Cork Chamber
Advancing business together

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Re: Research & Development Tax Credit and Options to Support Innovation Public Consultation

To whom it concerns,

Cork Chamber welcomes the opportunity to provide feedback to the Department of Finance regarding the Research & Development (R&D) Tax Credit and Options to Support Innovation.

Cork Chamber represents 1,200 members together employing 130,000 people throughout the city, metropolitan area and county. Our vision is to lead a transforming and ambitious Cork City and County, uniting, representing and supporting our members and community. Our direction is guided by our formal pledge to uphold the United Nations Sustainable Development Goals (UN SDGs). Cork Chamber has also been designated an SDG Champion by the Department of the Environment, Climate and Communications for 2024-25.

Cork Chamber's advocacy efforts are guided by the views and priorities of our partners, and shaped by our continuous engagement with members, our board and key stakeholders in Cork City and County. Cork Chamber is responding to this consultation in our role as a representative body, and our submission reflects the feedback and views of our members, drawn from a range of sectors.

Continued innovation, particularly in support of sustainability and digitalisation goals, is a critical pillar in Ireland's economic competitiveness. In the current climate of increased economic uncertainty for many in the business community, it is vital that the Government take all available steps to safeguard and enhance our competitiveness.

Supports for R&D and innovation are key to competitiveness, and are one of the few areas over which Government has complete control. As a small, open economy, the trajectory of our economy is often determined by external factors, however there are important steps we can take to mitigate the impact of this, both in the short and long term.

Ireland already boasts an enviable offering in terms of attracting investment and talent, and regions like Cork have developed into hubs for certain indigenous and multinational sectors, including tech, life sciences and financial services. We cannot become complacent, however. Other countries across the EU are continuously taking steps to improve their competitiveness on the global market, introducing tax incentives to support sustainability initiatives and digitalisation, for example.

Timely initiatives such as these are vital to address the key issues of our time, from climate change to the growth of AI. Alongside the societal benefits such initiatives can bring about, they play an important role in aligning with business strategies. Sustainability and decarbonisation efforts are to the fore in many business plans, often necessitating considerable investments and operational changes. Emerging technologies, too, are vital for many, yet often remain expensive and inaccessible. By aligning incentives to business priorities, Government can strengthen Ireland's offering for those considering an investment in the country.

Government initiatives like the R&D Tax Credit and further options to support innovation must respond to the key issues of the day, many of which are reflected in business strategies and operations, and remain adaptable and – crucially – accessible.

In this regard, Government also has an important role to play in supporting indigenous industries and SMEs. Ensuring that tax credits and other incentives are as accessible as possible is vital to achieving balanced economic growth, supported not only by FDI and multinational organisations, but also by thriving domestic enterprises.

Cork Chamber's membership is drawn from a wide range of sectors and 90% of our 1,200 members are SMEs, operating across a wide range of sectors active in Cork City and County. Ireland's ongoing competitiveness hinges on its ability to strike the right balance between leveraging FDI and supporting domestic enterprises to realise their full potential. Enhanced supports for R&D and innovation can benefit both sides in this balancing act.

Yours sincerely,

Conor Healy

CEO

Section 1 – General Queries

As a representative body, Cork Chamber does not engage in regular R&D activities, and the views set out here reflect the feedback received from a range of member companies active in the R&D space.

The R&D Tax Credit has been cited by many as an important differentiator in terms of Ireland's economic competitiveness and ability to attract critical investment, greatly enhancing Ireland's offering particularly for sectors like pharma and tech.

In particular, the R&D Tax Credit has played a role in supporting regional economic development, supporting investments in R&D outside of larger urban centres; this is particularly evident in areas of Cork County which are home to a large number of companies in the pharmaceutical and life sciences space. In addition to enhancing national competitiveness, the credit therefore helps to sustain many local economies and create employment opportunities.

However, Cork Chamber members across a range of sectors, particularly the pharmaceutical and tech sectors, report challenges in accessing the R&D Tax Credit under the current regime, as well as difficulties associated with current timelines for the processing of refunds.

Currently, a Revenue audit of a company's R&D tax credit claim for a particular financial year can take place up to four years after the year in which the tax return for that period was filed (effectively five years from when the R&D took place).

The implementation of a framework or Service Level Agreement specific for R&D interventions could be considered, which would limit interventions commencing long after the R&D claim was filed. A change to reduce the initial intervention period to two years from the end of the accounting period in which the claim was filed would allow for greater certainty in relation to R&D claims and give companies the confidence to invest the money received in further R&D activity, benefitting the exchequer. With this change, we would suggest that any resulting audit or follow up enquiries would continue to follow the usual statutory period, but the initial intervention should have commenced within the two-year period mentioned.

Some members have also reported difficulties in accessing the Tax Credit under the current regime because of strict definitions and limitations on allowable activities. Consideration should be given to expanding the scope of qualifying activities, particularly to take account of areas like clinical trials in the pharma sector, which can be deemed under the current regime to 'enable' R&D rather than 'carry it out,' thereby disqualifying the activities in questions.

Finally, current processing timelines for returns and corresponding refund timelines have been cited by members as a limiting factor impacting their ability to claim the credit in the first place, and their ability to undertake financial planning and manage cashflow. This is a particular cause of concern among SMEs, many of whom have more limited resources than larger firms.

Consideration should be given to the establishment of a specialist unit within Revenue, as well as clearer guidelines regarding the processing and timing of refunds. These steps would help to provide greater clarity for those seeking to access the R&D Tax Credit.

Consideration could also be given to a revision of the current 12-month filing deadline, which can lead to the disallowance of the entire R&D Tax Credit claim where mistakes in completing the corporation tax return are made. The introduction of an additional 12-month window in which claimants can rectify legitimate errors in their R&D Tax Credit claim would be welcome, enabling companies to correct genuine errors without facing undue penalties.

To mitigate cashflow concerns for SMEs which may prevent them from accessing the credit, an increase in year one lump sum instalments issued to firms could be considered, rising from the current rate of €75,000 to €300,000, for example, and these refunds could be automatically processed for compliant taxpayers. To the extent that a taxpayer claims a credit of more than €300,000, the remaining balance would be refundable in years two and three as appropriate.

This administrative change would be cost neutral, would particularly benefit SMEs who are most vulnerable to cashflow challenges and would not impact Revenue's right to audit and review the claims after refunds have issued.

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

Feedback from universities and research institutions in the Cork region indicates that R&D Tax Credits have proven to be a valuable tool in encouraging research collaborations with companies.

However, current restrictions of 15% of expenditure incurred by companies on R&D expenditure or €100,000, whichever is greater, can limit engagement with universities and research institutions. Consideration should be given to raising these limits to encourage greater collaboration and further outsourcing where appropriate, alongside a corresponding increase to the caps on subcontracted R&D activities to other unconnected third parties.

Such collaborations can be extremely beneficial in supporting regional start-up and SME ecosystems, particularly in urban centres like Cork which are home to world-class research and higher education institutions. To ensure local ecosystems are utilised fully to support innovation and R&D, the Department should also consider broadening the current definition of 'university or institute of higher education' to allow for further collaboration with other institutions who may be able to provide the most appropriate R&D support for certain sectors.

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

Feedback received from members, both in higher education and industry, does not suggest a high level of spill-over collaboration at present. The Department should therefore consider further incentives to encourage greater spill-over collaboration. Measures such as those indicated above, including expanding the definition of 'university or institute of higher education,' could have a positive impact on the level of spill-over collaboration and would be welcome.

In a large urban area like Cork, there are ample opportunities for collaboration between research institutions and schools for example, and consideration should also be given to specific guidance and grant funding to encourage such activities. Particular consideration should be given to initiatives which would seek to engage with students at primary and secondary level in more disadvantaged areas, in tandem with existing access programmes and other initiatives undertaken by universities and higher education institutions at present. Collaboration with other youth engagement work undertaken by community-based organisations would be particularly valuable in this regard.

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

Expanding opportunities for subcontracting R&D to third parties by raising the cap on permitted expenditure could have a positive impact on the number of firms engaging in R&D activities, particularly SMEs who may be more restricted in terms of resources.

The Department could consider an increase in the limit of allowable expenditure on outsourced activities to third parties to the greater of 25% of a company's non-outsourced R&D expenditure (from the current 15%) or €250,000 (from €100,000).

Further consideration could also be given to the following measures:

- Where an R&D tax credit claimant company outsources R&D activity to a company which is tax resident in Ireland or another EEA State and carries out business in Ireland, and where the relevant notifications have been issued by the claimant to the subcontracting company, the first €1,000,000 of expenditure would be allowable for R&D tax credit purposes without regard to the existing subcontracting limits. Payments which meet this criteria in excess of €1,000,000 would be subject to the existing subcontracting limits.
- An allowance for expenditure on agency staff without being subject to the subcontracting limits where; i) the agency staff provided to the claimant company carries out R&D activities within Ireland, ii) the agency staff provider is regarded as the employer of the individual, and iii) the agency staff member is subject to Irish payroll taxes. Sectors such as life sciences, in particular, tend to make greater use of agency staff and such provisions could be very beneficial for this and other sectors.
- Similar to R&D regimes in other jurisdictions, consideration should be given to allowing (within certain limits) payments to connected third parties based within the EEA or a Double Taxation Agreement territory who undertake R&D on behalf of R&D tax credit claimant companies where the R&D activity is managed and controlled in Ireland. This allowance could be limited to, for example, €1,000,000 of connected party expenditure (i.e. no more than €300,000 of R&D Tax Credit per claim).

In addition, an allowance for a broader range of overheads or indirect costs attributable to a company's R&D activity could be made to reflect the reality that such costs must be incurred in order for a company to conduct R&D activity. This would include (amongst others); power, rent (regardless of the type of facility), rates, insurance, IT support/ connectivity, maintenance etc.

An allowance for integral indirect supporting or ancillary activities which were previously accepted by Revenue prior to 2012, and which were envisaged upon the establishment of the Irish R&D tax credit in 2004, should be legislated. This reflects the reality that R&D cannot be done in a silo and would not be possible without such supporting activity.

Other regimes such as Australia, Canada, New Zealand and the UK take account of both core R&D activities and supporting activities and allow companies to claim for both where there is a link between both the core and supporting activities.

Section 5 – Grant Funding

Members in the technology sector have indicated that they have experienced a notable difference in accessing grant funding via IDA and through the R&D Tax Credit for applications for the same projects. Greater alignment between the definitions and criteria used by IDA, Enterprise Ireland and Revenue for the purposes of the R&D Tax Credit could help to reduce the administrative burden associated with applying for grant funding for the same project, thereby improving accessibility and affordability.

In this regard, the Department could examine the idea of a form of 'pre-clearance' scheme for research projects, meaning that if a project is approved for grant funding by one administering body, it can automatically pass some of the criteria set out by other administering bodies for their funding or incentives.

A range of members report needing to engage external consultants to assist with reporting on the R&D Tax Credit, a level of administration that does not appear to be required for IDA or Enterprise Ireland grant aid. This can have a potential adverse impact on the ability of SMEs to claim the tax credit, many of whom may have more limited resources than large multinationals.

A streamlining of certain compliance requirements for smaller and shorter-term projects could also be considered to better align administrative effort expended with the scale of the project in question.

Alongside the level of reporting often required, the potential penalties for SMEs who engage in R&D work which does not come to fruition also acts as a deterrent to many. Overall, the risk for SMEs with more limited resources can be much higher, serving as a further deterrent.

Section 6 – The Future of Research and Development

We are in an era of rapidly emerging technology and innovation, and while it would be impossible for tax incentives to respond to every major new development, it is vital that changes to the R&D Tax Credit and other supports for innovation are future-proof in nature and allow scope for adaptation.

Digitalisation and sustainability are two key sectors of the economy that will continue to grow in the coming years, and should be supported to do so. Companies of all sizes, from SMEs to multinationals, cite these as priority areas and many are investing heavily in new technologies and in decarbonisation and other sustainability measures.

Cork has been designated a mission city for climate neutrality to 2030 under the EU Climate Neutral and Smart Cities Mission, and Cork Chamber plays a role in helping firms in Cork access EU funding available to support large-scale decarbonisation projects and, ultimately, support the achievement of Cork's climate neutrality goals.[1] In parallel, significant developments are underway off the coast of Cork, as part of the South Coast Designated Maritime Area Plan (DMAP), and at the Port of Cork in order to facilitate the development of offshore renewable energy in the coming years to meet Ireland's 2030 wind energy targets.

Climate change mitigation demands urgent action, and Government supports targeting key decarbonisation measures and projects that could prove transformative in terms of reducing our emissions, meeting our national climate targets and avoiding significant fines at EU level for failing to meet key targets.

With this in mind, Cork Chamber urges the Department to consider potential tax incentives that could be introduced in the area of sustainability and decarbonisation. Such incentives could be incorporated into the R&D Tax Credit, or alternatively the Government could consider the introduction of a new scheme that would encourage even greater uptake of grants to support decarbonisation and energy efficiency measures of all sizes. Consideration should also be given to other current grants on offer in this space, such as those administered by the SEAI, and a new incentive scheme should seek to bridge gaps in this space and offer a simplified, accessible form of funding for projects.

In the last quarter of 2024, Cork Chamber surveyed members on their experiences of accessing supports to improve energy efficiency. 58% of members cited grant supports as the most valuable resource for enabling more efficient practices in their operations, however accessing such financing was found to be the number one barrier to implementing energy efficiency practices.[2] In this regard, it is vital that further supports are introduced to support businesses to play their part in the green transition.

Furthermore, digitalisation is a key area of investment across many sectors, and Cork Chamber urges the Department to consider possible incentives for firms investing in IT upgrades to

[1] Cork City Council, EU Climate-Neutral and Smart Cities Mission
[2] Cork Chamber, https://www.corkchamber.ie/wp-content/uploads/2025/01/Eco-Trends-Q4-2024-V4.pdf

improve operational efficiencies and help staff to upskill in digital literacy. In particular, cyber threats are a growing concern for many in the business community and an additional tax credit in this space could help firms to bolster their protections against this growing threat.

Section 7 – Other Observations or Feedback

Initiatives like the R&D Tax Credit play a critical role in underpinning Ireland's competitive offering on the global market, acting as an important differentiator in comparison to other EU Member States. Overall member feedback on the present regime indicates that the R&D Tax Credit as it stands has had an overwhelmingly positive impact on the level of investment in the country, and the level of R&D undertaken in the jurisdiction.

However, with the global economic outlook shifting, it is critical that Ireland does not remain complacent in terms of its competitive offering. Government should continue to explore additional incentives and changes to the current regime, such as those outlined above, as well as a potential increase in the rate of the R&D Tax Credit to 35%.

Such an adjustment would help to mitigate the impact of corporate tax increases and would reflect steps taken in other jurisdictions to continue to encourage investment following corporate tax rate increases. It also worth noting that some European countries, such as Finland and Luxembourg, have taken specific steps to incentivise green and sustainable investments.

If a blanket rate increase is not pursued, consideration could be given to a staggered increase where for example, a 35% rate was introduced for the first €2,000,000 of qualifying expenditure. This would offer a measure of additional support to all claimants, while limiting the additional cost to the exchequer.

Finally, ensuring consistent and comprehensive communications around the various R&D and innovation supports and incentives available to those seeking to invest or scale up operations in Ireland is vital. The use of case studies in communications materials, demonstrating the positive impact the scheme has had across the country, could help improve the accessibility of the scheme, particularly for SMEs and start-ups. State agencies like IDA and Enterprise Ireland should work alongside the Department and the diplomatic corps to ensure that all messaging is aligned and potential investors, both domestic and international, are aware of the full suite of incentives available to them should they decide to undertake R&D activities in Ireland.

Innovation – Consultation Questions

Regarding the potential introduction of a blanket support for innovation, it is worth acknowledging that innovation as a concept can be difficult to define. However, consideration should be given to the following criteria in assessing whether or not projects constitute true innovation:

- Technological Advancement: Developing new or improved technologies, methodologies, or systems.
- Novelty: Introducing unique or original ideas that have not been previously implemented or utilised.
- Practical Application: Applying these advancements in a way that provides tangible benefits, such as increased efficiency, enhanced performance, or new capabilities.
- Experimentation and Development: Engaging in systematic investigation and experimentation to resolve technical uncertainties and achieve the desired advancements.

While moves to incentivise innovation across all sectors and at all levels are welcome, it is vital that progress in the key areas of sustainability and digitalisation are prioritised, as outlined above. Such prioritisation would be in line with longstanding EU policy, and plays an important role in securing our economic competitiveness into the future.