R&D Tax Credit and on Options to Support Innovation – Public Consultation

Tax Division
Department of Finance
Government Buildings
Upper Merrion Street
Dublin 2
D02 R583

19 May 2025

Dear Sir/Madam,

We appreciate the opportunity to respond to the Department of Finance's Public Consultation on the Research and Development (R&D) Tax Credit and Options to Support Innovation. As a leading professional services firm advising a broad spectrum of clients including indigenous companies, Irish-listed entities, and multinational corporations — PwC Ireland is committed to supporting the continued growth and competitiveness of Ireland's R&D landscape.

Ireland's R&D tax credit regime has played a pivotal role in attracting high-value investment and fostering job creation since its introduction in 2004. The regime has enabled Ireland to develop a strong reputation as a global hub for R&D activity, underpinned by a highly skilled workforce and a collaborative ecosystem between industry and academia. However, we recognise that Ireland now faces increasing challenges, including rising costs of doing business, heightened international competition for mobile R&D investment, and evolving global tax and geopolitical environments.

Drawing on extensive client feedback and our experience, we believe that further enhancements to the R&D tax credit regime are essential to maintain and strengthen Ireland's competitive position. We believe these enhancements are critical to ensuring Ireland remains an attractive location for R&D investment, supports high-value employment, and drives sustainable economic growth. We welcome the opportunity to discuss these matters further and to contribute to the ongoing development of Ireland's innovation policy framework.

Yours faithfully,

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Executive Summary

This submission addresses the current state and future direction of Ireland's R&D and innovation incentives.

To date, the R&D tax credit in conjunction with grant funding has been instrumental in attracting high-value investment, supporting job creation, and establishing Ireland as a leading global hub for R&D activity. A key stat arising from the client survey that we undertook with our clients in relation to this Public Consultation is that 65% of respondents believe that, in the absence of the R&D tax credit, their R&D activities in Ireland would be less than 50% of their current level. This demonstrates the importance that the credit has had in attracting high value R&D activity to Ireland.

However, Ireland now faces significant current and future challenges. These include rising infrastructure costs, increased international competition, evolving global tax and geopolitical pressures. A proactive incentive policy response is required to ensure Ireland's ecosystem remains robust and globally competitive. It is imperative that all phases of the investment life cycle are incentivised to help maintain the significant level of R&D investment undertaken in Ireland. Therefore, an incentive suite that rewards R&D activity, Intellectual Property (IP) and innovation cohesively is recommended.

Drawing on extensive client feedback and industry experience, we have identified key recommendations in relation to these areas.

1. R&D Tax Credit

    - Increase the base R&D tax credit rate,
    - Modernise the R&D tax credit capital rules to increase accessibility and enhance return on investment, which is crucial for attracting large scale investment,
    - Adjust subcontractor and higher education caps and increase flexibility for evolving R&D models,
    - Broaden the scope of eligible costs, including rent and other critical costs.
    - Optimising the return on investment through the interaction of R&D credits and grant funding.

2. Intellectual Property

    Ireland's IP tax regime is no longer fit for purpose. It does not effectively align with R&D policy and requires reform. There is a market demand from investors to introduce a new or supplemental Qualifying Refundable Tax Credit (QRTC) to encourage IP to be retained and exploited in Ireland.

3. Innovation

    Ireland must update its tax policy to leverage market demand and disruption in developing areas such as digitalisation and decarbonisation. These sectors are poised for significant sustainable global growth across all both high value manufacturing and service industries. Incentives are needed to attract and encourage investment and activity in innovation and high-value services.

Overview and Analysis of Recommended Changes

Ireland is a premier global hub for R&D. It has numerous strengths including a highly skilled workforce, a robust higher education system, and a supportive policy environment. The R&D tax credit, introduced in 2004, has been a cornerstone of this success, enabling Ireland to compete for mobile R&D projects on the international stage.

The regime has helped attract high-value investment to Ireland, fostering skilled job creation. R&D investment has also driven the evolving synergy between industry and academia. This, coupled with Ireland's ability to develop global talent, has underpinned the country's ascent up the economic value chain.

However, Ireland's continued success is not guaranteed. The landscape for R&D investment is evolving rapidly, shaped by intensifying international competition and eroding Irish competitiveness. Energy costs are unsustainable, and the cost of specialised talent is under pressure due to cost-of-living and housing constraints. Meanwhile, other jurisdictions are enhancing their R&D incentives, broadening the scope of qualifying activities, and offering more flexible and generous support packages.

Against this backdrop, PwC Ireland, drawing on our client feedback and industry experience, has undertaken a review of the current tax incentives that promote the maintenance and growth of R&D in Ireland. This submission outlines the key challenges facing Ireland's R&D ecosystem and presents a set of targeted recommendations to ensure Ireland remains a leading destination for global R&D investment.

Analysis of Recommended Changes

Ireland can protect its position as a leading destination for high-value R&D investment by further enhancing its R&D tax credit regime, introducing supplemental incentives for IP retention and exploitation and supporting innovation in the form of high value services, digitalisation and decarbonisation.

Our recommendations are grounded in extensive industry engagement and international benchmarking. Implementing these changes will not only support high-value employment and economic growth but will also ensure that Ireland's R&D and innovation ecosystem remains robust, dynamic, and globally competitive.

<u>R&D Tax Credit – Recommended Changes:</u>

- Increase the R&D Tax Credit Rate

  The recent increase in the R&D tax credit rate from 25% to 30% was a necessary response to international tax developments, particularly the OECD's Pillar II rules. However, this adjustment has largely preserved, rather than enhanced, the value of the credit for many companies, especially those within the scope of the Pillar II rules. In order to restore Ireland's competitive edge, PwC recommends a further increase in the base rate to 35%.

  Additionally, introducing an incremental rate whereby additional R&D expenditure above a historical baseline qualifies for a higher credit would directly incentivise increased investment and drive additionality. This approach is already successfully employed in countries such as Portugal[1] and Spain[2], where incremental rates of 42 – 50% apply to qualifying expenditure above prior-year averages.

[1] https://taxsummaries.pwc.com/portugal/corporate/tax-credits-and-incentives
[2] https://taxsummaries.pwc.com/spain/corporate/tax-credits-and-incentives

- Broaden Qualifying Expenditure and Subcontractor Cap

  The scope of eligible R&D expenditure in Ireland has narrowed over time, with key costs such as rent, equipment maintenance, and certain outsourced services now excluded or subject to restrictive interpretations. PwC recommends expanding the definition of qualifying expenditure to include necessary and directly incurred costs such as rent, equipment maintenance, specific R&D training, travel, and outsourced services.

  Furthermore, the outsourced R&D expenditure provisions are too restrictive when operating in global R&D networks. Increasing the 15% cap and introducing flexibility on group arrangements would align Ireland with more flexible regimes in competitor jurisdictions, and enable companies to deliver on complex, multi-jurisdictional R&D mandates. A 15% cap on subcontracted R&D expenditure is at odds with the realities of modern R&D, which increasingly relies on flexible, global delivery models.

  PwC recommends that the cap is significantly increased to reflect this. Otherwise, there is a risk that it will impede the attractiveness of Ireland as a location for R&D and the retention and exploitation of IP.

- Improve Capital Incentives for R&D Infrastructure

  Investment in R&D infrastructure, such as buildings and specialised facilities, is critical for developing and retaining high-value R&D activities. The current requirements that a building be used at least 35% for qualifying R&D activities over four years, and that the building qualifies for industrial building allowances excludes many genuine R&D investments. This is particularly prevalent in advanced manufacturing and specialised research centres.

  PwC recommends reducing the R&D use threshold from 35% to 15% and removing the industrial building allowance requirement. These changes would make it more feasible for companies to invest in state-of-the-art R&D facilities in Ireland, supporting both direct and indirect economic benefits.

- Enhance Collaboration with Academia

  Collaboration between industry and academia is a proven driver of innovation, talent development, and regional economic growth. However, the current cap on outsourcing R&D to universities and institutes of higher education limits the potential for deeper partnerships.

  PwC recommends increasing this cap and considering enhanced incentives for collaborative projects, drawing on best practices from countries such as France[3], Spain[2], and Finland[4], where additional credits or deductions are available for academic collaboration. This would foster stronger linkages between industry and the education sector, ensuring a steady pipeline of talent and research capability.

  <u>IP Tax Incentives – Recommended Changes</u>

- Encourage Retention and Exploitation of Intellectual Property (IP)

[3] https://taxsummaries.pwc.com/france/corporate/tax-credits-and-incentives
[4] https://taxsummaries.pwc.com/finland/corporate/tax-credits-and-incentives

The Knowledge Development Box (KDB) regime, designed to incentivise the retention and commercialisation of IP in Ireland, has seen limited uptake and is now not effective for companies within the scope of Pillar II.

PwC recommends developing a supplemental refundable tax credit (supplemental to R&D tax credit) for companies that retain, and exploit IP developed through R&D activities. This would anchor high-value decision-making and commercialisation activities in Ireland, further embedding the country in global value chains.

Given the fact that global R&D models are increasingly deployed in developing IP, such a supplemental credit should also apply to costs incurred by the Irish subsidiary in relation to group outsourced R&D, at least up to a certain threshold based on the internal R&D costs incurred by the Irish company, if the IP resulting from the R&D is retained and exploited by the Irish company.

Innovation – Introduction of an Innovation Tax Credit

- Support Innovation, Digitalisation, and Decarbonisation
  Many activities critical to Ireland's future competitiveness such as digital transformation, sustainability initiatives, and early-stage product and process innovation do not currently qualify for the R&D tax credit, as they may not involve the direct resolution of scientific or technological uncertainty.

  PwC suggests that an innovation incentive is introduced like those in Italy[5], Luxembourg[6], France[3] and Spain[2] to boost investment and activity in priority areas such as digital and green technologies and high-value services. This would enable Irish companies to accelerate their transition to more sustainable and digitally enabled business models, supporting both national policy objectives and global competitiveness.

  It would also help Ireland to become a more attractive location for high value digitalisation service activities. Ireland is currently lags behind other jurisdictions in competitiveness in these areas. The introduction of a tax credit to support this would greatly enhance Ireland's offering.

[5] https://taxsummaries.pwc.com/italy/corporate/tax-credits-and-incentives
[6] https://taxsummaries.pwc.com/luxembourg/corporate/tax-credits-and-incentives

Responses to the Public Consultation Sections

As outlined above, we have surveyed our clients in relation to the Public Consultation sections and our responses below reflect the feedback received.

Section 1 – General Queries

Question:

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

Response:

Our client survey was issued to, and responded to, by companies across various industry sectors (including Pharma, Lifesciences, Engineering and Technology sectors). Survey respondents covered a broad spectrum of company sizes and budgets.

In our survey, we asked companies to outline the importance that they place on the R&D tax credit in attracting investment to Ireland based on a scale of 1-5 (5 being of highest importance). Some 68% of respondents selected a 5 ranking, which illustrates the importance attached to the R&D tax credit in attracting and maintaining investment in Ireland.

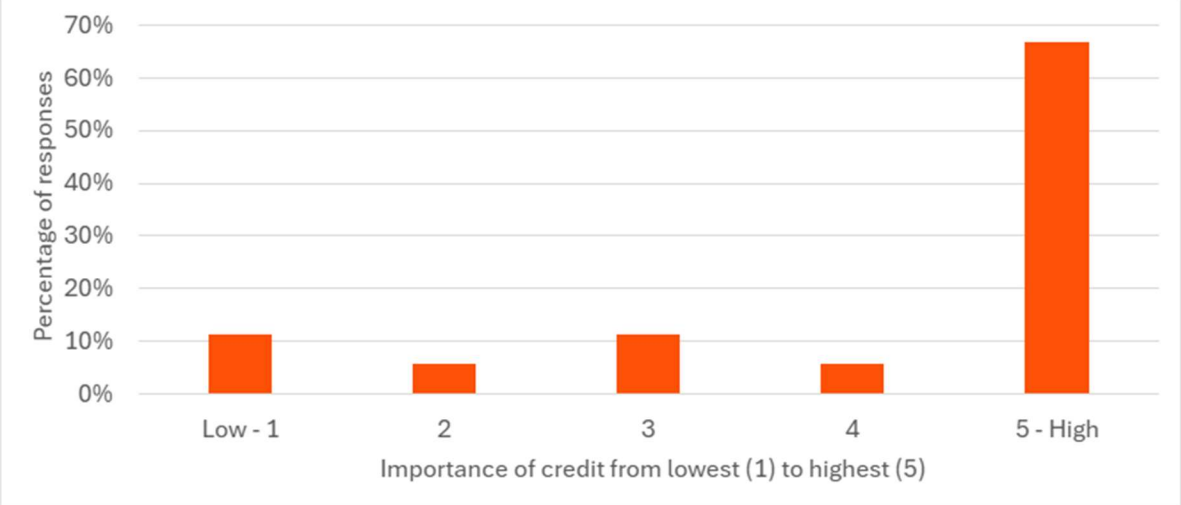

Figure 1: The importance of the R&D tax credit in attracting investment by companies in Ireland

The R&D tax credit has played a significant role in supporting companies to maintain their current R&D investment and grow their R&D footprint in Ireland. There are several examples of key investments across our client base in R&D activities and facilities over the past 5 years for which the R&D tax credit has been very important in supporting the business case for these investments. In several instances, these have been significant overall investments exceeding €1bn in value.

The importance that the R&D tax credit plays in attracting such investments is also seen in the response to the question below in relation to the level of R&D activity that would take place in Ireland in the absence of the R&D tax credit. The feedback from our survey is quite stark in this regard.

Question:

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

Response:

While more than 60% of the respondents in our survey outlined that the changes have not resulted in additional spending on R&D in their organisations, they have responded to confirm that the changes have been very important in maintaining the level of R&D that currently exists. The changes in Finance Acts 2022 – 2024 were predominantly focused on protecting the existing value of the R&D tax credit given Pillar II. As a result, the changes in principle will not have necessarily enhanced the value of the R&D tax credit in many cases.

Question:

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

Response:

Most respondents expect R&D activities to be maintained in the short term, with growth being uncertain given the geopolitical environment and the cost of doing business in Ireland. The increasing difficulty to attract and maintain skilled labour resources (due to the cost of and quality of living) is also a factor.

Respondents see good opportunities for R&D in relation to data science, machine learning, AI, cloud architecture, and predictive analytics if Ireland's competitiveness can be improved. To exploit the opportunities that exist, companies believe that there is a need to enhance our incentives regime to make Ireland more competitive in attracting further or future investment.

Question:

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

Response:

For 89% of the respondents to our survey, R&D is a continuing activity each year as opposed to being an intermittent activity. There is an ever increasing need to develop new and more efficient processes and products in addition to new product research and development. However, this is dependent on the Irish site retaining its R&D mandate and staying competitive relative to other Group territories. Each singular R&D investment tends to be competitive process.

Question:

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

Response:

100% of our survey respondents are undertaking R&D activity for the benefit of their company as opposed to for an unconnected third-party.

Question:

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

Response:

A portion of our survey respondents noted that there were instances where specific R&D credit claims have not been submitted in respect of potentially qualifying activities. Key issues identified were the cost/benefit analysis given the effort that needs to be invested in preparing claims and the supporting technical documentation. Other issues referenced were uncertainty as to whether activities/projects qualify for the credit, and the inability to get clearance from Irish Revenue in relation to the matter.

Question:

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

Response:

We asked companies to select the percentage of current R&D activity that would take place in their companies without the R&D tax credit, and gave them the following options:

- 0% - 25%,
- 25% - 50%,
- 50% - 75%,
- 75% - 100%.

29% of respondents selected that 0%-25% of current R&D activity would take place in their companies without the R&D tax credit, 36% of respondents selected 25-50% and 29% selected 50%-75%. This feedback illustrates the critical importance that the R&D tax credit plays in supporting R&D activity in Ireland.

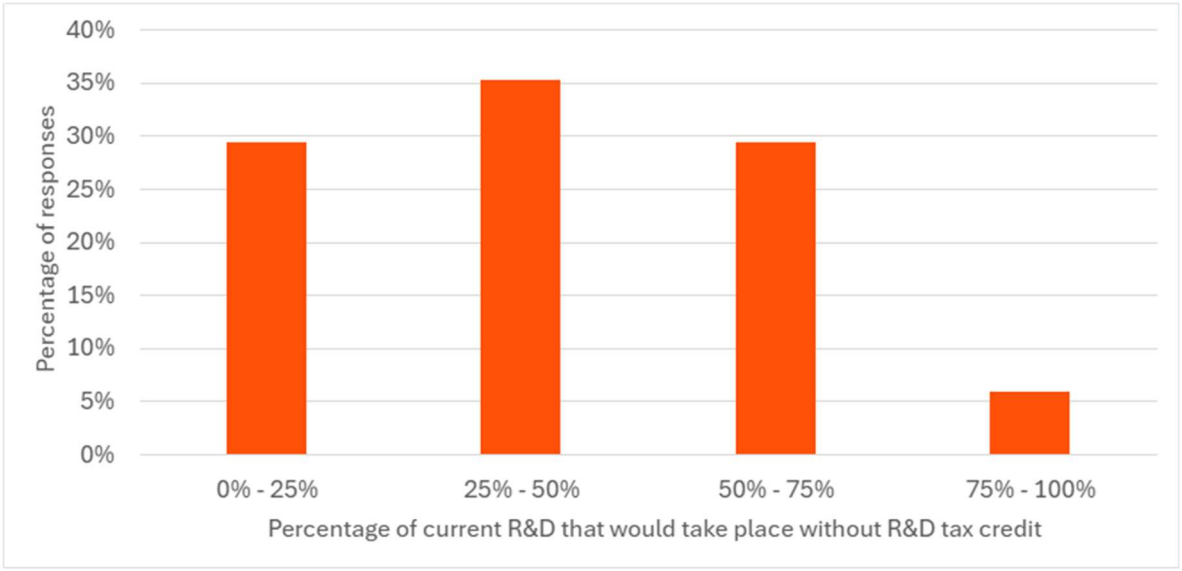

Figure 2: Without the Irish R&D tax credits, what percentage of your current R&D activity would take place in Ireland?

Section 2 – Subcontracted R&D Activities to University or Institute of Higher Education

Collaborations between industry and universities, supplemented by government support, are seen as essential for enhancing innovation systems at both regional and national levels, and boosting economic growth. Ireland's Smart Specialisation strategy seeks to deliver new and enhanced interventions focused on strengthening industry-academic collaborations across Ireland[7]. Collaborations between universities and industries lead to reduced research and development expenses, increased innovation production, and a heightened ability to commercialise academic findings and intellectual property.[8]

Ireland leads the EU in terms of population with tertiary education, and is third for new doctorate graduates, underscoring its robust educational credentials. Despite having a broadband penetration rate lower than the EU average, Ireland ranks third in the EU for individuals possessing digital skills, with both indicators showing improvement in recent years[9].

Question:

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

Response:

The feedback from our client survey was that 53% of respondents have seen an increase in employees with STEM qualifications in the past five years. Of those respondents, 7% have seen an increase of more than 100%, 13% have seen an increase of 75-100%, 7% have seen an increase of 50%-75%, 13% have seen an increase of 25-50%, 40% have had an increase of 10-25% and 20% have seen an increase of up to 10%.

[7] https://enterprise.gov.ie/en/publications/publication-files/national-smart-specialisation-strategy-for-innovation-2022-2027.pdf
[8] https://link.springer.com/content/pdf/10.1007/s10961-022-09932-2.pdf
[9] https://data.europa.eu/doi/10.2777/779689

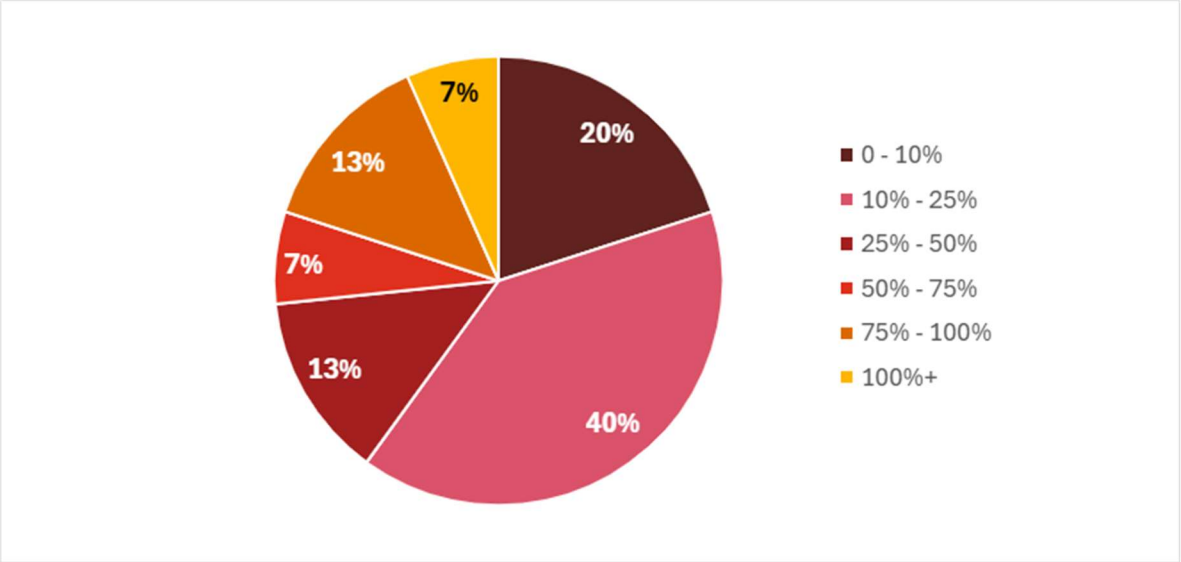

Figure 3: What is the estimated increase in the STEM employees engaged by the company in the past 5 years?

The key areas of STEM of relevance in relation to these increases are as follows:

- Data Science
- Software Engineering
- Computer Science
- Mechanical and Electronic Engineering
- Biomedical Engineering
- Technology, Maths, Engineering, Physics
- Cloud Computing, DevOps, Machine Learning, AI, Cybersecurity
- Construction Engineering
- Chemistry.

Question:

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

Response:

Based on the feedback from our client survey, 24% of respondents confirmed that they outsourced elements of R&D activities to a university or institute of higher education. The motivation for this outsourcing was predominantly to access specialised expertise or equipment. However, developing long term linkages and collaboration was also noted as a motivation for such outsourcing. Typically, the types of activities outsourced focussed on research studies and the availability of specialised testing equipment in the university or institute of higher education.

Question:

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

Response:

Some 25% of responses to this question confirmed that there are instances where the cap has specifically limited outsourcing plans to universities or institutes of higher education. This has been particularly relevant for SME companies where there can exist a greater need for outsourcing given internal resource constraints.

However, limits to the outsourcing to universities or institutes of higher education is also relevant for large companies, particularly those heavily involved in research, and those in regional subclusters that have strong collaborations with local academic institutions.

Question:

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

Response:

Companies that have academic outsourcing requirements will generally engage with local universities or institutes of higher education unless it is a specialised service that an Irish university or institute of higher education does not have a reputation of delivering.

There are several examples across our client base that have strong relationships with their local universities or institutes of higher education, these relationships help to ensure that the right talent and course are delivered to resource the MNC, and in turn, the MNC engaging the Institute to undertake research studies that feeds into the MNC's R&D activities.

Enhanced incentives encouraging this collaboration would be helpful. Some jurisdictions offer enhanced incentives for collaboration between companies and academia. For example, France[3] allows companies to double the expenses related to the hiring of young PhD students for 24 months as part of their R&D tax credit regime. Spain[2] offers an additional 17% R&D tax credit for staff hired that exclusively carry out research and development activities, and in Finland[4], companies get an additional tax deduction of 150% (years 2022-2027) on the costs of research and innovation projects carried out in collaboration with universities and research institutes, up to a threshold amount.

Section 3 – Spill-over Effects of Collaboration with Universities and Institutes of Higher Education

Question:

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

Response:

Of our survey respondents, 44% confirmed that they have engagement with universities and institutes of higher education other than for the purposes of outsourcing R&D activities. This engagement revolves around work placements, graduate programmes, input into the design and delivery of programmes that are relevant to their activities, and sponsorship of programmes. In addition to this, there is also engagement and collaboration with national and European grant funded research programmes.

This engagement is of key importance in ensuring that the third level programmes, subjects, and educational content are as relevant and as practical as possible in serving the requirements of R&D investments in Ireland, and to ensure that Ireland is at the forefront of leading edge research that has an important practical and commercial application.

Question:

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

Response:

Some 20% of the respondents to our survey have engagement on STEM initiatives with primary and secondary level schools. These engagements include the promotion of STEM through workshops, career talks, and competitions. One of our clients located in a regional subcluster engages and connects with 6,000 students annually through these primary and second level programmes.

Section 4 – Subcontracted R&D Activities to Other Unconnected Third Parties

Question:

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

Response:

As part of the feedback that we received from our client survey, the key impetuses for outsourcing elements of R&D activities are as follows:

- To access specialised equipment

  This is particularly relevant for SME companies that do not have the resources to incur the cost associated with the purchase of specialised equipment used for certain elements of R&D (such as prototype build, testing, etc.). The engagement of the services of third-party providers that have the specialised equipment is a more efficient option for such companies. Additionally, this approach represents a more risk adverse pathway, as the company does not bear the burden of wear and tear in relation to the specialised equipment that are typically high cost in nature.

- To access specialised services

  Engagement of and collaboration with third parties for specialised services is becoming an important part of the overall R&D operating models of both large MNCs and indigenous Irish companies.

  These increasingly flexible models are required to deliver the capability needed in performing R&D. There has been an emergence of specialist services providers with niche expertise in certain elements of the R&D lifecycle that offer these services at scale to R&D organisations.

  There are distinct advantages to engaging such specialist services as part of the R&D activities being undertaken by companies. These advantages include the following:

  - The company engaging the services does not need to incur significant additional capital cost in building up the expertise and facilities in a specialist area, particularly where the cost/benefit analysis would make the approach unfeasible, or where the services are required only for a distinct period of time or at a certain phase of the R&D project lifecycle (for example a specialised testing service).
  - In certain cases, the resources required to perform the specialised R&D activities may not be available within the company's own labour pool or may not even be available within Ireland, and as a result, there is a requirement for the Irish company to outsource this activity to a third-party in another jurisdiction.

  In the pharmaceutical and manufacturing sectors, examples of services that feed into R&D activities that are typically outsourced include testing services (lab testing, quality control testing, stability testing, etc.), specific engineering studies, clinical trials, and process development engineering services. In many cases, third parties will be engaged to supplement the existing internal teams when R&D activity is particularly intense. This provides flexibility for companies to engage resources without having to commit to employ them for particular periods of time. Given that certain R&D projects can be cyclical in nature, it can be more efficient for companies to supplement their internal teams through the engagement of third-party subcontractor.

Question:

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

Response:

Based on interaction with our clients and our client survey responses, we believe that there are amendments that could be made to the outsourcing provision that would help in attracting further R&D activity to Ireland.

The feedback from 67% of responses to this question is that the cap of 15% on expenditure incurred on outsourced R&D that qualifies for the R&D tax credit is far too restrictive given the flexibility that is required in engaging third parties to service elements of R&D programmes. Such third-party outsourcing is required to deliver the capability and mandate that Irish companies have signed up to in pitching for the R&D projects from their headquarters.

In addition, R&D models are required to be increasingly flexible to cater for the evolving needs of development. Where the resources cannot be employed due to lack of availability or where the expertise is simply not available in the company, outsourcing is required to fill that gap. The more expertise and

capability that Irish companies can ultimately deliver (through its own employee base and the engagement of third-party service providers) in a cost-effective manner, the more success Irish companies will have in attracting investment and winning R&D projects.

As a result, the engagement of third-party service providers is very much part of the R&D offering and delivery model being employed, and there is pressure from a cost competitiveness perspective for companies to have increased access to the R&D tax credit on this cost in order to enhance its proposition.

The 15% cap should be increased in order to facilitate this. We do acknowledge the policy rationale for a cap, however, given the impact that it has on companies in the SME sector (who particularly need to outsource in order to access specialised equipment and services), and the Irish subsidiaries of MNC groups whose R&D functions are expected to operate on a global basis, there is a need for the cap to increase to reflect this reality now more than ever.

Question:

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

Response:

We have received feedback in our client survey confirming that the existing cap has limited plans to outsource activities, leading to an overall reduction in R&D. This is becoming more pertinent given the need for evolving and more flexible R&D operating models, and the need for companies to be able to deliver a broad range of capabilities. If capability and cost effectiveness cannot be demonstrated, this inhibits the ability of Irish companies to deliver and win new R&D investment.

Section 5 – Grant Funding

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

Question:

During the period in which R&D activity was carried on by the company, what proportion of R&D projects undertaken received grant support from:

- ***the IDA or Enterprise Ireland;***
- ***the European Union (such as Horizon Europe, Horizon 2020, European Framework Programmes etc); and/or***
- ***Other sources (such as the UK or from a body/institution/agency outside the European Union).***

Response:

The majority of our large MNC group clients are actively engaging with the national and European grant agencies and programmes. Grant aided Research, Development and Innovation (RDI) expenditure is often broader than what qualifies for the R&D tax credit. For example, grant agencies are prepared to fund feasibility projects that include both commercial and technical feasibility input, whereas the R&D tax credit is solely available for scientific, engineering and technology input to resolving the scientific

uncertainty and achieving scientific advancement. In addition to RDI, grant agencies also fund training initiatives.

Based on the responses received to our client survey, the proportion of R&D projects undertaken that received grant support varied quite significantly. Some respondents had a high proportion at 50% - 75% of grant support, whereas other were significantly lower at 10-25%. The reason for this is likely to be down to the level of interaction with the agencies and the reasons outlined in the responses to the next question.

Question:

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

Response:

Based on the responses received from our client survey and our experience of working with companies that are claiming grant supports, the main impediments to identifying and/or claiming IDA and EI supports are as follows:

- Uncertainty on Grant Funding and Application process

  When MNC groups are considering locations for investment, they like to have a level of certainty over the potential amount of funding that is available so that they can factor this into their investment modelling, as the net cost of investment is a key determinant of where the investment will be located.

  From an IDA grant perspective, it can be difficult to assess the potential rate of grant funding until the application has been completed, submitted and the outcome is determined. As such, the timelines for application review and approval can sometimes make it difficult for businesses to put their 'best foot forward' in their investment modelling. Given the nature of the process, the modelling is generally prepared on a prudent as opposed to an aggressive basis so as not to oversell the position. It would be beneficial if there existed some formal structures around potential RDI grant rates, and if an initial range of the grant rate that might be applicable could be communicated at an early stage of discussions (prior to the submission of the application).

- Extended Activity Projections

  In applying for RD&I grants, there is typically a need to outline the future R&D plans for the next three to five years. R&D activity projections for that length of time can be difficult to provide, as plans and activity will evolve as they materialise, often resulting in the activities that were approved for the grant funding at the outset being replaced with different R&D activities. This can cause difficulty in obtaining and drawing down the grant funding. Given the nature of evolving R&D developments, flexibility needs to be built into the process in an effort to account for this.

- Resource Constraints and Lack of Awareness

  SME companies may lack the internal resources or expertise needed to prepare comprehensive grant applications, leading to incomplete or substandard submissions, or even the failure to make submissions for funding that might be relevant to them.

Some companies also genuinely have a lack of awareness of what national and European grant funding might be available to them. We have seen the grant agencies ramp up resources in an effort to get more information in the public domain on their grant offerings and also connecting more closely with companies that might be in scope for grant funding.

- Post Approval Drawdown Process

  Additionally, post-approval requirements such as detailed documentation reporting can be onerous, and it can take a long period of time before the funds drawdown is approved and paid out to companies. Companies would appreciate a less onerous and more timely approval and payment of drawdown process.

Section 6 – The Future of Research and Development

Question:

Where do you believe the focus of future R&D in your sector will be and what emerging technologies or areas should be considered?

Response:

Based on the feedback received in our client survey, Ireland must prioritise advancements in R&D across the key areas of manufacturing, sustainability, and digitalisation to maintain its competitive edge in the global market.

- Advanced Manufacturing

  The growing number of cutting-edge manufacturing facilities across Ireland has been a success story in Ireland's FDI strategy. Investing in advanced manufacturing technologies is crucial for Ireland to stay ahead in the industrial sector. The integration of robotics, artificial intelligence, and additive manufacturing will enhance production efficiency and foster innovation. This will enable the Pharma and Life Sciences sector to produce pharmaceuticals and biotechnological products more precisely and at greater scale. The Medical Devices industry will benefit from improved manufacturing processes, leading to higher quality and more reliable medical products. By embracing these technologies, Ireland can ensure its manufacturing sector remains competitive globally.

- Energy and Sustainability

  Sustainability is a key factor in maintaining Ireland's competitive position. Developing eco-friendly technologies and sustainable practices will drive significant changes across multiple sectors. For example, in Pharma and Life Sciences, sustainable R&D practices will lead to greener production methods and reduced environmental impacts. The Medical Devices sector will advance in the use of sustainable materials and processes, ensuring compliance with stringent environmental regulations. ICT companies will adopt energy-efficient technologies and sustainable practices, contributing to a reduction in carbon footprint. These initiatives will not only enhance Ireland's reputation but also help to attract global investments.

- Digitalisation and AI

  Digitalisation is essential for driving innovation and efficiency in Ireland's R&D ecosystem. The adoption of digital technologies such as big data, cloud computing, AI and the Internet of Things (IoT) will enhance research capabilities and operational efficiencies. In the Pharma and Life Sciences sector, digitalisation will accelerate drug discovery and clinical trials through advanced data analytics and machine learning. The Medical Devices industry will leverage digital tools to improve product design, testing, and regulatory compliance. ICT companies will continue to innovate with digital solutions, fostering growth and competitiveness in the global market. By embracing digitalisation, Ireland can ensure its R&D efforts remain at the forefront of technological advancements.

  Ireland has already attracted some high-value jobs in global cloud computing and data centre operations. However, as the demand for skilled professionals in these sectors increases, the market encounters challenges in attracting and retaining talent, especially for these high-value roles.

In order to remain competitive, Ireland must focus on advancements in advanced manufacturing, sustainability, and digitalisation. These developments will drive innovation and growth across key sectors, including Pharma and Life Sciences, Medical Devices, and ICT. Stakeholders are encouraged to align their strategies with these trends to capitalise on emerging opportunities and contribute to Ireland's position as a global leader in research and development.

Question:

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

Response:

They key themes arising from our survey feedback in relation to the biggest threats or competitors to growth are outlined below. These are:

- Cost of undertaking R&D in Ireland – the cost base has continued to increase, and this has pitched Ireland at the upper end of the cost scale in terms of undertaking R&D. This is driven by energy, housing, and real estate cost increases, in addition to inflated operating costs. The R&D tax credit is critical in helping to reduce the cost of undertaking R&D.

- Geopolitical instability – the instability and uncertainty created by recent activity in relation to the introduction of tariffs is impacting investment decisions. The geopolitical pressure to ramp up activities such as high value manufacturing elsewhere is also creating uncertainty around where the next wave of investment will be. The more cost competitive the Irish economic model is, the more likelihood of being in contention.

- Retaining and growing the labour pool – the cost of living is making it more difficult to retain and attract talent to Ireland in the STEM areas required.

- Incentives being broader and more favourable in other jurisdictions – tax incentives are available for innovation and activities that are broader than core R&D such as digitalisation, cloud computing, AI implementation and decarbonisation in the context of, for example, Industry 5.0. In

addition to this, there are features of R&D incentives regimes being more favourable in other jurisdictions. This is discussed in further detail below and in Section 8.

Question:

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

Response:

Clients have provided examples of activities being undertaken by companies engaging in R&D in Ireland that currently do not qualify for the R&D tax credit. The feedback from our client survey focussed on the following areas:

- Analysis and implementation of decarbonisation and digitalisation strategies and technologies to enhance their activities,
- Activities undertaken at early-stage product or process development or improvement, such as concept analysis, exploratory analysis, market research, business requirements analysis and design,
- Activities at the latter stages of product or process development or improvement, such as release verification testing, regulatory approval, etc.

The reasons that activities related to decarbonisation and digitalisation efforts do not qualify for the R&D tax credit in many cases are discussed in further detail in the response to the next question.

The reason that the early and latter stages of product and process development do not qualify for the R&D tax credit is that in many cases, these activities are interpreted as not directly resolving technological uncertainty or achieving technological advancement. The contribution of non-technology and science input to the product/process development is challenging to claim as a result. However, this input is key to the progression and roadmap for projects, and consideration should be given in potentially targeting these areas in a new credit for innovation. This is discussed in further detail in the response to Section 8 below.

Question:

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

Response:

There is a need for Ireland to shape how to incentivise decarbonisation and digitalisation activity and investment that does not qualify for the R&D tax credit. The reason that such activity may not qualify for the R&D tax credit currently is that it generally consists of the analysis and implementation of existing technologies to achieve an improved and more efficient carbon footprint at a company's facilities. In many cases, this will not involve the achievement of scientific or technological advancement in the field of science. However, such activity is critical to sustaining Irish operations and for Ireland to stay ahead in the industrial sector in addition to helping Ireland achieve its emissions targets. The development of a

tax credit regime that targets such activity should be considered. This is discussed further in the response to Section 8 in this document.

Question:

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

Response:

Although the question starts with the wording *'other than amendments to the rate or scope of the credit'*, we think it's important to address this point, particularly given that this has been a big focus of the responses to our client survey. We outline below the key points arising from our survey in relation to this:

- R&D Tax Credit

  Headline rate

  The rate increase from 25% to 30% in Finance Act 2023 has been very positively received by companies undertaking R&D in Ireland. Companies recognise Ireland's leadership in making this change to ensure that the value of the R&D tax credit remains intact given international tax developments in the form of Pillar II GloBE rules. This increase in rate has allowed the value of the credit remain stable for large multinational corporations who fall within the scope of these rules.

  However, the level of uncertainty due to the current international political environment, combined with the concern around a rising domestic cost base, is making it more difficult for companies in Ireland to sustain their current investments and to attract further growth. As an example, in responding to our survey, several companies referenced energy costs as being particularly challenging.

  An increase in the base rate of the R&D tax credit to 35% would help companies to be more competitive in seeking R&D mandates from their global headquarters. Ireland needs to be able to offer R&D budget holders the lure of a highly skilled labour force at a competitive price.

  New Incremental Rate

  In addition to an increase in the base rate, an incremental basis could also be considered in order to help stimulate additionality in R&D activities year on year or on a cyclical basis. For example, if a company's qualifying R&D expenditure in the current year exceeds its prior year or the average of its last 2 or 3 years, then an increased credit rate on the additional qualifying expenditure could apply.

  There are examples of R&D tax regimes in EU countries and non-EU countries that offer increased base rates and/or incremental rates, including the following:

  - *Portugal*

    The base rate R&D tax credit in Portugal[1] is 32.5% which is higher than Ireland's base rate. In addition to the base rate, there is also an incremental R&D tax credit rate of 50% that applies to

incremental expenditure incurred in the current year. The way this incremental rate works is that the increase in R&D expenditure during the current year compared to the average amount of the prior two tax years qualifies for this increased rate. This incremental credit applies only to taxpayers that had active businesses in the two years before the credit year.

For SMEs which cannot avail of this incremental rate, an additional 15% is added to the base rate (to arrive at 47.5%) which can be applied to all current year R&D expenditure.

- *Spain*

  The Spanish[2] R&D tax credit, although at a lower base rate of 25% base rate, also has an incremental credit at an increased rate of 42%. This applies to current year qualifying expenditure that exceeds the average of the expenditure of the previous two years.

  In addition to this, France[3] has a significant R&D tax credit regime, its base rate stands at 30%, however its regime has several features that result in higher effective rates (for example, the doubling of certain research graduates' expenses, etc.).

In addition to European examples, there are other non-European examples that have increased rates, including the following:

- Canada – up to 35% based on federal and state R&D tax credit rates[10],
- Australia – rate of 40% plus[11],
- Singapore – investment tax credits and super-deductions results in effective rates in excess of 50%[12].

These are territories that Ireland is in competition with for R&D investment across the Pharma, Life Sciences and Technology sectors.

- Capital R&D Tax Credit Rules

  The ability to claim incentives such as the R&D tax credit on significant capital investments in buildings and plant and equipment is fundamental in attracting such large-scale site investments in Ireland. Large scale tangible investments have multiple spin-off economic benefits (construction, maintenance, ancillary services, etc.), as well as providing a degree of anchoring the site in Ireland. This is particularly important in availing of the opportunities that exist in the advanced/high value engineering and manufacturing sectors.

  Based on the feedback from our client survey and our experience of working with companies in evaluating potential site locations, there are a number of areas that should be considered for improvements as follows:

[10] https://taxsummaries.pwc.com/canada/corporate/tax-credits-and-incentives
[11] https://taxsummaries.pwc.com/australia/corporate/tax-credits-and-incentives
[12] https://taxsummaries.pwc.com/singapore/corporate/tax-credits-and-incentives

- 35% Threshold for R&D Buildings

  In order for the cost of construction or refurbishment of a building to qualify for the R&D tax credit, it must be used at least 35% for qualifying R&D activities over the first four years of use.

  This 35% threshold can be difficult to meet where R&D activity critical to the development of an advanced and high value manufacturing process takes place at the outset, and that R&D activity winds down as the high value manufacturing trade that was underpinned by the R&D commences.

  In many instances, such companies will initially undertake an initial intense period of R&D that will typically range from 6 to 18 months, and as a result, the required 35% threshold of use of the building for qualifying R&D activities in the first 4 years of use will not be met.

  This impacts the net cost of investment, and it is difficult for MNC groups to factor this credit into their investment modelling given the threshold that needs to be met. The ability to claim the credit on a building investment can have a significant impact on the investment modelling and the case being put forward for Ireland to attain the investment.

  A reduction in the 35% threshold should be considered to allow the policy intent of the relief to be achieved, and to ensure that Ireland enhances its attractiveness in encouraging new investment and growth in high value manufacturing underpinned by R&D.

  If the threshold was reduced from 35% to 15%, this would provide a greater ability for companies undertaking R&D in combination with high value manufacturing to access the regime and would help put forward the case for further investment in the rapidly evolving high value manufacturing space.

- Requirement of building to qualify for Industrial Buildings Allowances

  In addition to a reduction in the 35% threshold, consideration should be given to the removal of the requirement that the building must also qualify for industrial building allowances. The requirement is outdated and intuitively unsound, as it will ensure that a pure R&D facility, in many cases, will simply not qualify for R&D tax credits.

  The return on investment is a critical part of investment modelling in relation to buildings and plant and machinery. The shorter the timeline over which the R&D usage of plant and machinery needs to be considered, the better the return on investment. Consideration should be given to this point to ensure R&D tax credits on plant and machinery investments are maximised.

- Subcontractor R&D Rules

  R&D operating models are becoming increasingly global in nature. MNC groups have development teams dispersed across the globe for a number of reasons as follows:

  - Faster development cycles – distributed teams can work around the clock on the development resulting in quicker and more efficient development and product release cycles.

  - Access to talent – different regions have specialised expertise that feed into the overall development.

- Cost efficiency – regions have different cost points in undertaking development, and the dispersal of development helps achieve cost efficiencies.

- Access to R&D hubs – the ability to tap into academic research and collaborate with the ecosystem to innovate.

Companies in Ireland are seeing challenges in recruiting and maintaining staff. This is largely due to either the lack of available qualified R&D personnel, or the increased cost of living which is making Ireland less attractive for potential employees. Therefore, in order to gain access to the required expertise, it is becoming more necessary for some operations to be outsourced to external services providers in other countries.

Outsourcing also provides flexibility for companies where there is a short-term need for expertise in a particular area, or as part of a particular project particularly where the cost/benefit analysis means that it is unfeasible for the company to build out the facilities/team within its footprint. In our experience and based on the survey responses, such subcontracted work often goes to local business which have expert knowledge in niche areas of science and technology, and which have been built up to service this area.

In order to support Irish R&D operations in attracting and delivering on R&D investment, the thresholds on qualifying subcontracted expenditure to Universities or Institutes of Higher Education and on qualifying unconnected subcontracted expenditure to other unrelated third parties should be increased from their current 15% rates. Other territories offer much more flexibility in relation to outsourcing, and this positions these territories well from a cost competitiveness perspective when pitching for global R&D projects. They can demonstrate their own ability to deliver their own resources and the outsourcing linkages that they have built up and on which they obtain incentives.

For example, in the French[3] R&D tax credit regime, subcontracting expenditure to unrelated third parties is capped at €10 million, or three times to internal spend. This naturally makes it more cost competitive for companies to adapt to evolving models and supplement their own core R&D resources with outsourced resources.

- Acceleration of the Payment of the R&D Tax Credit

  Finance Act 2022 brought about positive changes to the R&D tax credit to ensure that its value was preserved based on the Pillar II GloBE rules and other international tax developments. The change in the structure of the regime to a fully payable credit was driven by these factors. The fully payable credit is now paid out in three instalments over three years (50% in year 1, 30% in year 2 and 20% in year 3). In many cases, this now results in a longer timeline for companies to obtain the cash flow benefit of full credit, as prior to the changes, the full credit would have been capable of reducing the full corporate tax liability in year one where the corporate tax liability was sufficient to do so. As a result, it would greatly help companies from a cash flow perspective if changes were to be made to accelerate the payment of the credit.

- Qualifying R&D Expenditure

  The categories of costs that have been interpreted as meeting the definition of qualifying R&D have narrowed significantly over the last decade. This narrowing of the interpretation has come in the face of rising costs for companies undertaking R&D here (rising real estate, energy and other operating

costs). It is difficult for industry and advisors to accept that costs that are necessarily and directly incurred in R&D are interpreted as non-qualifying. This has been a key point in the feedback from our client survey, and it is coming under increased focus when feeding into the modelling that was done around the cost of undertaking R&D in Ireland. The key costs and points arising are as follows:

- Rental costs and Other Key Costs

  Building rent is the most recent example of the narrowing interpretation of qualifying R&D expenditure. It has caused frustration among companies (both Irish subsidiaries of large MNCs and SMEs) undertaking their R&D activities in rented facilities, which is a necessary cost incurred in the carrying on of R&D.

  The current guidance allows for a very narrow remit of rental expenses of a space of a "specialised nature", without which the R&D could not have taken place. However, the rent of office space where an R&D team carries on their R&D activities is interpreted as non-qualifying.

  Rent is a cost of undertaking R&D, and the cost is incurred as part of carrying on the R&D. As a result, it should be regarded as incurred wholly and exclusively in the carrying on of R&D activities in a similar manner as utility costs which are interpreted in the Revenue guidance as qualifying.

  In addition to rent, there are other key costs that are directly incurred in carrying on R&D activities that should be capable of being included in R&D tax credit claims. These costs, however, are currently interpreted in Revenue guidance and practice as non-qualifying. Such costs include the following:

  - R&D equipment maintenance, repair, specialised cleaning,
  - R&D training,
  - R&D travel,
  - R&D shipping,
  - Periodic R&D travel outside the EU/EEA by Irish R&D employees as part of their R&D programmes and projects.

  These are all direct R&D costs that are necessarily incurred in the carrying on of the R&D and are not indirect supporting costs. There is a need for the interpretation of these costs to be reconsidered based on the legislative definition.

- R&D Time Allocations and Labour Costs

  The amount of labour cost that can be included in an R&D tax credit claim for each R&D employee is based on the extent of their deployment to qualifying R&D activities each year. Based on feedback from our client survey, there are some areas that should be considered for potential improvement based on how this is approached in other jurisdictions, for example in relation to employees with high qualifying R&D deployment. Where an employee spends 80% - 90% or more of their time on qualifying R&D activities in some jurisdictions, they are essentially considered a dedicated R&D employee. The time they spend on non-qualifying activities such as training,

travel, admin or other non-qualifying work as part of qualifying projects comprises the balancing 10% - 20%.

The R&D tax credit regime in such jurisdictions recognises that these are essentially dedicated R&D employees, and 100% of their labour costs are eligible to claim when they meet that 80% or 90% threshold. For example, in the US, the threshold is 80%, and in Canada, it is 90%[10]. It is worth noting that these are territories where many MNC group clients have other R&D operations.

In Ireland, the experience of many of our clients is that where high R&D allocations are claimed, there is a focus on disallowing the labour cost related to the admin tasks that every employee is required to carry on such as training, appraisals, meetings, etc. Some other territories disregard this and allow 100% to be claimed where a sufficient threshold is met.

- R&D Project Management

The experience of companies in relation to the inclusion of project management time in R&D claims is that it is only the specific time that project managers contributed scientific or technological knowledge to the project that is eligible to claim. R&D project managers have other tasks that they need to perform that are necessary in order to enable the project to progress and to ensure that delivery is successfully achieved. For example, this might include management of timelines, resources, and strategic direction. In other jurisdictions such as the US, UK and Canada, a broader approach is taken in relation to the inclusion of such time in R&D claims.

While the points outlined above are not ground-breaking in nature, they are features that could be considered in the context of the credit, and they would have a significant impact on how the regime is perceived by local Irish groups and by the FDI community.

- R&D and IP

The knowledge development box (KDB) relief sought to incentivise companies to hold and exploit IP resulting from R&D activities in Ireland. The KDB relief will no longer provide a benefit for groups that are within the scope of the Pillar II, GloBE rules, and its effective rate has increased from 6.25% to 10%.

As a result, there is a need to reconsider how Ireland incentivises the retention and exploitation of IP resulting from R&D. A potential way of incentivising this may be to offer a supplemental credit on the expenditure incurred by the Irish company on the development of IP where the IP is held and exploited from Ireland. This supplemental credit could apply to the qualifying R&D spend incurred by the Irish company in developing the IP plus payments made to other group companies in relation to the development of the IP capped at a certain threshold. This would encourage more high value activity, and the exploitation of high value assets from Ireland.

The substance created by undertaking R&D in Ireland (which would obviously be an important component in calculating the supplemental credit) would be enhanced by the ownership and exploitation of IP from the Irish company. This would deliver the following economic benefits:

- More substance in terms of senior resources to manage the Development, Enhancement, Maintenance, Protection, Exploitation (DEMPE) of the IP and to ensure that Ireland can support its ownership of the same.

- Assists in anchoring the R&D activity in Ireland. There are synergies to having the key strategic decision makers in relation to the IP close to where the key development effort takes place. The more that Ireland can offer to incentivise R&D and IP efforts in Ireland, the more strategically important it becomes in an MNC group network.

Such supplemental credit would need to be in the form of a Qualified Refundable Tax Credit (QRTC) in order to meet the requirements of the GloBE rules, and it would obviously need to be subject to clawback provisions if the IP were not retained and exploited from Ireland.

Section 7 – Other Observations or Feedback

Question:

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

Response:

Our key comments and observations in relation to the R&D tax credit are captured in the above sections, and we have nothing further to add here.

Section 8 – Innovation – Consultation questions

Investing in innovation is crucial to boost Ireland's long-term competitiveness, which will require a focus on increasing and exploiting new digital and green technologies. Companies are focused on transformative additions to their Irish sites, particularly in areas such as AI, innovation, and sustainability. To achieve this, it is essential that there are supports and incentives, such as grants and tax incentives, to promote innovation and assist companies in the acceleration of the pace of innovation. As recognised in the 2022-2030 White Paper on Enterprise[13], Ireland lags in several important innovation indicators, including overall investment in R&D, with the innovation gap between higher R&D performing foreign owned companies and Irish-owned SMEs seen as an ongoing challenge.

There is a commitment to promote and reward innovation and digitalisation in the Programme for Government 2025 "Securing Ireland's Future"[14], which will require investment in innovation, energy, and decarbonisation by both domestic and international companies.

In published innovation indexes, Ireland is viewed as a strong innovator in Europe. The European Innovation Scoreboard (EIS)[15] ranked Ireland in 10th place in the 2024 EIS, while the Global Innovation Index[16] ranked Ireland 19th among the 133 economies in the GII 2024, and 11th among the 39 economies in Europe.

[13] https://enterprise.gov.ie/en/ publications/publication-files/white-paper-onenterprise-2022 2030.pdf
[14] https://assets.gov.ie/static/documents/programme-for-government-securing-irelands-future.pdf
[15] https://data.europa.eu/doi/10.2777/779689
[16] https://www.wipo.int/edocs/gii-ranking/2024/ie.pdf

Question:

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

Response:

Innovation is a broad concept that encompasses a wide range of activities and processes. Key components of innovation include the role of knowledge as a foundation for innovation, along with novelty and utility, and the goal of creating or preserving value. It is not confined to technological advancements and can be applied across various sectors. The Oslo Manual[17] is the international reference guide for collecting and using data on innovation, and it provides a series of definitions associated with innovation in business activities and for different types of innovation companies.

When offered a choice of definitions, most of the clients surveyed indicated a preference for a more developed definition of innovation than a general one, which goes into further detail distinguishing between innovation activities, business innovation, product innovation, and business process innovation. The below definition from the 'Oslo Manual' would capture this:

> *An innovation is a new or improved product or process (or combination thereof) that differs significantly from the unit's previous products or processes and that has been made available to potential users (product) or brought into use by the unit (process). It can include the following:*
>
> > ***Innovation activities*** *include all developmental, financial and commercial activities undertaken by a firm that are intended to result in an innovation for the firm.*
> >
> > *A* ***business innovation*** *is a new or improved product or business process (or combination thereof) that differs significantly from the firm's previous products or business processes and that has been introduced on the market or brought into use by the firm.*
> >
> > *A* ***product innovation*** *is a new or improved good or service that differs significantly from the firm's previous goods or services and that has been introduced on the market.*
> >
> > *A* ***business process innovation*** *is a new or improved business process for one or more business functions that differs significantly from the firm's previous business processes and that has been brought into use by the firm.*

The above definition is focussed on new and improved product and process development that differs significantly from a company's previous products and processes, and that are essentially offered for sale or used internally by a company. The definition itself is broad and captures a broad spectrum of innovation including business innovation. To achieve key policy objectives and ensure that an innovation credit regime effectively incentivises innovation in priority areas, it would be necessary to limit the definition to specifically capture the areas described above.

Question:

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

[17] https://doi.org/10.1787/9789264304604-en

Response:

Enterprises involved in innovation employed almost 360,700 people in Ireland in 2022[18]. RD&I supports should be integrated into a comprehensive policy coordination framework away from a focus on sector specific needs into broader, cross cutting opportunities. This should encompass traditional instruments such as grants and tax incentives, in addition to initiatives to enhance public and private innovation promoting the utilisation of RD&I. Both innovation indexes highlight weaknesses where Ireland's innovation score has decreased, these include; SMEs introducing business process innovations, development of environment-related technologies, non-R&D innovation expenditures, and enterprises providing ICT training.

Based on the feedback received from our client survey, there are three key areas that should be targeted as follows:

- Analysis and implementation of digital transformation projects,
- Analysis and implementation of green and sustainable technologies and strategies, and
- New or improved product or process development lifecycle stages undertaken by companies operating in a field of science or technology that do not currently fall within the remit of the R&D tax credit. This would ensure that high value input at concept development, business requirements, market analysis, high level design, pre-release verification, and regulatory approval activities get captured where they do not qualify for the R&D tax credit. This could be potentially limited to companies operating in a qualifying field of science or technology as per the R&D tax credit legislation.

Question:

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

Response:

The General Block Exemption Regulation (GBER) defines categories of state aid that are exempted from the notification requirement to the European Commission. It allows member states to implement aid schemes that promote economic development, innovation, and investment without breaching EU competition rules, ensuring compliance and effectiveness in addressing market needs. The suggestions outlined in the above responses are not directed at specific sectors, locations or type of company, they are direct at companies operating across the broad qualifying fields of science and technology.

There are examples of tax credits that have been introduced by other jurisdictions that target digitalisation and decarbonisation which include the following:

- Italy – tax credit for investment in technological and digital innovation and ecological transition. This is part of Italy's broader Industry Transition 5.0 and the green transition incentives package that include tax credit for investments in tangible and intangible 5.0 assets.
- Luxembourg[6] – investment tax credits for both green and digital transformation projects. The green transition tax credit supports investments that reduce environmental impact, including energy efficient processes and sustainable resource use. The digital transformation tax credit covers investments in digital technologies that improve productivity, efficiency, and innovation.

[18] https://www.cso.ie/en/releasesandpublications/ep/p-iie/innovationinirishenterprises2022/

- Spain[2] – technological innovation tax credit whereby companies can claim a 12% tax credit for technological innovation activities including new product and process development that have significantly different characteristics from existing ones.

- France[3] – Green Industry Investment tax credit that encourages investments in green technologies. The tax credit covers between 20% - 60% of investment costs, and the French Government hopes that the initiative will attract €23 billion in investments and create 40,000 jobs by 2030.

Question:

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

Response:

Administrative oversights would be necessary to ensure that any incentives being claimed are for true innovation, and that this is not abused. These could include criteria such as the following:

- The Irish company must exploit the activities/investment/output as part of the trade that it carries on in Ireland.

- The Irish company must have employees engaged and involved in the activities.

- The activity must be a defined project with systematic activities.

- The Irish company must maintain sufficient records to support the qualifying nature of the activities and costs, and that there is a sufficient improvement from the baseline to be considered significant in nature.