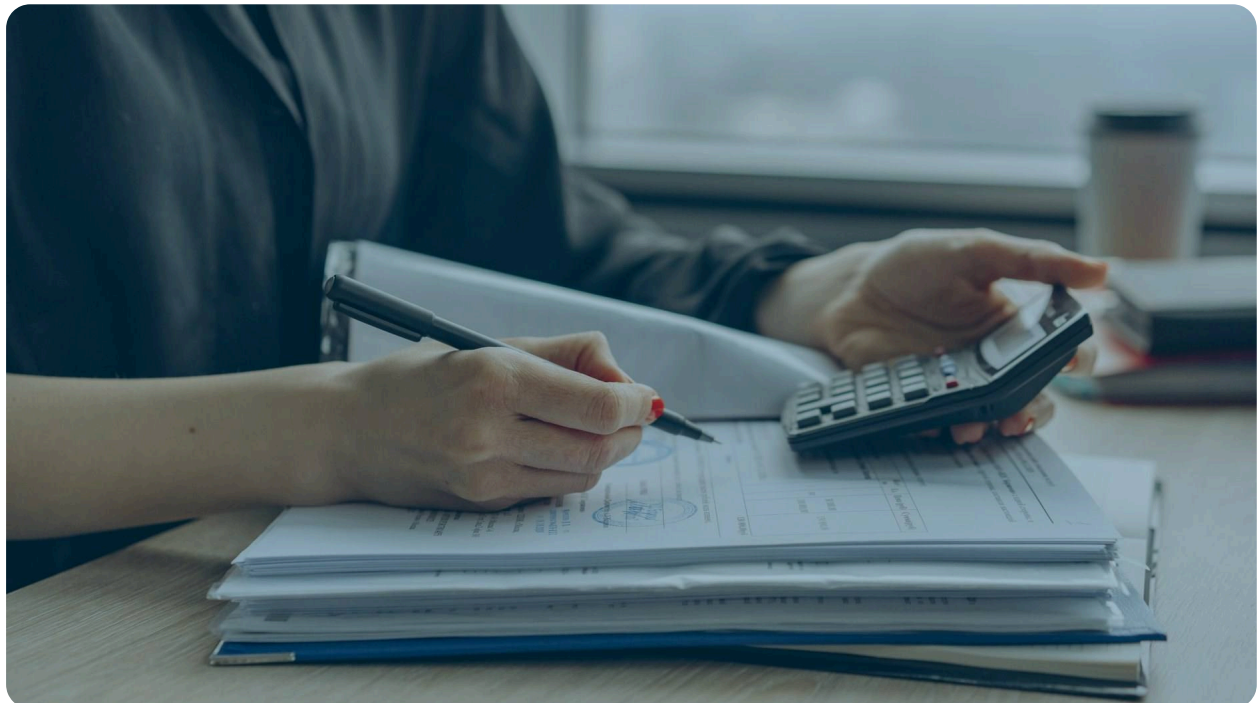


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Budget 2027 and AI: bigger R&D credits, Pillar Two, no adoption incentive

A bigger R&D credit, Pillar Two safe harbours in law, and nothing for firms adopting AI. What Budget 2027 changed, and when it starts to count.

By Dave Taylor



Budget 2027 did two things that matter to firms investing in AI, and left out the one that advisers and industry bodies asked for. It improved the R&D tax credit, raising the first-year payment threshold from €87,500 to €105,000 and the cap on outsourced R&D to the greater of 20% or €200,000. It wrote the Organisation for Economic Co-operation and Development (OECD) side-by-side Pillar Two package into Irish law. And it created no tax incentive for adopting AI, a gap [RSM flagged on Budget day](#): no "broader supports for businesses investing in AI adoption". For tax and finance teams, the Budget 2027 AI story comes down to timing and definitions: the R&D changes start counting from 2027 year-ends, and deployment spending on licences, integration and staff training was never R&D in the first place.

What changed in the R&D tax credit?

The headline rate stays at 35%, where Budget 2026 put it, so the effective benefit on qualifying spend is unchanged. The changes are to the mechanics, and they are worth having for any group with a steady R&D programme, especially one that buys research from universities or specialist contractors. [KPMG's Budget analysis](#) and RSM describe the same package, summarised here:

- **Headline credit rate:** 35% → 35%
- **First-year payment threshold:** €87,500 → €105,000
- **Cap on outsourced R&D (universities and unconnected third parties):** Greater of 15% or €100,000 → Greater of 20% or €200,000
- **Qualifying wage costs:** No uplift → 5% uplift on qualifying R&D wage costs

Timing is where finance teams should slow down. RSM's Budget-day note said the changes would apply from 1 January 2027, but the Finance (No. 2) Bill 2026 is more specific. In [Arthur Cox's reading of the Bill](#), the general changes apply to accounting periods whose specified return date falls on or after 23 September 2028, which for a calendar-year company means the FY2027 claim filed in 2028. The outsourcing change applies to periods ending on or after 23 December 2027. So no 2026 claim benefits. The cash effect, when it arrives, is real: the credit is paid in three instalments of 50%, 30% and 20%, per [PwC's tax summary](#), and the first €105,000 of a claim can now come in year one. For a mid-sized claimant that brings forward cash that would otherwise arrive over three years.

Does AI spending count as R&D?

Mostly, no. The R&D credit rewards work that seeks a scientific or technological advance by resolving genuine technological uncertainty – the kind of problem a competent professional in the field could not solve with existing knowledge. Licence and rollout spending doesn't look like that. Licences for Microsoft 365 Copilot or ChatGPT Enterprise, integration with an enterprise resource planning (ERP) system, data cleansing, prompt and workflow design, staff training and the change management that gets people using the tools are deployment costs. They can change how a firm works and still fail the science test. RSM's own analysis makes the point directly: AI adoption spend "may not always qualify" for R&D relief. The AI work that does qualify usually involves building something new: their own models, novel techniques for a domain-specific problem, or methods that push past what off-the-shelf tools can do.

The practical consequence is a mismatch between where AI money goes and where the tax system rewards it. A large Irish firm rolling out Copilot to 2,000 staff carries real licence, integration and adoption costs, and none of it is likely to touch the R&D credit. We argued in [why Copilot is the floor, not the strategy](#) that the licence is the cheap part and the workflow redesign is where the value sits. That redesign is exactly the spend the R&D definition leaves out. Usage-based costs add to the pressure: as [AI token costs keep rising](#), for heavier workloads, the running cost of AI becomes an operating expense that no credit offsets. For 2027 planning, treat the R&D credit as a fund for AI invention, and budget for adoption as an operating cost.

How does Pillar Two change the value of the credit?

Pillar Two is the OECD's 15% global minimum tax, and in Ireland it applies to groups with consolidated revenue of €750 million or more in two of the four preceding years, per [Revenue's guidance](#). For those groups, the design of the R&D credit matters as much as its rate. Ireland's credit is paid in cash within three years whether or not the company has a tax bill, which makes it a qualified refundable tax credit for Pillar Two purposes, as PwC's summary confirms. Under the OECD rules that classification means the credit is treated as income, not as a cut in tax paid, so it does far less damage to a group's effective tax rate. A non-refundable credit would push the effective rate down towards a top-up charge. Budget 2027 kept that refundable structure and raised the first-year threshold, so Pillar Two groups get more cash sooner without weakening the credit's status.

The Finance (No. 2) Bill also legislates for the OECD side-by-side package agreed in January 2026, with safe harbours applying from 1 January 2026, as [Arthur Cox sets out](#). The side-by-side safe harbour exempts groups headquartered in qualifying jurisdictions, currently the United States, from the extraterritorial top-up taxes. Ireland's domestic minimum tax is a separate charge. For US-headquartered groups with large Irish operations, which includes OpenAI, Anthropic and Workday, the change removes complexity more than it removes tax. It also narrows the gap between Ireland and its competitors for mobile investment. If every serious jurisdiction now sits near 15%, the rate stops being the deciding factor, and talent, regulation and the AI ecosystem carry more of the weight. Part 3 of this series looks at what that means for the wave of AI investment Dublin has attracted this year.

Why is there no AI tax incentive?

Because the Department of Finance decided against building one this year. Its R&D Tax Credit and Innovation Compass, published in February, concluded that extending the R&D credit to cover wider innovation was not feasible, and committed to further work on a tax-

based innovation support during 2026, as [Chartered Accountants Ireland reported](#). That work did not reach the Budget. KPMG's verdict was blunt: "there was no reference to any innovation support or tax credit." RSM said the Budget did not include "broader supports for businesses investing in AI adoption and other emerging technologies." The gap matters most to large firms outside the tech sector, such as insurers, manufacturers, retailers and professional-services firms, whose AI programmes are adoption-heavy and invention-light. For them, Budget 2027 contains nothing that changes the cost of an AI rollout.

The asks were on the table. KPMG's pre-budget submission called for a [Digital Transformation Tax Incentive](#) to speed up adoption of advanced technologies among small and medium-sized enterprises (SMEs). Deloitte wrote that "the introduction of a new standalone [digitalisation tax credit](#) is strongly encouraged." Technology Ireland, part of Ibec, asked for a [€10,000 AI Training Voucher](#) for SMEs and mid-caps. None was granted in that form, and the €150 million training fund described below is the closest the Budget came to any of them. Our expectation, and it is only that, is that all three come back in next summer's Budget 2028 submissions, with the Department's promised innovation work as the hook. The difference next time will be evidence: whichever proposal arrives with measured productivity data from Irish firms will be easier for the Department to cost and defend.

What did the Budget fund instead?

Spending, not tax relief. The Budget provides [€150 million over three years for workforce development](#), including AI and digital skills, drawn from the National Training Fund. The Department of Enterprise's [Budget 2027 statement](#) adds €2.3 million for the AI Office, which now has €3.8 million, and €7.5 million more for the Irish Manufacturing Research (IMR) and CeADAR technology centres, whose combined funding reaches €32.5 million. Local Enterprise Offices get an extra €4.5 million to help small firms digitalise and adopt AI, and at the summit a week later their two digital schemes were renamed Digital & AI for Business and Grow Digital & AI, open to firms with up to 50 staff. For large firms, the useful line is the training money: it lowers the cost of the adoption work the tax code ignores, if HR and learning and development teams know to ask for it.

The cost side moved in the other direction. The [same Department statement](#) confirms a 79-cent rise in the national minimum wage, to €14.94 an hour from January 2027. For a retailer, a hotel group or a contact-centre operator with thousands of hourly staff, that is a material increase in the wage bill, and it lands with no matching relief for the automation and AI tools that could offset it. The policy logic is visible in the numbers. Government is paying for skills, coordination and small-firm support directly, and leaving large firms to

fund AI adoption from operating budgets. That is a defensible choice. It does mean every AI business case at a large Irish firm in 2027 has to stand on its own productivity numbers, with no tax treatment to soften a weak one.

Where this leaves tax and finance teams

From the operator side, the pattern is familiar. Across 25 years of commercial leadership in health-tech manufacturing and software, which is [where our background sits](#), the licence was never the expensive part of a new system: the integration, the training and the months before people used it properly were. AI is no different. That spend sits outside the R&D definition and, after Budget 2027, outside any other relief too. So the practical work for 2027 is measurement. Baseline the processes you plan to change — hours per task, error rates, cycle times — before the tools go in, and track them after. That data does two jobs. It tells your board whether the programme is paying back, which matters when the [William Fry Technology Report 2026](#) found only 11% of larger Irish businesses reporting a positive return on AI so far. And it gives your tax advisers and industry body the evidence a Budget 2028 incentive proposal will need.

Budget 2027 is a good budget for firms doing R&D and a neutral one for firms adopting AI. The R&D gains start counting from 2027 year-ends, Pillar Two groups keep a credit that still holds its value, and adoption costs get no help from the tax code. If you missed Part 1 of this series, [who enforces the EU AI Act in Ireland](#) covers the regulatory side of the same AI programmes, and our [case studies](#) show the kind of operating work we bring to it. Part 3 turns to the AI companies expanding in Dublin, from OpenAI to Anthropic, and what their arrival means for the Irish firms and advisers around them. If you want help building the baseline before your AI programme scales, [book a 30-minute working session](#).