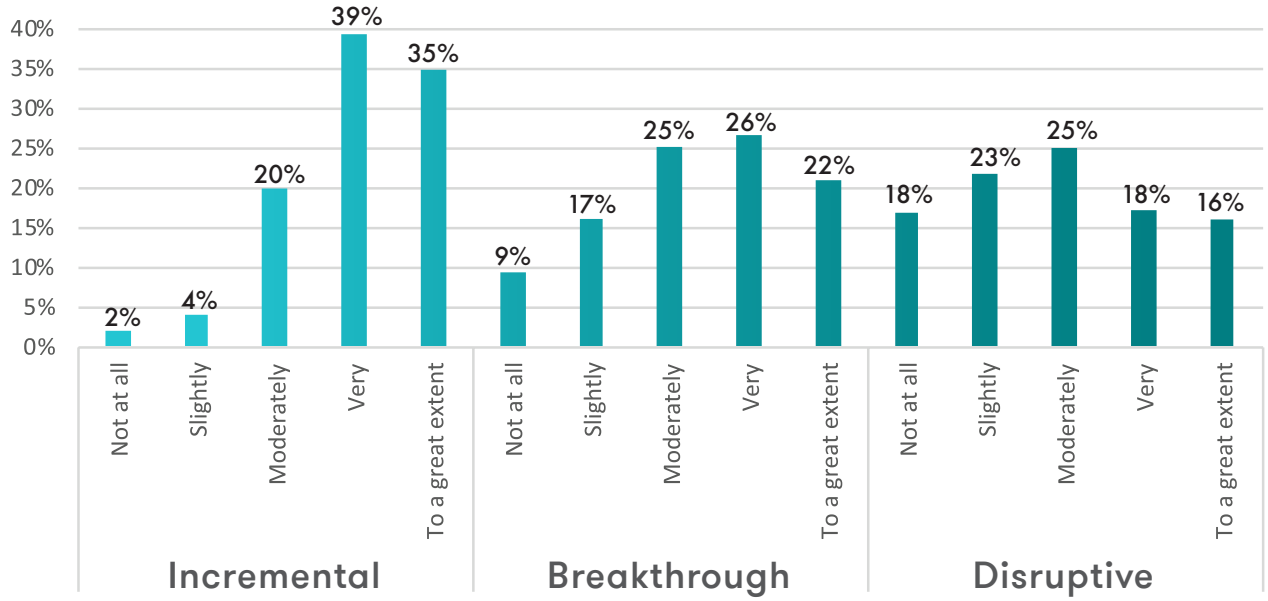


FIG.09: SPECIFIC RDI PRIORITIES FOR NEXT 1- 3 YEARS



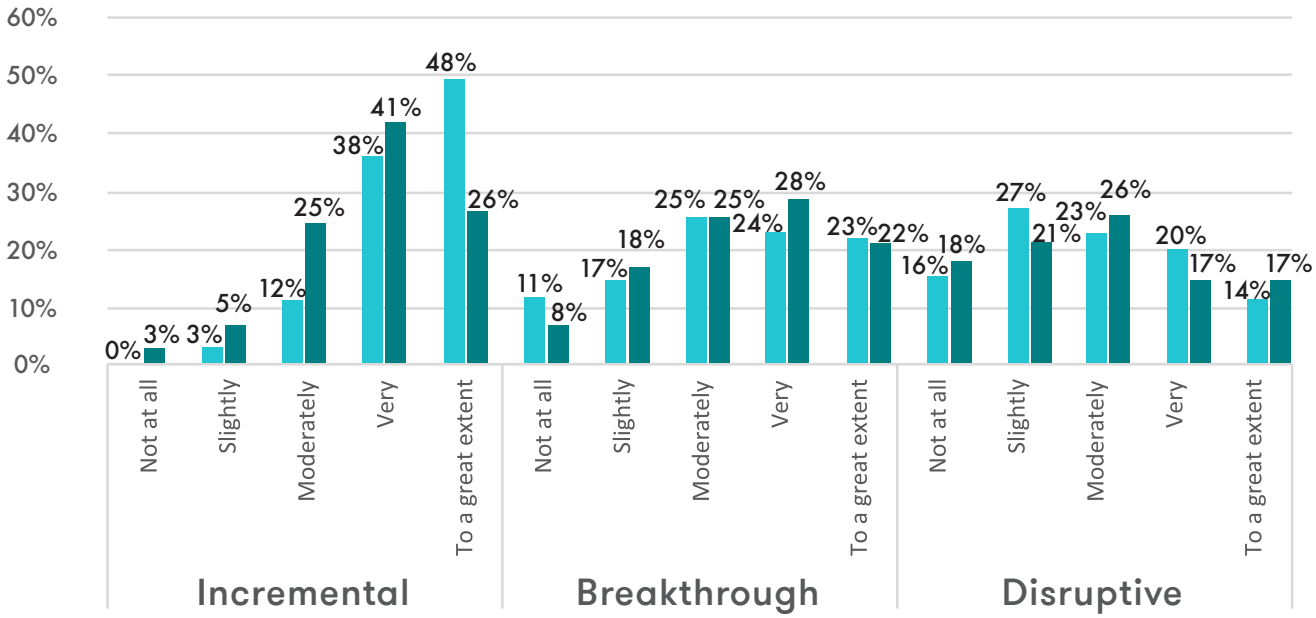
The bulk of innovation activity remains incremental. 74% of respondents focus strongly on incremental change, against 48% on breakthrough change and 34% on disruptive change. Read across moderate, very-much and great-extent engagement, the disruptive figure rises to 59%, up from 53% in 2025 — consistent with AI's emergence as a disruptor at scale.

FIG.10:TYPE OF INNOVATION ENGAGED IN



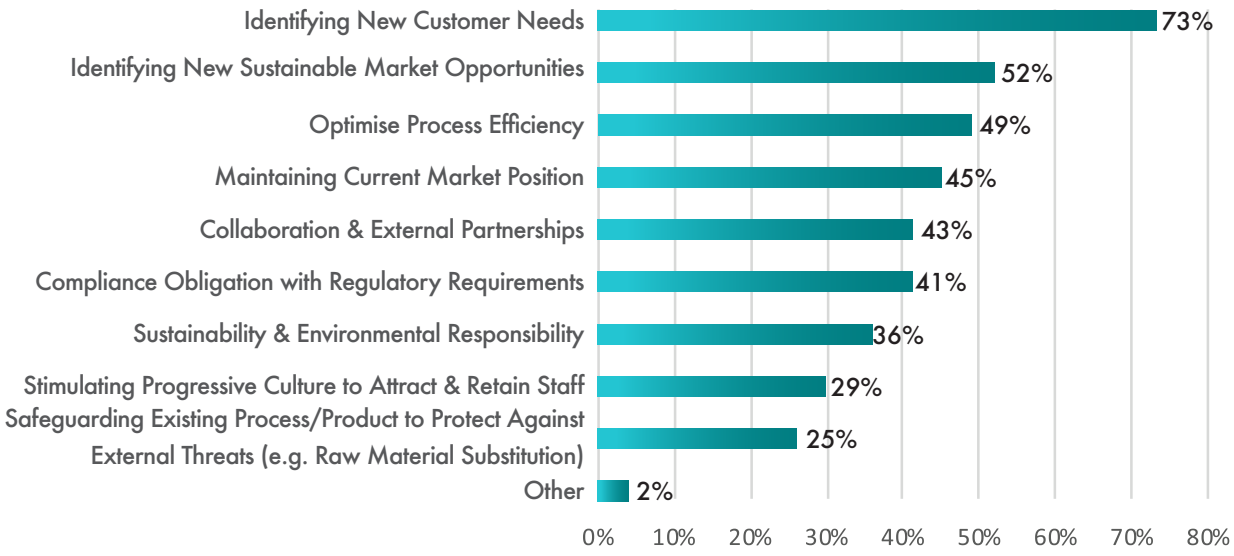
The split by company size is similar across categories, with one exception: 48% of large companies maintain a great-extent focus on incremental innovation, against 26% of SMEs.

FIG.11: TYPE OF INNOVATION ENGAGED IN



The drivers of innovation are unchanged. 73% of respondents cite identifying new customer needs as the primary driver. New sustainable market opportunities and process efficiency remain significant.

FIG.12: MOST IMPORTANT DRIVERS OF RDI



The barrier profile improved modestly in 2026. Limited budget — the largest barrier in every previous edition — has fallen from 64% in 2025 to 57% in 2026, the first decline in the Index. Lack of time to plan and administer (40%), skills gap in RDI (37%), inability to move fast enough (34%) and recruitment of key talent (31%) follow.

The recruitment trend is the clearest skills-system signal in the four-year data. The proportion citing recruitment of key talent as a barrier has fallen in each successive edition: 46% (2023), 39% (2024), 33% (2025), 31% (2026). The acute hiring problem is easing. The capability problem is not: 37% of 2026 respondents still flag a skills gap in RDI within the business. As AI adoption rises in priority, the recruitment line may reverse.

FIG.13: FACTORS AFFECTING ABILITY TO INNOVATE

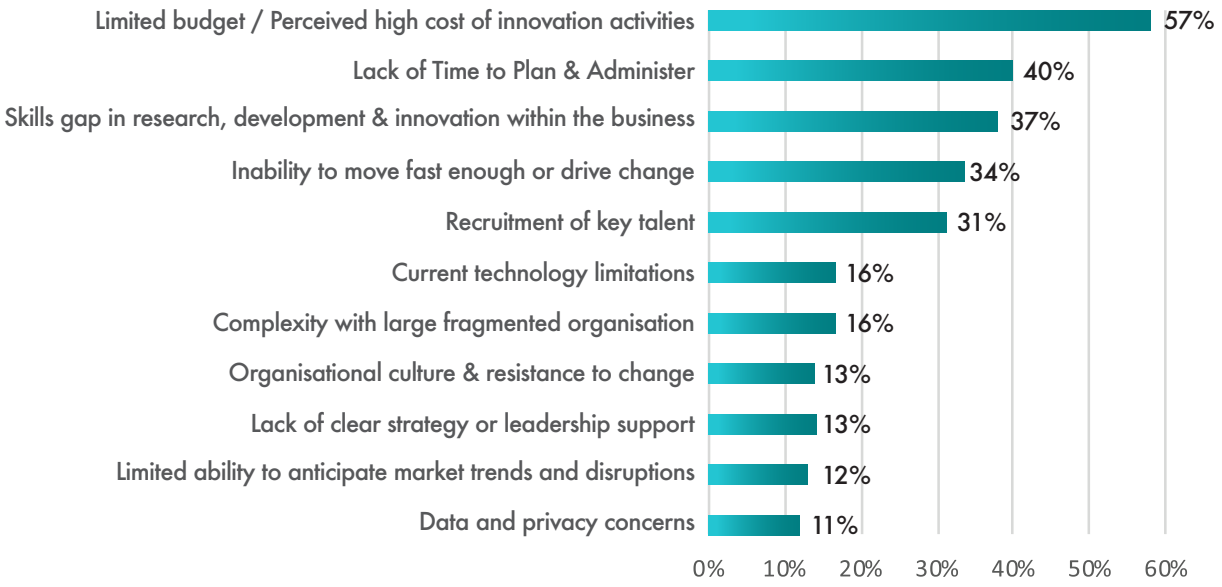
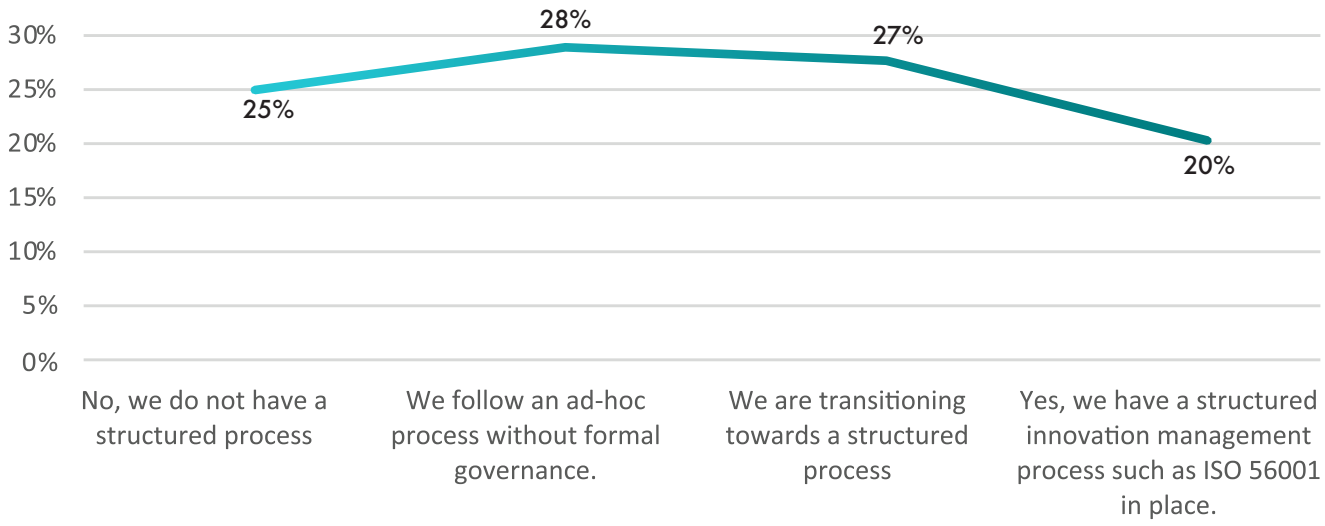


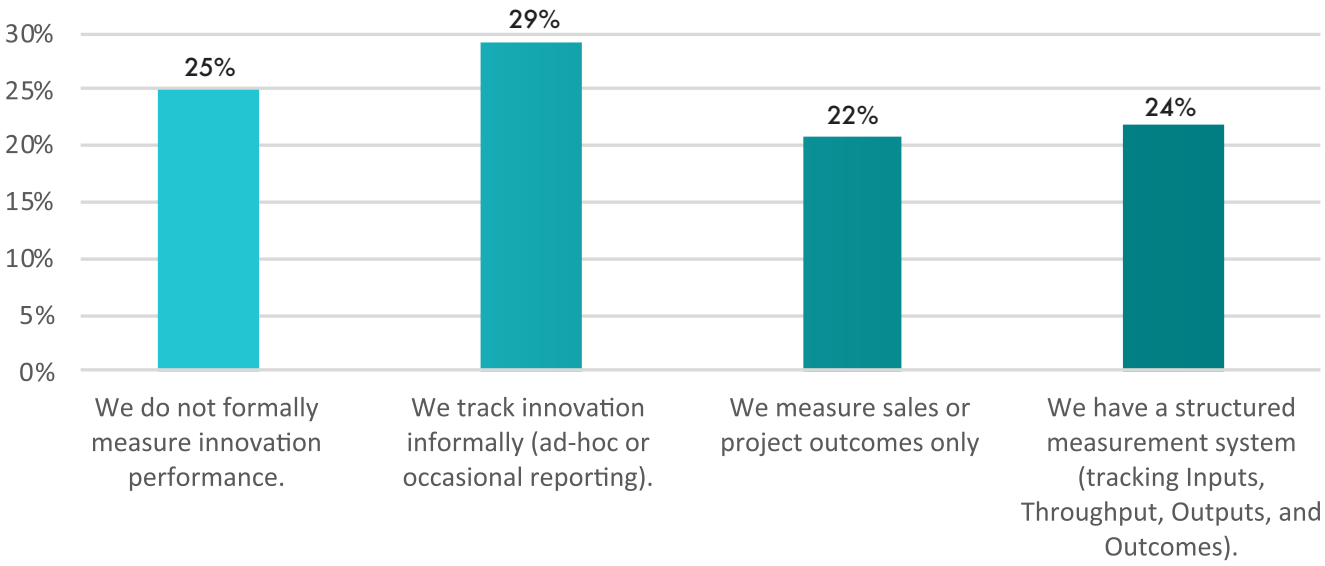
FIG.14: PRESENCE OF A STRUCTURED INNOVATION MANAGEMENT PROCESS



53% of respondents either have no innovation management process or operate an ad-hoc one without formal governance. The remaining 47% are either transitioning towards a structured process or operate one already (such as ISO 56001).

24% have a structured measurement system that tracks inputs, throughputs, outputs and outcomes (22% in 2025); 25% do not formally measure innovation performance (28% in 2025).

FIG.15: MEASURMENT OF INNOVATION PERFORMANCE



3.3 Business Innovation Outlook

69% of respondents increased RDI spend over the past three years, against 65% in 2025 and 74% in 2024. 7% reported a decrease; 24% reported no change.

77% of respondents expect to increase RDI spend over the next three years, against 71% in 2025 and 78% in 2024. 19% expect spend to remain unchanged. 4% expect a decrease, against 6% in 2025; the rise in companies that expected decreases in investment -- which occurred between 2024 and 2025 -- has not continued.

SME optimism remains stronger than that of large companies (80% against 72%), in line with previous editions. The notable shift in 2026 is the recovery in large-company sentiment, from 65% in 2025 to 72%. The 2025 dip coincided with OECD BEPS Pillar Two implementation and trade-policy uncertainty; the 2026 recovery suggests respondents are now planning around those constraints rather than waiting them out.

FIG.16: PROFILE OF R&D SPEND OVER PREVIOUS THREE YEARS

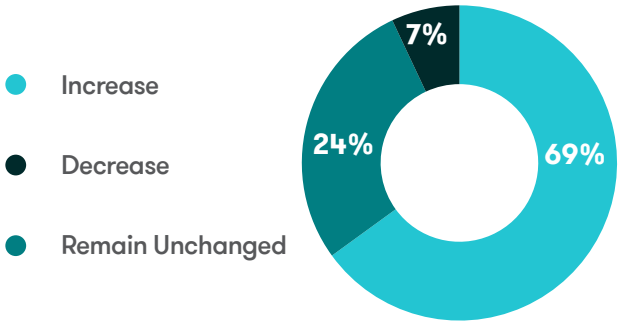


FIG.17: EXPECTED PROFILE OF RDI SPEND IN COMING THREE YEARS

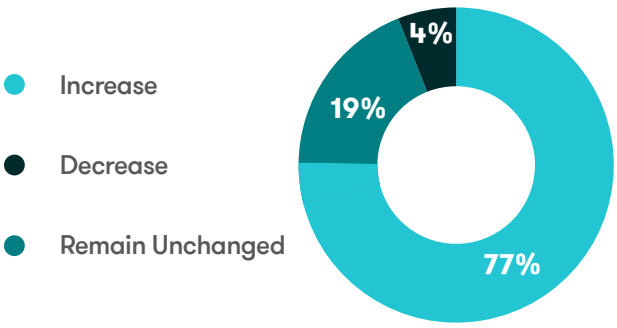
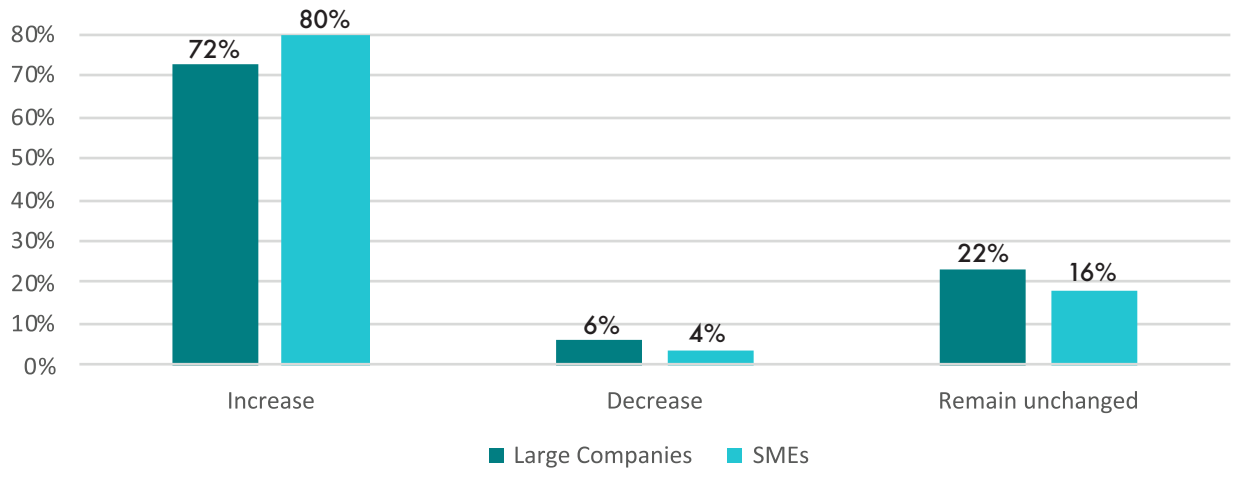
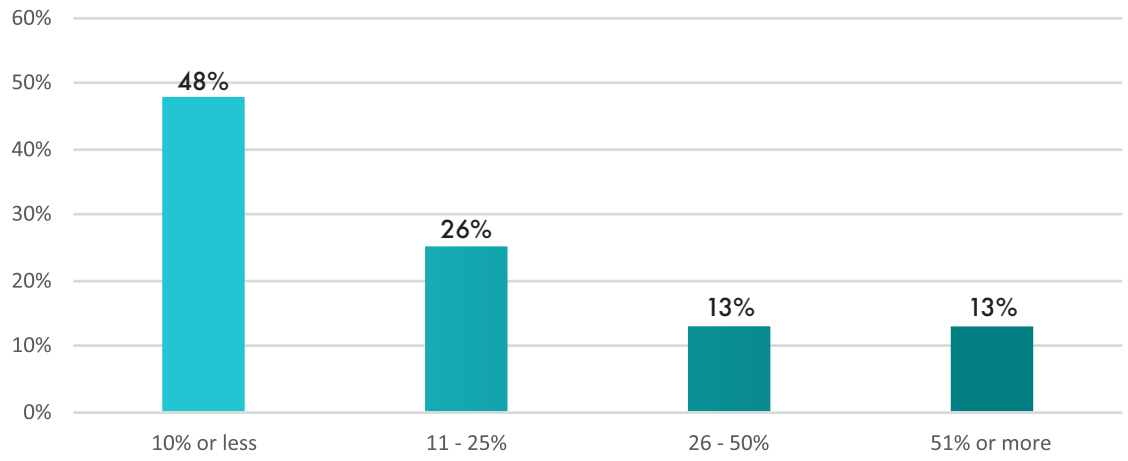


FIG.18: EXPECTED PROFILE OF RDI SPEND IN THE COMING YEARS (SMEs VS LARGE COMPANIES)



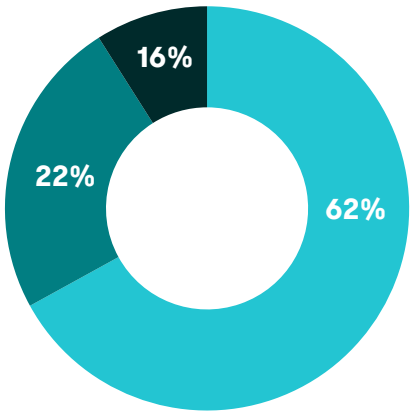
Retention of existing RDI matters as much as attraction of new investment. RDI mandates at Irish MNC sites are re-competed internally year on year, benchmarked against group operations in other jurisdictions. Where R&D and manufacturing are co-located, the loss of an RDI mandate typically pulls high-skilled manufacturing employment with it.

FIG.19: PERCENTAGE OF OVERALL EXPENDITURE ON RDI



22% of respondents see a negative impact from the global political and tax landscape on their RDI plans. 16% see a positive impact, up from 9% in 2025. 62% see no impact. The picture differs by sector: Medical / Health / Wellbeing / Devices respondents are more pessimistic than Software / ICT / Cloud / SaaS respondents, where positive sentiment has risen from 7% in 2025 to 18% in 2026.

FIG.20: IMPACT OF GLOBAL POLITICAL LANDSCAPE AND INTERNATIONAL TAX CHANGES ON RDI PLANS



- Positive Impact
- No Change
- Negative Impact

FIG.21: MEDICAL HEALTH/WELLBEING /DEVICES

- Positive Impact
- No Change
- Negative Impact

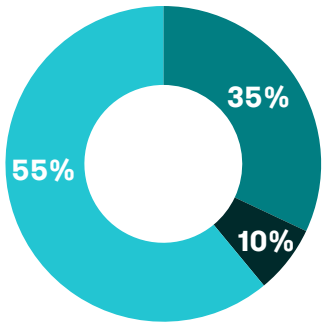
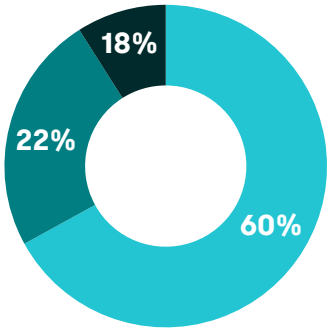


FIG.22: SOFTWARE / ICT / CLOUD / SAAS

- Positive Impact
- No Change
- Negative Impact



3.4 R&D Supports Take Up

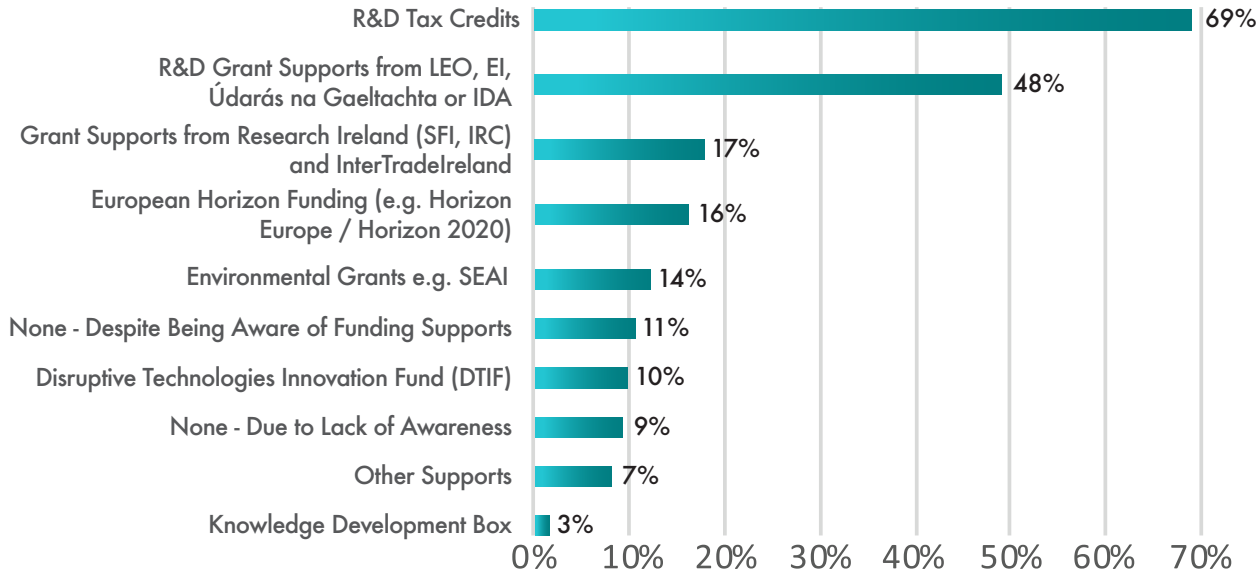
The R&D Tax Credit is the most-used incentive: 69% of respondents have claimed it (64% in 2025). Revenue figures for 2023 record 1,804 claimants, the largest figure since the credit's introduction in 2004.

The R&D Tax Credit is the most-used incentive: 69% of respondents have claimed it (64% in 2025). Revenue figures for 2023 record 1,804 claimants, the largest figure since the credit's introduction in 2004.

Other supports: 48% of respondents have claimed grant supports from Local Enterprise Office, Enterprise Ireland, IDA Ireland or Údarás na Gaeltachta; 17% from Research Ireland (formerly SFI / IRC) or InterTradeIreland; 14% from environmental schemes (e.g. SEAI); 10% from the Disruptive Technologies Innovation Fund.

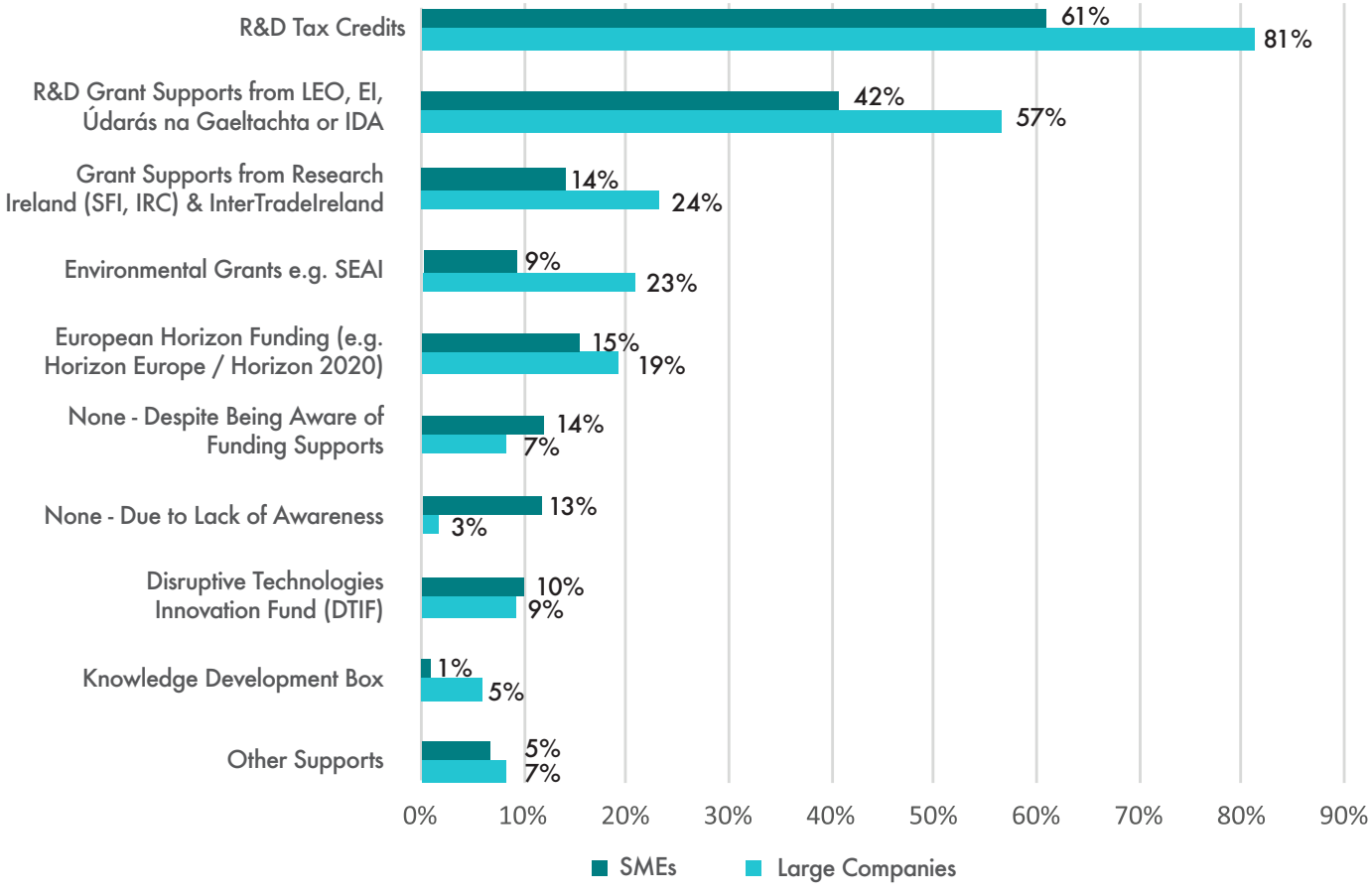
European funding take-up remains low. 16% of respondents have availed of Horizon Europe / Horizon 2020. 20% of respondents have not used any of the listed incentives: 9% cite lack of awareness, 11% are aware of supports but have not claimed.

FIG.23: R&D FUNDING SUPPORTS AVAILED OF



The take-up gap by company size is significant. 81% of large companies claim the R&D Tax Credit, against 61% of SMEs. A larger share of SMEs claim no RDI supports at all. The barriers driving this gap are explored in §3.5.

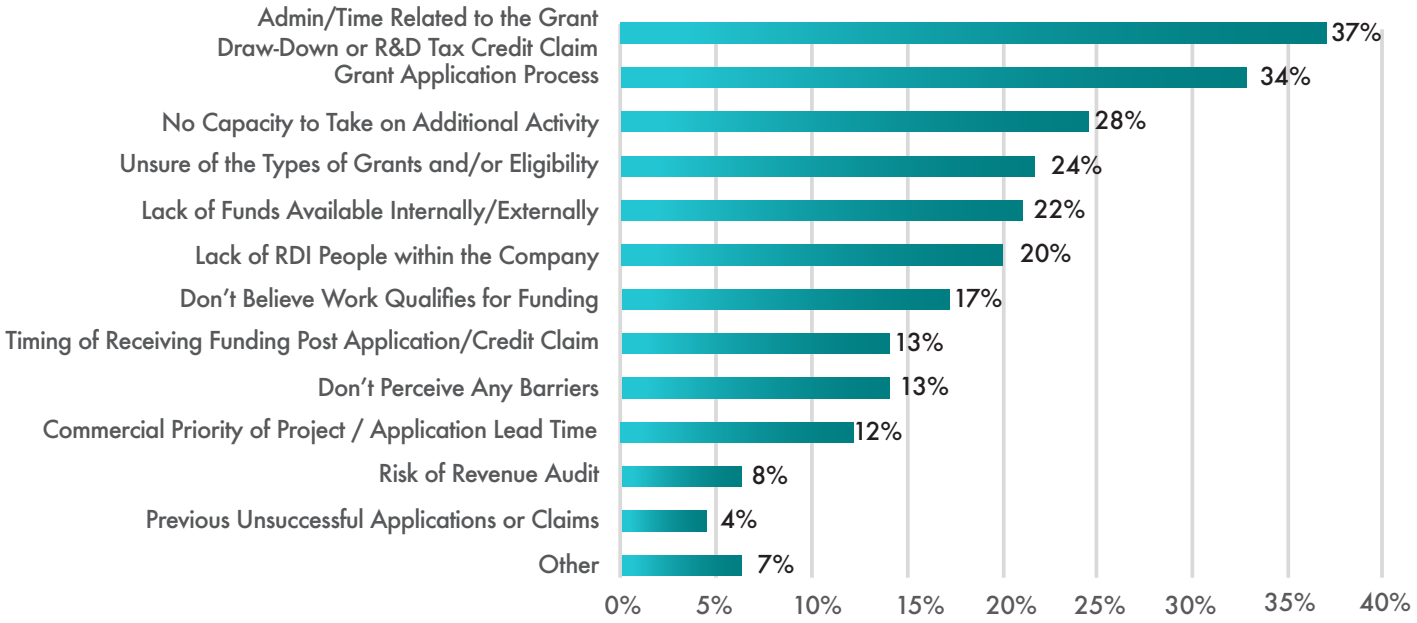
FIG.24: R&D FUNDING SUPPORTS AVAILED OF (LARGE COMPANIES VS SMEs)



3.5 Barriers To Innovation

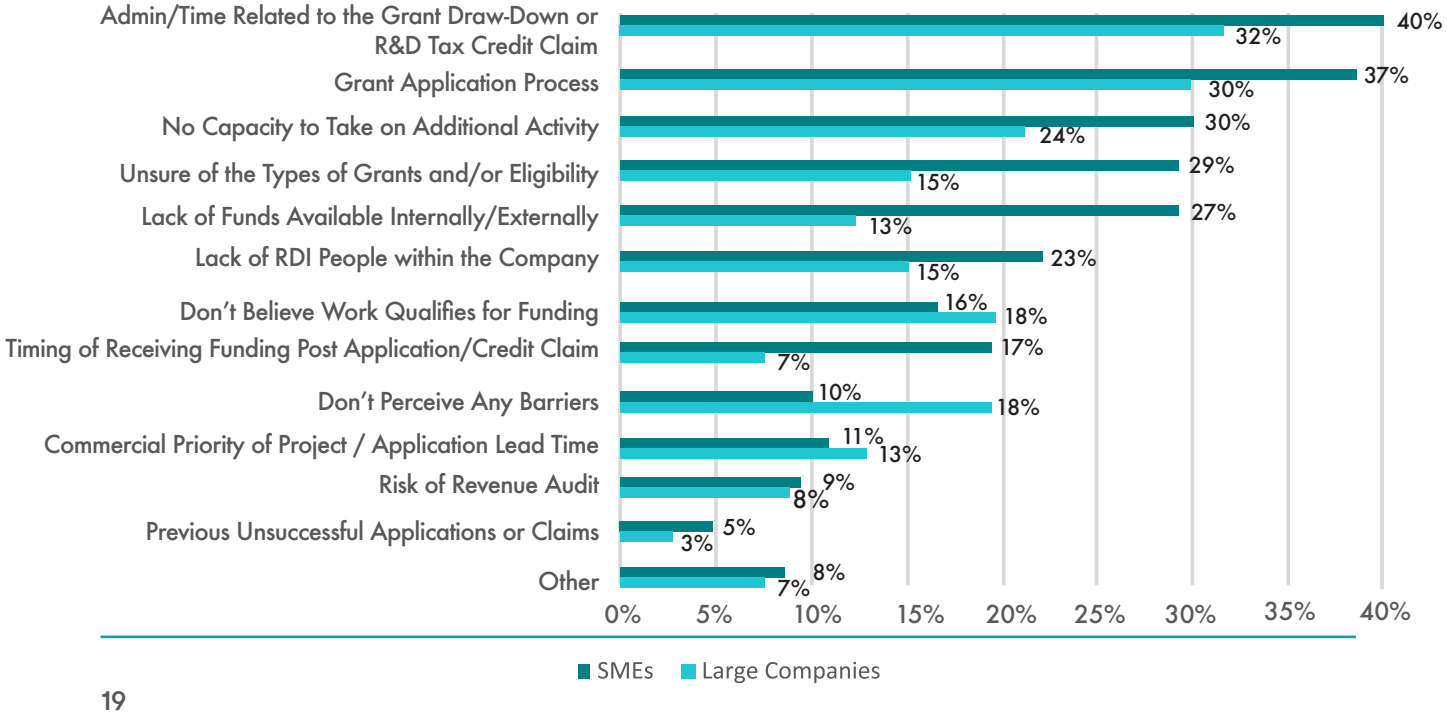
The largest barriers preventing respondents from applying for State R&D funding or the RDTC remain administrative time related to grant drawdown or RDTC claim submission, the grant application process itself, and lack of internal or external funds. 13% of respondents see no barriers.

FIG.25: BARRIERS TO ACCESSING STATE SUPPORTS



The barrier picture is consistently worse for SMEs. 18% of large companies see no barriers, against 10% of SMEs. Administrative time related to grant drawdowns is identified as a barrier by 40% of SMEs against 32% of large companies; the inverse of where the policy intent lies.

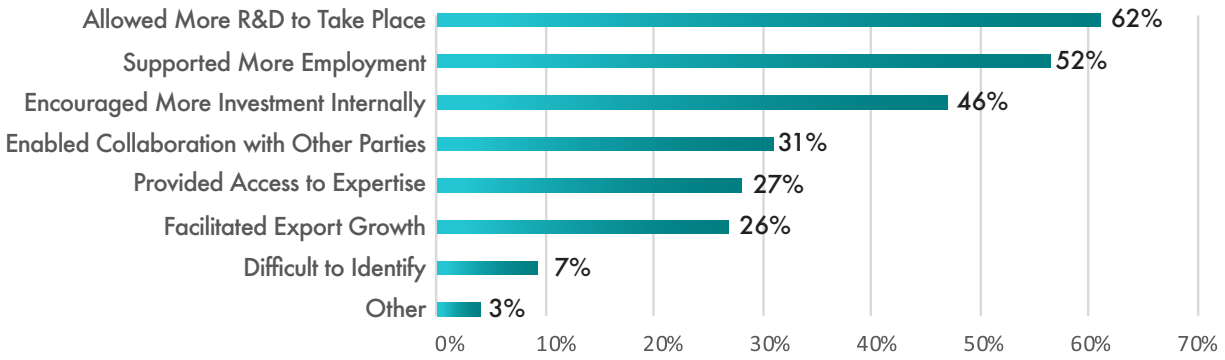
FIG.26: BARRIERS TO ACCESSING STATE SUPPORTS (LARGE COMPANIES VS SMEs)



3.6 The Impact Of Funding Supports On Business Innovation

62% of respondents say State funding supports allowed more R&D to take place. 52% report that supports drove additional employment (47% in 2025); 46% report additional internal investment (40% in 2025). The trend is consistent: every supports-impact measure has risen year on year.

FIG.27: IMPACT OF STATE SUPPORTS ON THE BUSINESS



53% of respondents are satisfied with the timing of RDTC refund payments, up from 47% in 2025. 36% believe timing can be improved. The split by company size remains stark: less than half of SMEs are satisfied, against 64% of large companies. SME cashflow exposure makes refund timing a competitive issue, not an administrative one.

FIG.28: SATISFACTION WITH TIMING OF PAYMENTS

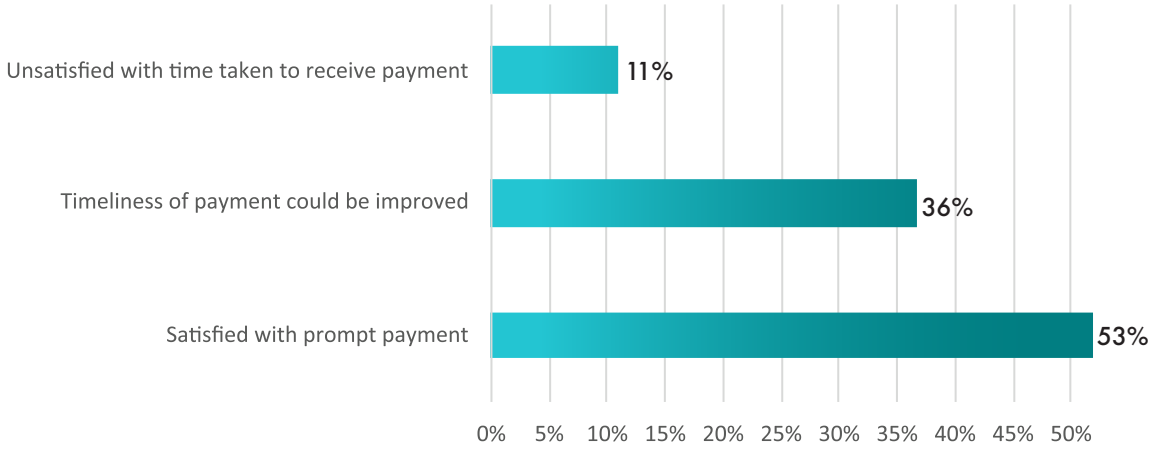
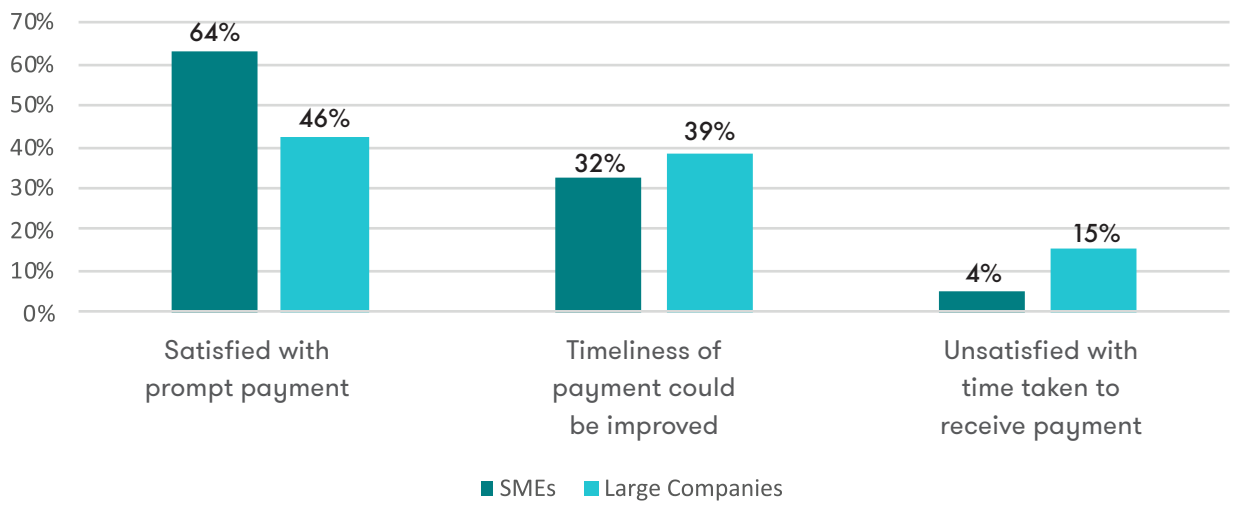


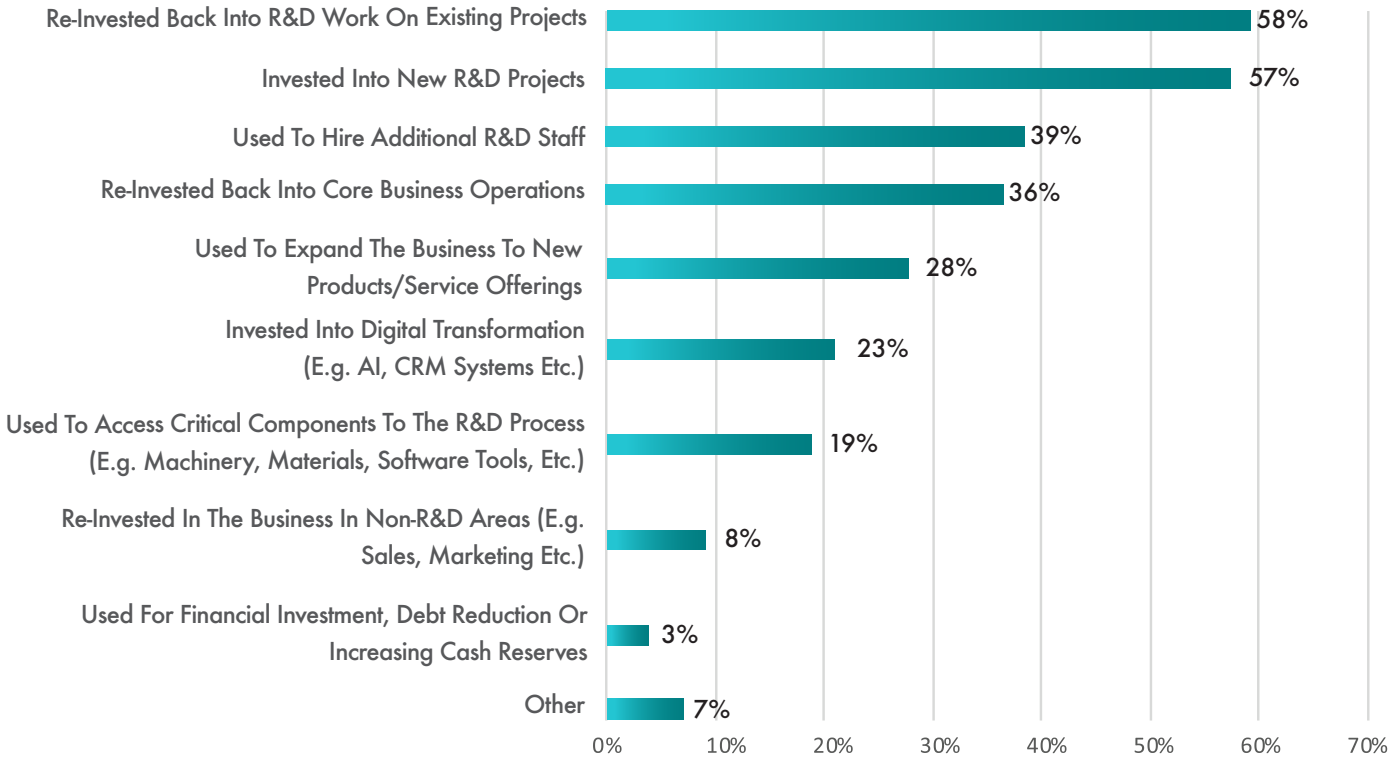
FIG.29: SATISFACTION WITH TIMING OF PAYMENTS



Impact of the RDTC rate increase

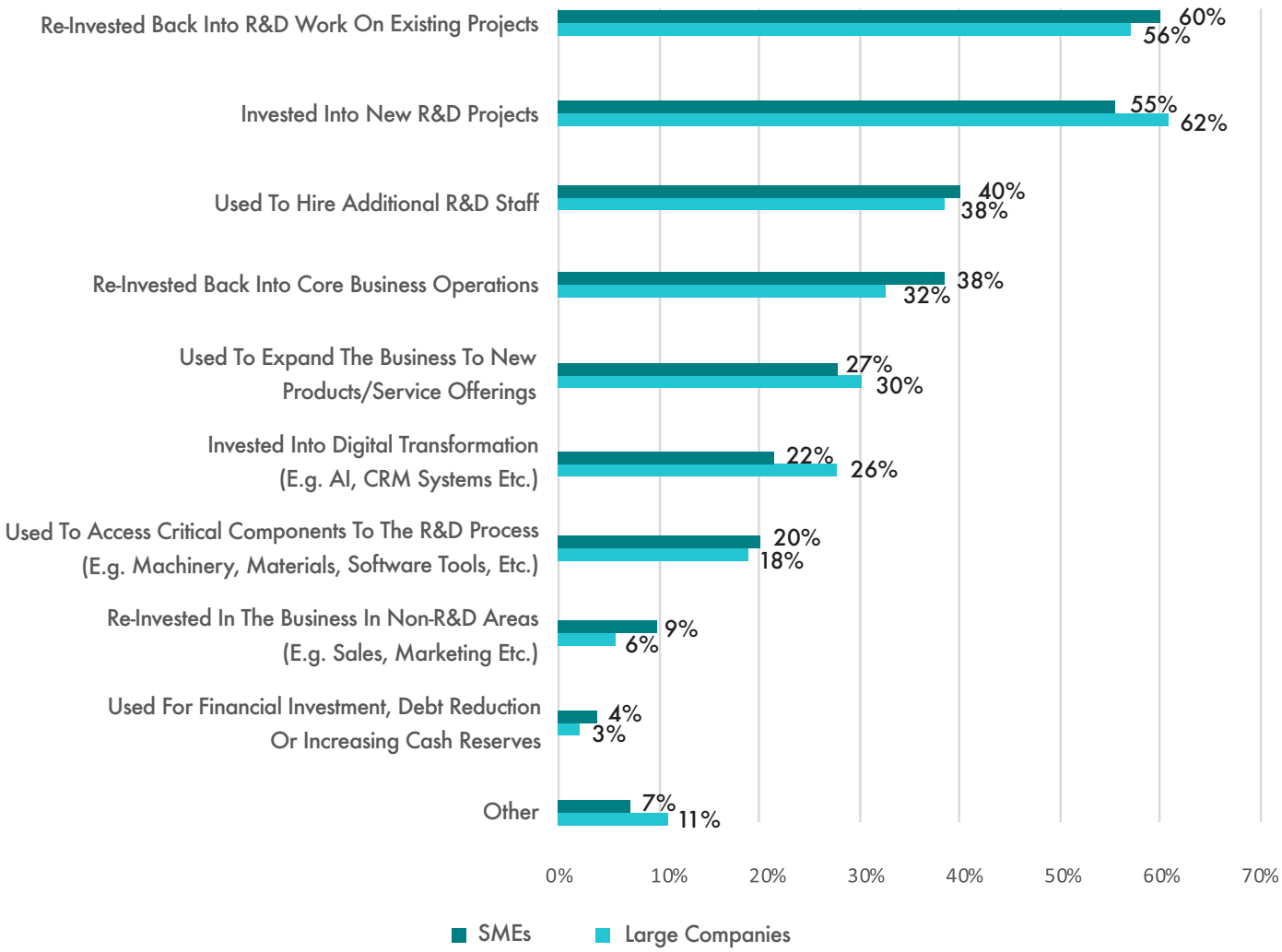
The 30% to 35% rate increase under Finance Act 2025 is influencing respondents' investment plans. 58% will direct the additional credit into existing R&D projects; 57% into new R&D projects. One respondent put it very directly: "Helps to justify Ireland as a location for R&D."

FIG.30: IMPACT OF RDTC RATE INCREASE



Allocation of the additional credit differs by company size. Large companies are more likely to direct the increase into new R&D projects; SMEs are more likely to reinvest in existing project.

FIG.31: IMPACT OF RDTC RATE INCREASE (LARGE COMPANIES VS SMEs)

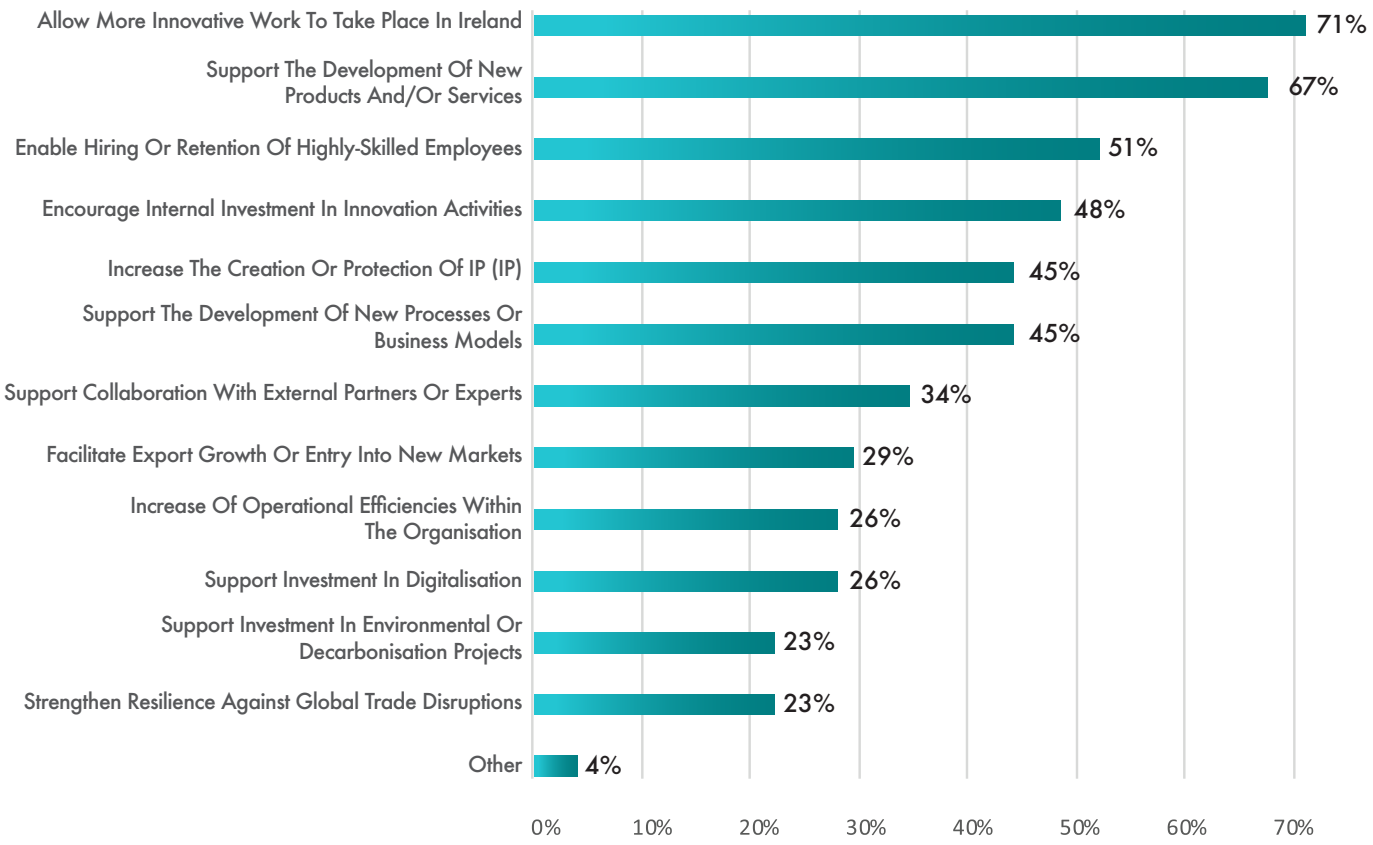


Impact of an Innovation Tax Credit

With the Department of Finance currently considering options to support innovation, the survey asked survey participants what effect an innovation tax credit could have on their company. 71% of respondents say an Innovation Tax Credit (ITC) would enable more innovative work in Ireland. 67% expect it would support new product or service development. 51% say it would support hiring or retention of high-skilled employees. 45% expect it would increase IP creation and protection in Ireland, directly relevant to corporation-tax base protection.

The ITC is one of the four priority areas in the February 2026 R&D Tax Credit and Innovation Compass. The data here makes the case for it: a clear majority of respondents expect material innovation, employment and IP outcomes from a credit that does not yet exist.

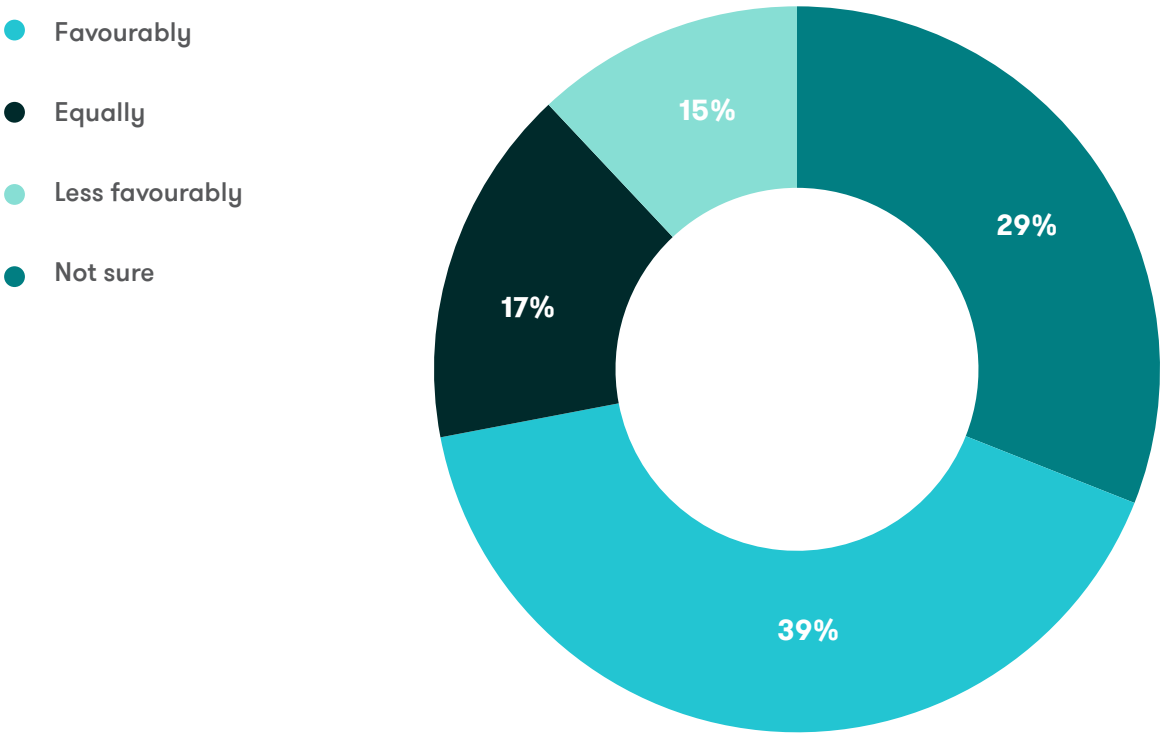
FIG.32: IMPACT OF AN INNOVATION TAX CREDIT



3.7 International Comparison

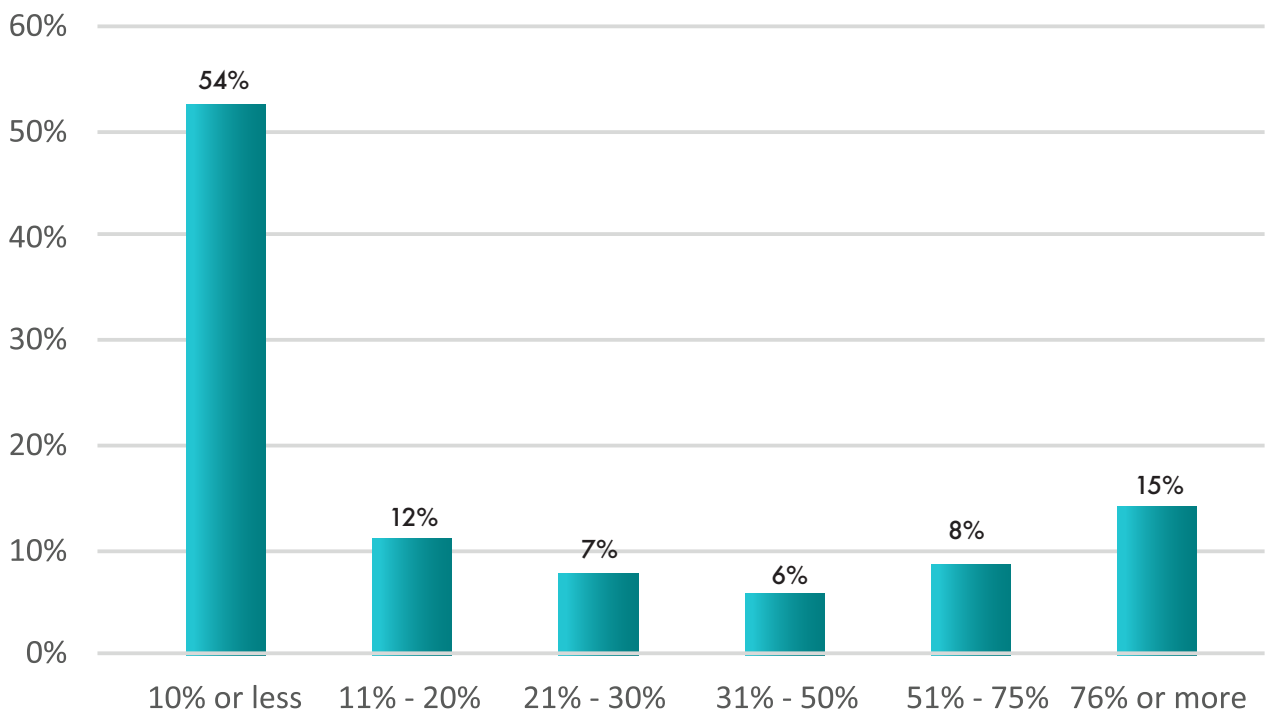
MNC respondents that conduct R&D in other jurisdictions were asked how Ireland's RDI grant and tax supports compare. 56% say Ireland compares equally or more favourably (53% in 2025). 15% say Ireland compares less favourably. 29% are unsure. The 3-point recovery is small, and reflects in part the international tightening of incentives; competitor jurisdictions have raised their offering as well as Ireland.

FIG.33: HOW IRELAND'S R&D GRANT AND TAX CREDIT SUPPORTS COMPARE TO OTHER JURISDICTIONS



The dependence finding is more striking. 54% of MNC respondents say 10% or less of their R&D would take place in Ireland in the absence of the RDTC; 79% say 50% or less. The credit is not a discretionary uplift; it underpins the business case for the Irish operation. Without it, Irish subsidiaries are more exposed to cost-based competition from lower-cost jurisdictions — with knock-on losses for co-located high-skilled manufacturing, and a reduced mandate over time.

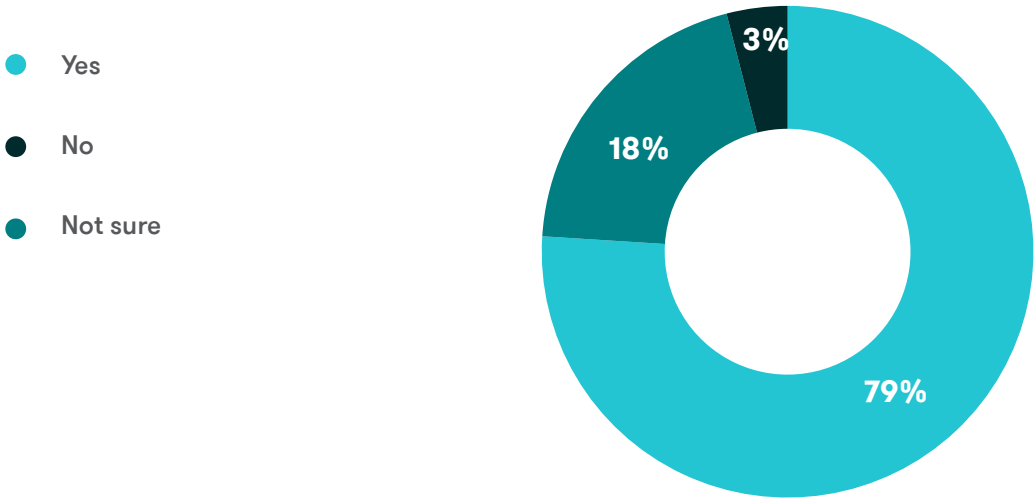
FIG.34: PERCENTAGE OF RDI THAT WOULD TAKE PLACE IN IRELAND WITHOUT THE R&D TAX CREDIT



3.8 Enhanced RDTC Rate for Green & Climate Technologies

Ireland's Climate Change Performance Index (CCPI) ranking has been volatile: 9 places up in 2023, 6 down in 2024 (43rd), 14 up in 2025 (29th), and 4 down in 2026 (33rd). Ireland remains in the medium-performer band.

FIG.35: WOULD A 50% RDTC RATE INCENTIVISE INCREASED R&D ON GREEN AND SUSTAINABLE TECH



The current incentive package will not deliver Ireland's commitments under the Paris Agreement, the European Green Deal or the Climate Action Plan. The Green Deal commits the EU to net-zero greenhouse gas emissions by 2050; Ireland is committed to a 51% reduction in emissions on 2018 levels by 2030 and net-zero by 2050 (Climate Action and Low Carbon Development (Amendment) Act 2021).

79% of respondents say a 50% RDTC rate for green and sustainable technologies would increase R&D investment in those areas. Increased grant supports are also identified as an effective lever. Respondent sentiment on this question has been consistent across all four years of the Index.

3.9 Consultation Questions

How do you think the Irish R&D Tax Credit can remain competitive in the evolving international tax landscape?

The most common recommendations from respondents, consistent with previous editions, are simplification of the claims process, reduction of administrative burden, and broadening of qualifying expenditure. New themes in 2026 include further increasing the rate, accelerating the timing of refunds, and improving SME access.

Refund timing has emerged as a defining issue. SMEs are particularly cashflow-exposed; faster payouts would be a material benefit. The Government should:

- **Increase the proportion of the credit paid in the first instalment.**
- **Reduce the time between claim submission and first instalment.**

The rate increase to 35% has already shifted positioning. One respondent noted: "The Rate Increase to 35% is very noticeable for US Leaders." Another noted that the headline rate is now among the largest in the OECD but that the outsourcing restrictions — capping subcontracted R&D at 15% of in-house spend or €100,000 — prevent material volumes of qualifying R&D being delivered through the Irish entity.

The February 2026 R&D Tax Credit and Innovation Compass identifies four priority areas for further reform: qualifying expenditure (including outsourcing), capital expenditure, administration and simplification, and innovation. The Compass is explicitly a guide rather than a binding roadmap. The findings of this Index are intended to inform the work-streams under each pillar.

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

The SME experience of the Irish RDI support system is structurally different from that of large companies. 61% of SME respondents claim the RDTC, against 81% of large companies. SMEs are twice as likely (14% against 7%) to be aware of State supports but not claim them. SMEs face the worst end of every administrative metric in this Index.

Respondent recommendations: increased funding or grant ceilings for SMEs (30%), simpler grant or tax credit application (29%), better education and training on supports (17%). Other suggestions include increased awareness of supports, increased collaboration opportunities, and faster payment.

A separate but related issue is the Special Assignee Relief Programme (SARP). SARP is currently restricted to assignees with prior employment in another jurisdiction by the same employer or related entity, a restriction unique within the EU. Direct new hires by Irish SMEs do not qualify. Opening SARP to new hires (per SME Taskforce Report Action 2.6.4) would meaningfully improve SME ability to compete for senior international talent.

What would incentivise increased investment in green and sustainable technologies in your organisation?

Beyond an enhanced 50% RDTC rate or increased grant funding, two further measures were called out:

- **Simplification of environmental grant applications and reduction of administrative burden.**
- **Increased education and awareness of available supports.**

One respondent: **"Enhanced R&D tax credits or grants specifically targeted at sustainability would improve the business case and accelerate internal funding decisions. In addition, clear regulatory frameworks and long-term policy certainty would reduce risk and encourage commitment to green innovation."**

The Compass workstream on a tax-based support for innovation, distinct from the RDTC, is well placed to address the green and sustainable technology gap. Targeting innovation supports at green technologies could deliver activity uplift while protecting against deadweight cost: a more efficient design than increasing the RDTC rate across the board.

04. International Innovation Performance

The 2025 European Innovation Scoreboard places Ireland fifth in the EU27 with a Summary Innovation Index of 123.1, and for the first time at the top of the Strong Innovators group, (this group includes member states whose performance is between 100% and 125% of the EU average). Performance has grown 13.3 percentage points since the 2018 baseline; 4.1 of those points were added in the last year alone — the largest annual gain among the seven Strong Innovators. The Global Innovation Index now ranks Ireland 18th of 139 economies, up from 22nd in 2023 (GII 2025). Dublin entered the GII's top 100 innovation clusters for the first time.

The headline rankings improved materially in 2025. The structural challenges underneath have not moved, and four years of Index commentary point to the same conclusion: an Innovation Tax Credit is a targeted response to the innovation activity the RDTC does not currently capture.

TABLE 1: EUROPEAN INNOVATION SCOREBOARD – IRELAND'S POSITION

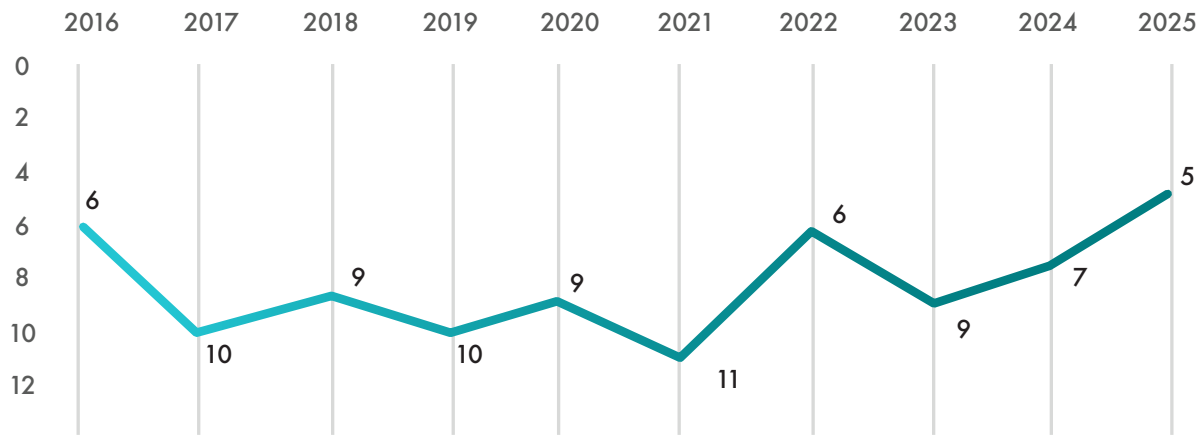
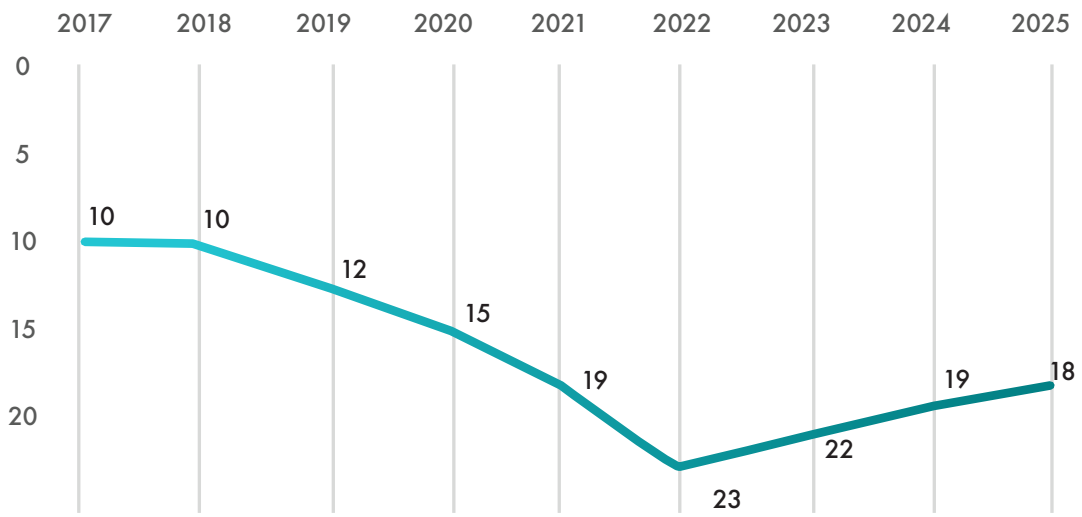


TABLE 2: GLOBAL INNOVATION INDEX – IRELAND'S POSITION



The input–output gap still defines Ireland's position

The input–output gap has narrowed but its shape is unchanged. Ireland ranks 17th globally for innovation outputs and 21st for innovation inputs (GII 2025). The gap is smaller than the 13th/26th split the 2024 Index commentary flagged, (using GII 2023 figures (NCPC 2024)), but the underlying composition is the same.

Ireland is ranked first on Knowledge Diffusion, driven by ICT services exports, high-tech exports (rank 10) and IP receipts (rank 10). These outputs reflect multinational activity routed through Ireland rather than the rate at which Irish-resident firms originate new ideas. Ireland ranks 44th globally on the Knowledge Creation pillar. The shortfall sits on origination — design, brand and codified knowledge — not on commercialisation.

Last in the EU on origination

On the indicators that measure where new ideas originate inside the economy, Ireland sits at the bottom of the EU.

- Trademark applications per GDP: 27th of 27 EU member states — last in the Union (EIS 2025).
- Design applications per GDP: 26th of 27 — second-last (EIS 2025).
- Patents by origin per GDP: 31st of 139 globally; PCT applications 26th of 139 (GII 2025).
- Scientific articles per GDP: 52nd of 139 globally; Knowledge Creation pillar 44th overall (GII 2025).

The same pattern shows in relation to PCT patents where Ireland ranks 12th (EIS 2025). Four years of data from Ireland's Innovation Index have made the diagnosis. The position is stable.

Why the existing tax architecture does not close it

The R&D Tax Credit is engineered around the Frascati Manual definition of qualifying R&D: the resolution of scientific or technological uncertainty. Applied correctly, that test is not designed to capture design, brand-led, advanced organisational, or business-model innovation. Following the 2025 public consultation, the Department of Finance's R&D Tax Credit and Innovation Compass (February 2026) treated non-Frascati innovation activity as a separate workstream, rather than widening the RDTC's qualifying-activity test.

The indicators where Ireland is weakest are precisely the indicators the RDTC is not designed to lift. The headline ranking will not move on RDTC reform alone.

Structural under-investment in public R&D

The structural under-investment in public R&D has not moved. Ireland's R&D expenditure in the public sector ranks 26th of 27 EU member states, scoring 16.7 against an EU average of 100.0 (EIS 2025). That single indicator is the principal reason Ireland's Finance and Support pillar score sits at 74.1 (rank 13), below the EU average. Ireland is one of three Strong Innovators whose Finance and Support score is below the EU average, alongside Luxembourg and Germany (EIS 2025).

Ireland's Gross Expenditure on R&D (GERD) as a share of GDP is 1.6% , ranked 25th globally (GII 2025), against an EU 3% target. Correcting for GDP/GNI* differences it stands at 2.47%. The metric the State directly controls — Government Budget Allocations for R&D (GBARD) as a share of GNI* was 0.36% for 2024 based on estimated amounts , reflecting a continued structural under-investment in public R&D.

Where Ireland's relative strengths sit

Ireland's relative strengths sit where the FDI-weighted indicators do. Ireland ranks first in the EU on Resource and Labour productivity (EIS 2025), with labour productivity scoring 256.2 against the EU average. Ireland ranks first on Sales of new-to-market and new-to-firm innovations and first on Innovation expenditures per person employed. These are the indicators the Ireland's Innovation Index 2024 cautioned were distorted by the scale of the FDI sector; that caveat still applies.

The collaboration picture is more solidly indigenous. Ireland ranks fourth in the EU on Innovative SMEs collaborating with others, the Linkages dimension is up 88.0 percentage points since 2018 — the largest increase of any EU member state — and Public-private co-publications sit at 265.8% of the EU average (EIS 2025). On Human resources, Ireland ranks first in the EU on Population with tertiary education and second on New doctorate graduates.

[1] GERD was 1.6% in 2023 and declined to 1.48% in 2024.

[2] GNI* (modified gross national income) is a CSO measure of the Irish economy that excludes the depreciation of foreign-owned IP, depreciation on leased aircraft and the net factor income of redomiciled PLCs.

[1] Research_and_Development_Budget_2023_-_2024.pdf

What respondents say

Of the 278 respondents who compare Ireland's R&D grant and tax credit supports with those in other jurisdictions, 56% describe Ireland as comparing equally or more favourably, up from 53% in 2025 (Index 2026). 15% rate Ireland as less favourable. Asked separately whether changes in the global political environment and international tax rules have affected RDI plans, 21.7% report a negative impact, 16.3% report a positive impact and 61.9% report no change (Index 2026). The negative reading is real but narrower than the public commentary on tariffs and Pillar 2 might suggest. On the respondents' own measure, Ireland's competitive position is held to be solid but not commanding.

Of respondents asked specifically about an Innovation Tax Credit (Index 2026, fieldwork March–April 2026):

- **71%** say an Innovation Tax Credit would enable more innovative work to take place in Ireland.
- **67%** expect it would support development of new products and services.
- **51%** expect it would support hiring or retention of high-skilled employees.
- **45%** expect it would increase IP creation or protection in Ireland — directly relevant to corporation-tax base protection.

The Index 2026 question in relation to the impact of an ITC, separates IP creation from product, service, hiring and process effects. In a country where the design and trademark indicators sit at the bottom of the EU, 45% of respondents expect an ITC to lift IP creation.

Why the case for an Innovation Tax Credit has strengthened

The Department of Finance's R&D Tax Credit and Innovation Compass (February 2026) identifies an Innovation Tax Credit as one of four priority workstreams. An instrument that used the Oslo Manual scope, which incorporated the identified structural gaps in AI, digital and business-model innovation set out below in chapter 5 and the IP-origination gap on design and trademarks set out here in Chapter 4, and had explicit mutual exclusivity with the RDTC, would comprehensively address the compass workstream. At the proposed scale the ITC would sit alongside the 35% RDTC rather than replace it and cover the innovation categories the EIS measures Ireland as weak on.

What has changed since 2023

Ireland has moved from 22nd to 18th in the GII, from the middle of the Strong Innovators group in the EIS to its top, and from a flat 2018–2020 trajectory to a steady run of year-on-year improvements. Belgium, the next country in the EIS, sits 0.5 percentage points behind Ireland on a 2018-indexed basis (Ireland 138.6%, Belgium 138.1%, EIS 2025); Luxembourg and Austria are within ten points. Ahead of the Strong Innovators tier, the Innovation Leaders — Sweden, Denmark, the Netherlands and Finland — sit on a different curve, with Sweden the only EU member state to add ground on Ireland in the last year (EIS 2025).

What has not changed since 2023

The research-input deficit, the IP-origination gap and the dependence on a narrow set of FDI-weighted indicators to lift the headline ranking are still the underlying composition of Ireland's score. Four years of Index data have made the diagnosis. Both the survey evidence and the international indicators support the case for an Innovation Tax Credit, calibrated to the activity the RDTC was never engineered to cover.

05. Disruptive Technology and AI

AI and disruptive technology has moved from a peripheral to a mainstream priority for respondents. Ireland's tax architecture has not yet caught up.

The 2026 findings suggest AI activity has moved from exploratory adoption in 2024 into operational deployment. The most striking single thread in the 2026 free-text response is the recurring call from companies to broaden the R&D Tax Credit's qualifying definition to specifically capture the AI activity they are already doing. The same point is made by multiple respondents in different language: AI-driven workflow design, software-enabled process innovation, data governance and digital experimentation, AI applied to advanced manufacturing, sustainability and the circular economy.

"Broaden the definition of qualifying R&D activities to clearly include recent innovation areas like AI, data science and emerging technologies."

"Recognise data governance and digital experimentation as qualifying activities. Provide clearer guidance on software-enabled process innovation."

AI as a stated priority — and where it sits

67% of respondents to the 2026 Index, identify AI and disruptive technology as a priority for the next one to three years. This is up from 45% in 2024 (Index 2026; Index 2024). The 22-point movement in two years is the largest shift in any priority option in the four-year series. Viewing by business ownership shows the topic has moved from being a multinational priority to a general one. The gap the 2024 Index reported between Irish-owned and US-owned respondents on AI prioritisation has narrowed substantially. Indigenous firms are no longer materially behind on AI prioritisation. For Respondents, the operational question is intensity of AI use, not adoption.

Cost reduction and operational improvement is the second growing area, at 53% in 2026 against 31% in 2024. Read together, AI and operational improvement now dominate the one to three year priority profile in a way they did not in 2024.

AI has moved past experimentation

The 2024 Index reported, from a separate sub-survey of 100 firms, an average AI adoption score of 1.44 out of 5 across thirteen possible new-product-development applications, with cautious near-term intentions and the front end of NPD showing particularly low AI use. The 2026 free-text comments show adoption has run further than that baseline. Respondents describe specific tools and integrations: Microsoft Copilot adoption embedded in workflows; Zoho's AI features

deployed at SME scale; voice AI used in simulation and team-dynamics training; AI-assisted digital pathology platforms in the medical-devices sector; AI-driven service architecture in cross-border delivery.

A second dynamic surfaces in the spend-outlook comments. Several respondents expect headcount to plateau because AI is increasing output per employee. This is the first edition of the Index in which respondents have noted this trade-off in their own words. If AI is delivering productivity gains rather than headcount additions, BERD and personnel-driven R&D metrics may understate the underlying activity.

"We will plateau at these numbers and the increase is planned to be inflationary. AI will increase our output per employee."

"Investment in platform capabilities, AI-assisted workflows and cross-border delivery infrastructure has grown steadily."

The talent question has changed shape, not disappeared

Recruitment of key talent has fallen as a perceived barrier to innovation in every edition of the Index: 46% (2023), 39% (2024), 33% (2025), 31% (2026). The 2024 Index read this as a deeper, more confident talent pool. Three further years of data confirm the direction. The 2026 index should not, however, repeat the 2024 framing. 37% of 2026 respondents flag a skills gap in research, development and innovation within the business as a barrier to innovation. The acute hiring problem has eased; the chronic capability problem has not.

The capability constraint is most visible in AI-related implementation and deployment. Respondents describe being able to hire, but not at a pace that keeps up with the technology. The specific asks in the free text are direct: funded routes into AI capability, supports for the employment of PhD experts in data science and AI, subsidies on a portion of senior AI leadership salaries, and short, vetted training on emerging AI applications rather than vendor sales pitches.

"Perhaps supports for employment of experts e.g. PhD students in specific fields like Data Science or AI would increase such innovation in Ireland."

"Keeping pace with rapidly changing AI application potential and infrastructure is a struggle. We are fast and we do drive change, but the pace of AI investment and its impact is interesting."

The qualifying-definition gap is the policy choke-point

The R&D Tax Credit is engineered around the Frascati Manual definition of qualifying R&D. To qualify, companies need to demonstrate that they are seeking to advance existing knowledge or capability within an

approved field of science and that the experimental activities were undertaken to resolve genuine gaps in knowledge or capability (i.e. scientific or technological uncertainties) which would not be obvious to a competent professional operating within the same field.

AI as a tool can be used within a company's R&D process where the company is using AI in its journey to advance knowledge in, for example, the field of computer science. However, many digital transformation and/or AI initiatives may not qualify for R&D tax credits where a scientific or technological advancement is not being sought. Ireland's tax architecture has not yet caught up with the AI and Digitalisation based activity within industry. The activity that the selected respondents outlined above are involved in is not the type of activity which the R&D tax credit legislation was drafted to recognise.

The choice is between two routes: modernise the eligible fields of science/ technology within the R&D tax credit to reference AI, machine learning and other emerging technologies; or build a separate Innovation Tax Incentive which supports AI integration, digitalisation and operational innovation projects (many of which sit outside the R&D definitions derived from OECD's Frascati Manual). The Department of Finance has signalled that the second is the route under consideration.

The Innovation Tax Credit is the instrument the evidence suggests

The proposed Innovation Tax Credit, framed against the OECD Oslo Manual rather than the Frascati Manual, would be the instrument to capture value-added activity outside the scope of the R&D tax credit — design, advanced process, business-model and digital innovation, including AI deployment. It is one of four priority workstreams identified in the Department of Finance's R&D Tax Credit and Innovation Compass (February 2026), and an active workstream as of the Compass press release.

Survey respondents read the gap the same way. 71% of respondents to the 2026 Index say an Innovation Tax Credit would enable more innovative work to take place in Ireland; 67% expect it would support new product or service development; 51% expect it would support hiring or retention of high-skilled employees; and 45% expect it would increase IP creation or protection in Ireland — directly relevant to corporation-tax base protection. For a population of respondents who now describe AI as an embedded part of process and business-model innovation, the ITC is the instrument best designed to recognise that work.

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 IP, depreciation on leased aircraft and the net factor income of redomiciled PLCs.

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

European competitiveness has moved from policy debate to political priority. Productivity growth in the EU has lagged the United States for two decades, the investment gap with the United States and China on frontier technologies is now treated by the Commission as a structural risk, and geopolitical tension has reduced the space for open-trade assumptions. For Ireland, a small open economy with an FDI-weighted growth model, European competitiveness is not an external question. It is the operating environment.

The 2026 Index shows Ireland's position inside that environment is rising on some dimensions and unchanged on others. Ireland sits fifth in the EU on the European Innovation Scoreboard with a Summary Innovation Index of 123.1, top of the Strong Innovators group for the first time (EIS 2025), and 18th of 139 in the Global Innovation Index (GII 2025). The detail of those rankings, the input–output gap underneath them, and the IP-origination indicators where Ireland sits last in the EU are set out in Chapter 4.

Ireland's relative European position is therefore rising on the FDI-weighted indicators and unchanged on the origination indicators. The European competitiveness debate will determine which of those two trajectories matters most.

The Draghi Report and the competitiveness compass

The current European debate begins with Mario Draghi's September 2024 report, The Future of European Competitiveness, which concluded that Europe's productivity drivers are exhausted and that closing the innovation gap with the United States and China requires sustained investment, scale and coordination Europe does not currently deliver. The European Commission's 2025 Competitiveness Compass distils that diagnosis into three priorities: closing the innovation gap, the joint decarbonisation and competitiveness agenda, and reducing strategic dependencies.

The Draghi report reflects a broader European shift away from the assumption that market integration alone will sustain competitiveness. Industrial capability, technology leadership and strategic resilience are again being treated as matters of state policy. The implication for Ireland is that innovation policy is no longer operating at the margins of economic strategy; it is becoming central to how competitiveness itself is defined.

For Ireland, the Draghi diagnosis maps onto the Index data. The Compass's first priority, innovation, is where the IP-origination gap identified in Chapter 4 is the binding constraint on Ireland's headline ranking. The second, decarbonisation, is where 79% of respondents say a 50% RDTC rate for green and sustainable technologies would increase R&D investment in those areas (Index 2026,). The third, strategic dependencies, is where 22% of respondents report a negative impact from the global political and tax landscape on their RDI plans, against 16% who report a positive impact, up from 9% in 2025 (Index 2026).

Ireland's flagship competitiveness response

The Government's September 2025 Action Plan on Competitiveness and Productivity is Ireland's flagship answer to the Draghi–Compass framing. It is the document against which European partners and FDI investors will read Irish positioning during the Council Presidency. The Action Plan identifies six challenges (productivity, international engagement, SME scaling, regulation, infrastructure and sustainability) and sets out twenty-six priority actions.

Two of the six pillars speak directly to findings in this Index. The productivity pillar names increased RDI investment in higher education, an expansion of Technology Centres, the creation of "IP Ireland" as a dedicated IP agency, a National Artificial Intelligence Office, and tax-based supports for SME innovation. Each is responsive to a measured gap in the Index series: public R&D investment ranks 26th of 27 in the EU (EIS 2025), AI has risen 22 points as a stated priority over two years (45% in 2024 to 67% in 2026, Index 2026), and the SME gap on supports take-up is structural. The SME pillar — Start-up Ireland, an SME Scaling Fund, measures to bring pension-fund and institutional capital into scaling equity — addresses the financing constraint that sits behind the 61% SME / 81% large-company gap in RDTC take-up (Index 2026).

The remaining four pillars set the conditions under which the RDI agenda runs but are not the subject of this Index. The key test is whether the productivity and SME measures are implemented quickly enough to matter within the current European competitiveness window.

Global competition for R&D incentives

Ireland's RDI offer is being benchmarked against jurisdictions repositioning their incentive regimes. The 2026 Index records that 56% of MNC respondents who conduct R&D in other jurisdictions say Ireland compares equally or more favourably on RDI grant and tax support, up from 53% in 2025 (Index 2026), 15% say Ireland is less favourable. The margin is narrow, and competitors are moving.

Singapore introduced a Refundable Investment Credit in 2024 covering productive capacity, digital and professional services, headquarters and Centres of Excellence, R&D and innovation, and decarbonisation projects. Companies can receive up to 50% support on qualifying expenditure, with the approved rate agreed up front with the Singapore Economic Development Board. For mobile R&D investors, the attraction of the Singapore model is the combination of high rates, upfront certainty and broad qualifying scope. It is a highly competitive incentive by international comparisons.

Canada enhanced its Scientific Research and Experimental Development (SR&ED) programme for tax years beginning after December 2024. The annual expenditure limit for the enhanced 35% investment tax credit was doubled from CAD 3 million to CAD 6 million (one of the largest expansions of the regime since its inception), the taxable-capital phase-out range was broadened from CAD 15 million to CAD 75 million, the enhanced credit was extended to eligible Canadian public corporations, and certain capital expenditure was restored as qualifying. The aggregate effect is a materially expanded SR&ED footprint at higher rates.

Singapore and Canada are not outliers. Estonia and the UAE are introducing new R&D incentives. Portugal, Denmark, Sweden and others are enhancing existing regimes. In an increasingly contested global environment, where other jurisdictions are moving assertively to attract investment and R&D activity, Ireland cannot get complacent and it must strive ensure that its R&D incentive offerings are viewed as being 'best in class' internationally.

The Index dependence finding sharpens the point: 54% of MNC respondents say 10% or less of their R&D would take place in Ireland in the absence of the RDTC. The RDTC is not a discretionary topping-up of investment that would happen anyway. It is the instrument that decides whether the activity happens in Ireland. The 56% comparability (56% say Ireland compares favourably or equally to other regimes) figure is a snapshot against an evolving field.

EU grants and the access challenge

Europe's competitiveness response is funded in part through Horizon Europe and the European Competitiveness Fund. Irish firms are largely outside both. Only 16% of 2026 Index respondents have availed of Horizon Europe or Horizon 2020, against 48% who have claimed Enterprise Ireland, IDA Ireland, LEO or Údarás na Gaeltachta grants and 69% who have claimed the RDTC (Index 2026,). 20% have used no listed RDI incentive at all.

The barriers respondents identify are consistent with the Draghi diagnosis of fragmentation: complex applications, slow decisions, and a fundability gap at scale-up stages where pan-European capital is thinnest. The SME-specific barrier profile compounds the problem: fewer SMEs (15%) have availed of EU funding compared to large companies (19%). Also, administrative time related to grant drawdowns is cited as a barrier by almost 40% of SME respondents, against a lower share for large companies (Index 2026). EU programmes function, in practice, as a large-company instrument in Ireland, a reading which is supported by the Index data. That is the inverse of what the Compass and the Draghi report ask European funding to do.

Simplifying access, improving coordination between EU and national funding lines, and aligning EU programmes more closely with the Irish RDI support architecture is the second-order competitiveness question for the Presidency. The more immediate question is whether the next iteration of EU funding instruments is practically accessible to both SMEs and large companies.

Conclusion: Ireland's stake in Europe getting this right

Europe's competitiveness challenge is not theoretical. It is a test of execution. For Ireland, the implications are especially acute. As a small open economy that has benefited from EU membership and a stable global trading order, Ireland's growth model depends on a single market that functions, on European R&D programmes Irish firms can use, and on a policy environment that does not concede the frontier of innovation to the United States or China.

Ireland holds the EU Council Presidency from 1 July to 31 December 2026. The headline competitiveness files — the Compass workstreams, the next Framework Programme, the State aid framework, follow-through on the Draghi recommendations — will sit on the Presidency desk during that period. Ireland's RDI policy package, read against four years of Index evidence, is the credibility behind any position Ireland takes on those files.

07. Conclusions

Ireland faces a more difficult international environment than at any point in the four years of this Index, and a domestic policy package — the 35% R&D Tax Credit, the Compass workstreams, and the proposed Innovation Tax Credit — that is more developed than at any point in the same period. The central question now is which of those instruments to prioritise, at what pace, and against which structural gap.

Four years of the index — a methodology note

This Index is a repeat cross-sectional survey, not a panel. Sample size has grown from 396 respondents in 2023 to 496 in 2024, 556 in 2025 and 587 in 2026. The respondent profile has widened with the sample base. Some questions — notably on AI, the impact of the global political and tax landscape, and the proposed Innovation Tax Credit — were introduced in later editions or reworded between editions. Year-on-year movements should be read as directional rather than panel-equivalent. Where four-year trajectories are cited (Limited Budget, Recruitment of Key Talent, AI as a priority), the question stem has been substantially stable and the trajectory is robust to sample growth. Single-year movements are presented with the prior year for transparency.

What four years has changed and what it has not

The headline rankings have improved. Ireland is fifth in the European Innovation Scoreboard 2025 with a Summary Innovation Index of 123.1, top of the Strong Innovators group for the first time. The Global Innovation Index 2025 ranks Ireland 18th of 139 economies, up from 22nd in 2023.

The structural profile underneath those rankings has not moved. On the indicators that measure where new ideas originate inside the economy, Ireland sits at the bottom of the EU: design applications 26th of 27, trademark applications 27th — last in the Union — and public R&D expenditure 26th of 27 (EIS 2025). Chapter 4 sets out the detail.

The clearest movement in the four-year series is on AI. 67% of respondents now identify AI and disruptive technology as a priority for the next one to three years, up from 45% in 2024 — a 22-point shift over two years and the largest movement on any priority option in the series. The shift is structural rather than cyclical. The 2024 edition recorded an average AI adoption score of 1.44 out of 5 in new-product development; the 2026 free-text responses describe AI as operationally embedded, with respondents noting that AI is increasing output per employee at a rate that flattens hiring intent. Chapter 5 sets out the implication for the qualifying-expenditure definition.

The SME challenges in detail

The SME gap is structural and is recognised in the Compass. The 500–1,500 underclaim estimate (see Appendix 1) is one of the single most consequential structural findings in the four-year series, and reflects policy failures. The 2026 Index records 81% of large companies claiming the RDTC against 61% of SMEs. 14% of SMEs are aware of State supports but not claiming, against 7% of large companies. Refund-timing satisfaction sits below 50% for SMEs against 64% for large companies. 40% of SMEs identify administrative time related to grant drawdown or

RDTC claim submission as a barrier, against 32% of large companies — the inverse of where the policy intent of the credit sits. The Compass cites that SMEs account for approximately 85–90% of RDTC claims by number but only around a quarter of the cost. The Compass workstreams related to Administration and Simplification, and Supports for Innovation, are the right policy frame. What is needed is implementation specificity at the SME tier — the subject of the recommendations that follow below.

The 2026 reading on sentiment and barriers

RDI sentiment is resilient. 77% of respondents expect to increase RDI spend over the next three years, up from 71% in 2025 and back near the 2024 level of 78%. 69% increased spend over the past three years. Large-company optimism, which softened in 2025 (65%), has recovered to 72% in 2026. SME optimism is steady at 80%. The 'barrier to innovating' profile has improved modestly: Limited Budget has fallen from 64% to 57%, the first decline in the four-year series. Recruitment of Key Talent has fallen in each successive edition, from 46% in 2023 to 39% in 2024, 33% in 2025 and 31% in 2026. Respondents are absorbing the external environment rather than retreating from it.

The international environment — risk and opportunity

22% of respondents report a negative impact from changes in the global political landscape and international tax changes. 16% report a positive impact, up from 9% in 2025. 62% report no expected change to operations.

The negative reading is concentrated by sector and ownership: 35.5% in Pharmaceuticals, 34.9% in Medical Devices, and 28.4% in US-owned subsidiaries. The positive reading sits in different parts of the economy: Manufacturing 17.7% positive against 14.5% negative, Financial Services 25% positive and zero negative, High Potential Start-Ups 25% positive against 18.8% negative.

A non-trivial share of respondents sees the changing international environment as opportunity rather than only risk. The distinction matters because the policy requirements are different: the FDI-exposed sectors and the indigenous-exposed sectors are not asking the policy makers for the same thing.

From diagnosis to action

The 2026 Index puts the policy system in a clearer position than at any point in the four-year series. Ireland is fifth in the EU on the European Innovation Scoreboard, top of the Strong Innovators group for the first time, 18th of 139 in the Global Innovation Index, with Dublin entering the top-100 innovation cluster list. The 35% R&D Tax Credit is in place. The Compass has been published and four workstreams are in train. Respondents have set out, in their own words and across four years, what would close the gap that remains. The recommendations that follow set out the instrument-level decisions required to act on this evidence. The next phase of policy implementation will determine whether the gains consolidate.

Ireland's RDI policy package — the 35% RDTC, the Compass workstreams, public R&D investment, and the proposed Innovation Tax Credit — must now be sequenced to deliver across these dimensions.

The 35% R&D Tax Credit — bedding in, with company-level evidence

The headline RDTC rate moved from 30% to 35% under Finance Act 2025. The 2026 Index is the first edition that captures the company-level response. 58% of respondents will direct the additional credit into existing R&D projects; 57% into new R&D projects; 39% into hiring or retention of R&D staff. The additional credit is flowing into R&D activity rather than general operations.

One respondent succinctly notes: 'Helps to justify Ireland as a location for R&D.' 54% of MNC respondents say 10% or less of their R&D would take place in Ireland in the absence of the RDTC, and 79% say 50% or less would. The credit is part of the underlying business case for Irish operations, and the 35% rate is material to the investment case for Irish RDI activity.

The Innovation Tax Credit — compass-named, respondent-supported, ready to deliver

The proposed Innovation Tax Credit is one of four priority workstreams in the Compass and an active workstream as of the Compass press release of 16 February 2026. Respondent reading is consistent: 71% say an ITC would enable more innovative work in Ireland, 45% expect it would lift IP creation and protection. It is time for the Government to incentivise high-value innovative activity which falls outside the R&D tax credit criteria to avoid losing key investment in this space to others who have already acted by introducing incentives for innovation.

The IP-origination gap and the case for the Innovation Tax Credit (ITC)

The indicators where Ireland is structurally weakest — design applications (26th of 27 EU), trademark applications (27th of 27), and the wider Knowledge creation pillar (44th of 139 globally, GII 2025) — sit outside the RDTC's scope. The EIS 2025 refers to "Non-R&D innovation expenditures" as a relative weakness. Within the Index, 45% of respondents expect an ITC to lift IP creation and protection in Ireland; the ITC is the instrument calibrated to that activity.

Public R&D investment

Ireland's public sector R&D expenditure stands at 16.7% of the EU27 average (European Innovation Scoreboard 2025), among the lowest in the EU. On the standard internationally comparable measure of total R&D intensity combining public and private sector activity (GERD/GDP), Ireland recorded 1.48% in 2024 (DFHERIS April 2026), below the EU 3% Barcelona target reaffirmed for 2030. Globally the leaders include South Korea ~5.0%, Sweden 3.6%, US ~3.5%, Belgium ~3.4%, Japan ~3.4%, Austria ~3.3% Finland ~3.2% China ~2.6%, EU27 average ~2.1%.

Given the known distortions in Irish GDP, using the states preferred measure of GNI*-adjusted estimates place Ireland's underlying R&D intensity at close to 2.42%, slightly ahead of the EU average (2.24%) and significantly behind leaders like Sweden. Overall, Irish R&D investment is primarily driven by industry with over 85% of total investment coming from industry compared to approx. 65% on average in the EU. Government Budget Allocations for R&D (GBARD) in Ireland stood at 0.36% of GNI*, down from 0.49% in 2014 and well below the equivalent EU27 average of 0.66% of GDP. Tripling Government R&D investment to 1% of GNI* (using the figure most relevant in an Irish context) remains the single most quantifiable lever the State has available.

Green technology incentives

Ireland's Climate Change Performance Index ranking has been volatile — 9 places up in 2023, 6 down in 2024, 14 up in 2025, and 4 down in 2026 (33rd). Ireland remains in the medium-performer band. The current incentive landscape will not deliver Ireland's commitments under the Paris Agreement, the European Green Deal, or the Climate Action Plan. 79% of respondents say a 50% RDTC rate for R&D in green and sustainable technologies would increase R&D investment in those areas. Respondent sentiment on this question has been consistent across all four years of the Index. A targeted 50% rate, paired with simplified environmental grant administration, would deliver activity uplift while protecting against deadweight cost — a more efficient design than increasing the RDTC rate across the board.

A green transition innovation tax incentive designed to encourage business investment in critical areas such as de-carbonisation and renewable energy. Such a regime would not only provide a benefit to companies but it would also contribute positively to Ireland's climate targets which are at risk of not being met.

08. Recommendations

The recommendations below build on four years of Index evidence, the Department of Finance's 2025 Public Consultation on the R&D Tax Credit and on Options to Support Innovation (closed 19 May 2025), the 2025 Review of the R&D Tax Credit Regime (published 8 January 2026), and the R&D Tax Credit and Innovation Compass (published 16 February 2026). They align with IRDG's Pre-Budget Submission for Budget 2026. They are intended to inform the workstreams now active under the Compass and the policy decisions that will follow this Index.

1. Maintain the 35% R&D Tax Credit and track its bedding-in. The headline RDTC rate moved from 30% to 35% under Finance Act 2025. The 2026 Index records that 58% of respondents will reinvest the additional credit into existing R&D projects, 57% into new R&D projects. The additional credit is being directed into R&D activity rather than general operations. The rate should be maintained for a sustained period and tracked annually through the Index company-level evidence.

2. Deliver the Innovation Tax Credit as a separate instrument under the Compass. An Innovation Tax Credit is one of four priority workstreams in the R&D Tax Credit and Innovation Compass (Department of Finance, February 2026) and an active workstream as of the Compass press release of 16 February 2026. The four-year Index evidence base points to two structural gaps the existing tax architecture is not designed to close: the qualifying-definition gap on AI, digital and business-model innovation set out in Chapter 5, and the IP-origination gap on design and trademarks set out in Chapter 4. 71% of Index 2026 respondents say an Innovation Tax Credit would enable more innovative work in Ireland; 67% expect it would support development of new products and services; 51% say it would support hiring or retention of high-skilled employees; 45% expect it would lift IP creation or protection — the indicator most directly relevant to corporation-tax base protection. The instrument would sit alongside the 35% RDTC rather than replace it, cover the innovation categories on which the EIS measures Ireland as weak, and give Ireland a dedicated tax instrument in the EU for non-Frascati innovation activity. Additionally, the DoF Review of the R&D Tax Credit (2025) records only marginal improvement on environmental indicators among R&D-active firms versus those that are not R&D-active, reinforcing the case for explicit green-aligned innovation support within the instrument.

3. Triple Government R&D investment to 1% of GNI*. Ireland's R&D expenditure in the public sector ranks 26th of 27 EU member states, scoring 16.7 against an EU average of 100.0 (EIS 2025). That single indicator is the principal reason Ireland's Finance and support pillar score sits at 74.1 (rank 13), below the EU average. Ireland is one of three Strong Innovators whose Finance and support score sits below the EU average, alongside Luxembourg and Germany. Ireland's public investment at 0.36% is just over half the EU average and sits behind Germany, 1.01%, and small EU countries like Denmark 0.87%, Austria 0.86%, Finland 0.84%. The metric the State directly controls — Government Budget Allocations for R&D (GBARD) as a share of GNI* — has not improved since the first index in 2023, instead declining slightly. Lifting GBARD towards the EU recommendation of 1% of GNI* over three Budgets is the single most quantifiable lever the State controls and

the only one of the four core instruments the Exchequer can move unilaterally.

4. Accelerate R&D tax credit refund instalments. Increase the proportion of the credit paid in the first instalment and reduce the time between claim submission and first instalment. Refund-timing satisfaction in the 2026 Index has improved from 47% to 53% overall but remains below 50% for SMEs. SMEs cashflow exposure is the binding constraint cited across four Index editions. Acceleration of credit payments is one of the nine measures named in the Compass under the Administration and Simplification section.

5. Establish a specialist R&D Tax Credit Unit within Revenue with SME-tier resourcing. Centralised technical and administrative resource for RDTC claims, with SME-tier resourcing distinct from the large-corporate desk. Recommended within the Index since 2024. Again, this should be added to the Compass's Administration and Simplification workstream. The 2026 Index evidence: 40% of SMEs identify administrative time related to grant drawdown or RDTC claim submission as a barrier, against 32% of large companies — the inverse of where the policy intent of the credit sits. 14% of SMEs are aware of State supports but not claiming, against 7% of large companies. Taken with refund acceleration, these measures map onto the three barrier groups identified across four years of Index data: cashflow exposure, administrative complexity, and eligibility uncertainty.

6. Pilot a 50% R&D Tax Credit rate for green and climate technologies. Time-bounded enhanced credit (e.g. five-year pilot) for R&D projects that deliver substantial environmental benefits — emissions reductions, clean energy breakthroughs, or circular-economy solutions. 79% of Index 2026 respondents say an enhanced 50% rate would increase R&D investment in green and sustainable technologies; the figure has been stable across all four years of the Index. The current incentive package will not deliver Ireland's commitments under the Paris Agreement, the European Green Deal or the Climate Action Plan. A targeted 50% rate, paired with simplified environmental grant administration, would deliver activity uplift while protecting against deadweight cost — a more efficient design than raising the headline RDTC rate across the board. The pilot should include rapid refundability for SMEs and clear criteria tied to verified climate impacts. Aligns with the Climate Action Plan's innovation mandate.

7. Modernise the outsourcing cap and qualifying-expenditure definition. Increase the outsourcing limit from 15% of in-house R&D spend (or €100,000) to 25% (or €250,000) and provide an allowance for outsourcing to connected companies, reflecting how Subcontracting is one of the named Compass workstreams currently under active review. Ireland does not possess all of the specialist skills or resources required to perform every element of R&D activity domestically, and outsourcing is often essential to the development and creation of valuable intangible assets. Pair with a definition of qualifying expenditure that aligns with original policy intent and provides clarity on capital expenditure, supporting overheads, and indirect costs essential to core R&D.

Delivering these seven recommendations would lock in the gains of the 35% R&D Tax Credit, fill the structural gap on non-Frascati innovation activity through an Innovation Tax Credit, close the SME claimant gap of approximately 1,500 firms identified in this Index, and move Ireland's public R&D investment toward EU-recommended levels for the first time. They would safeguard Ireland's fifth-place EIS ranking against the international tightening of competitor incentives and position Ireland to move up the European Innovation Leaders tier rather than holding its current position in the Strong Innovators group.

Appendix 1 : The Missing 500- 1,500 SMEs

Approximately 1,580 SMEs claim the R&D Tax Credit. The credible band of SMEs doing or close to qualifying R&D activity and not converting into claims is between 700 and 1,500. Two named Compass workstreams and two IRDG asks would close that gap.

A decade of stagnation, finally moved

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

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

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

The realistic figure supported by the data

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

CSO BERD 2023 records 2,130 R&D-active SMEs in Ireland — comprising 1,622 small enterprises with fewer than 50 persons engaged and 508 medium enterprises with 50–249 persons engaged. Subtracting the Compass-cited ~1,580 SME RDTC claimants gives a verified BERD-active gap of approximately 550 SMEs doing R&D and not claiming. This is the source-to-source conservative lower bound.

Per-capita comparison with peer-economy R&D tax incentives broadens the picture. Applying HMRC's post-tightening 2023-24 SME penetration rate (0.67%, after the UK's compliance reforms) to Ireland's SME base implies ~2,700 SME claimants — a gap of ~1,100. Applying France's Crédit d'Impôt Recherche rate (0.42%) implies ~1,700 — a gap of ~120. Applying the Netherlands' WBSO rate (1.18%) implies ~4,700 — a gap of ~3,100, with the structural caveat that WBSO is a payroll-tax instrument rather than a corporation-tax credit. The triangulated central scenario is between 700 and 1,500 missing SMEs.

Estimates circulating from third-party R&D advisors of 17,500 to 35,000 'missing' SMEs are not credible. They imply Irish SME penetration rates of 4.7% to 9.1% — four to eight times the highest rate observed in any major OECD economy and several times

the level the UK tightened on fraud grounds. They should be treated as marketing rather than analysis.

Why the gap exists — index 2026 evidence

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

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

"Waiting three years turns the credit into a promissory note, not capital."

The compass and Government Policy

The Department of Finance's R&D Tax Credit and Innovation Compass (February 2026) sets a medium-term plan in four broad areas: Qualifying Expenditure, Capital Expenditure, Administration and Simplification, and Supports for Innovation. The Compass identifies nine measures for further review. Work has commenced on subcontracting measures and on supports for innovation; the other two directions are scheduled for later in the term of Government.

The Compass is unambiguous about the SME profile of RDTC use: SMEs account for approximately 85–90% of claims by number but only around a quarter of the cost, and the document highlights the need to reduce administrative burden, better incentivise higher-value SME R&D, promote public–private collaboration and broaden subcontractor engagement. That is direct policy support for the SME thread the Index has documented across four years. The question is no longer whether the gap exists; it is whether the policy package is calibrated to close it.

What progress would look like

On the central scenario, closing the gap is a five-to-seven-year programme. The first measurable indicator will be the number of first-time SME claimants in the Revenue Statistical Report for 2025, due in 2027. The 2024–25 baseline against which that figure should be measured is the +132 SME-tier net additions Revenue recorded for 2023, which is the first material movement in eleven years. The Compass identifies the broad policy directions; the Index evidence identifies which company-experienced barriers that must be addressed.

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United Kingdom — HMRC Advance Assurance for R&D Tax Relief. https://www.gov.uk/guidance/corporation-tax-research-and-development-tax-relief-for-small-and-medium-sized-enterprises (Last checked: 17 May 2026) — SME pre-claim assurance scheme; targeted advance assurance pilot from Spring 2026.

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