Budget 2026 and the Finance Bill; R&D Tax Credit; VAT modernisation

The major takeaways from Budget 2026 for Ireland's standing as a destination for international business are highlighted by our panel who also outline potential changes that did not feature in the Budget. Ireland's R&D Tax Credit has been improved in the Budget and the panel look at how it can be further enhanced to compete successfully in an internationally competitive sector. The VAT modernisation also features, with panellists focusing efforts to make the EU's fragmented VAT landscape more efficient, while industry recommendations to streamline the overall EU tax system are also assessed. Other topics featured in the roundtable include CBAM and the increasing use of AI by tax authorities and practitioners.

Budget 2026

What are the takeaways from Budget 2026 for Ireland's competitiveness as a location for international business, and can you comment on the principal business impacts, including any proposals regarding tax administration and simplification in the Budget?

Joe Walsh, Director, Financial Services Tax, Forvis Mazars: There is deep disappointment following the announcement of Budget 2026, citing a lack of meaningful progress on long-anticipated reforms, particularly in the tax treatment of interest, and the deferral of key strategic initiatives to a later phase that won't be implemented until at least 2027.


Joe Walsh

> **"There is a growing consensus that the Government must have greater urgency in its reform plans. The financial services sector is a cornerstone of Ireland's economy, and delays in modernising its tax frameworks could have long-term consequences."**

One of the most pressing issues for the financial services sector was the expectation of immediate changes to the tax treatment of interest. Following extensive consultations earlier in the year, industry stakeholders had hoped Budget 2026 would deliver concrete legislative updates to modernise and simplify Ireland's interest deductibility regime.

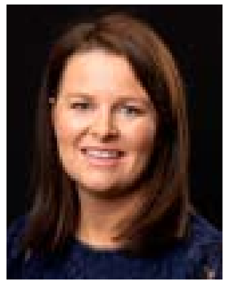
Instead, the Department of Finance published an "Action Plan" for Reform of Ireland's Taxation Regime for Interest, outlining a phased approach. While Phase 1 includes proposals to align the treatment of trading and passive interest income and to simplify deductibility tests, these measures are only expected to be considered in Finance Bill 2026, with further reforms, including those in relation to Section 110 Companies, Bond-washing Rules and Encashment Tax, pushed into Phase 2, which won't be introduced until 2027 or later (if at all).

This delay has frustrated many in the industry, who argue that the current framework is outdated and inhibits Ireland's competitiveness in attracting international capital and supporting domestic growth.

There is a growing consensus that the Government must have greater urgency in its reform plans. The financial services sector is a cornerstone of Ireland's economy, and delays in modernising its tax frameworks could have long-term consequences.

The October Roundtable Panel consisted of:
Joe Walsh, Director, Financial Services Tax, Forvis Mazars; Deirdre Barnicle, Partner, McCann FitzGerald; Colin Farrell, Tax Partner, Financial Services, PwC Ireland; Padhraic Mulpeter, Tax Consultant, Walkers (Ireland) LLP; Claire Healy, Partner, Transfer Pricing, Forvis Mazars; John Burke, Director, R&D Tax, Forvis Mazars; Avril McDowell, VAT Director, PwC Ireland; Johnny Wickham, Tax Partner, Tax Technology & Transformation, PwC Ireland.

Deirdre Barnicle, Partner, McCann FitzGerald: Budget 2026 has been marketed as a framework for economic resilience in uncertain global times, seeking to implement measures focused on job security, long-term savings funds and investment in housing and infrastructure. However, the Minister for Finance has recognised the importance of continuing to promote competitiveness and growth in a challenging international environment and has included a number of measures that will assist in this regard.


Deirdre Barnicle

Multinational businesses will benefit from the enhanced participation exemption for foreign dividends. The exemption, which previously only applied to dividends paid from subsidiaries from the EU/EEA or jurisdictions with which Ireland has a double taxation agreement, has now been extended to include jurisdictions that apply a non-refundable dividend withholding tax. This enhances Ireland's appeal as a base for parent companies with subsidiaries outside the EU/EEA. In addition, the tax residency period required to avail of the relief has been reduced from five years to three years.

> **"While it is disappointing that the rate of IUT was not reduced to 33% to align with the CGT rate, as recommended by the Funds Sector 2030 Report published in October 2024, this is a move in the right direction."**

The increase in the R&D Tax Credit from 30% to 35% is also a welcome development in the context of R&D investment and innovation in Ireland. As discussed in further detail below, this will be the first effective increase in the rate for multinationals within the scope of the Pillar 2 rules since 2008. The increase of the first-year payment threshold is also welcome.

A key change for the Irish investment fund sector is the reduction of investment undertaking tax from 41% to 38% in respect of "chargeable events" arising in respect of Irish resident individuals. While it is disappointing that the rate of IUT was not reduced to 33% to align with the CGT rate, as recommended by the Funds Sector 2030 Report published in October 2024, this is a move in the right direction and the publication of the Implementation Plan for the Funds Sector 2030 Report on Budget Day signifies the commitment of the government to implementing the Report's recommendations in the short to medium term.

The Budget introduces a new stamp duty exemption on the acquisition of shares in Irish incorporated companies trading on a regulated market. The exemption focuses on the growth of SMEs, carrying a market cap threshold of €1 billion. This exemption will replace the current stamp duty relief on shares in Irish incorporated companies listed on the Euronext Growth Market. This change is a targeted incentive to boost investment in homegrown SMEs. Irish incorporated companies have long cited the stamp duty rate as a disincentive against flotation and the exemption is hoped to reduce friction costs for SMEs wanting to list beyond the Euronext Growth Market. It follows a general commitment by the Government to prioritise growth and expansion, having chosen to forego a forecasted €24 million in stamp duty receipts per annum in favour of an investment in Ireland's capital market activity.

In response to the EU's plan to simplify the VAT administration framework, the Minister announced a phased roll-out of domestic e-invoicing for business-to-business transactions. Further details will be released on the mechanics of the process in the coming days, but it is expected that a modernised VAT system should reduce tax compliance costs for businesses in the longer term.

Colin Farrell, Tax Partner, Financial Services, PwC Ireland: Budget 2026 highlights Ireland's ongoing efforts to maintain its status as a competitive business hub. A headline announcement is the increase in the R&D tax credit to 35%, a decisive measure aimed at bolstering innovation. This enhancement will attract further investment, reinforcing the country's position as a leader in high-tech industries.

However, despite this positive step, there are concerns about Ireland's overall competitiveness. The high capital gains tax (CGT) rate remains unchanged at 33%, which hinders investment. Additionally, the lack of reform in the complex deemed disposal rules for exchange-traded funds (ETFs) continues to pose a challenge for investors. Addressing these issues is crucial for fostering a more inviting investment environment.


Colin Farrell

Moreover, no initiatives have been introduced to simplify tax administration, leaving existing complexities in place. A streamlined tax system could significantly reduce the administrative burden on businesses, thereby enhancing competitiveness. In particular, the Form CT1 has more than doubled in length in the last decade. Many sections are irrelevant for indigenous SMEs, yet still need to be filled out, greatly and unnecessarily increasing their compliance burden.

> **"No initiatives have been introduced to simplify tax administration, leaving existing complexities in place... In particular, the Form CT1 has more than doubled in length in the last decade. Many sections are irrelevant for indigenous SMEs, yet still need to be filled out, greatly and unnecessarily increasing their compliance burden."**

With the introduction of a participation exemption for foreign dividends in last year's Finance Bill, Budget 2026 announced an expansion of the exemption's geographic scope to include jurisdictions where non-refundable withholding taxes apply. The look-back period has shortened from five years to three years, helping to alleviate the challenges companies are facing.

While the Budget projects a pro-business stance with a strong focus on investment and job creation, the heavy reliance on volatile corporate tax revenues poses a risk. Although revenues have surged, this reliance can make public finances vulnerable to economic fluctuations.

Overall, while Budget 2026 takes steps towards enhancing R&D, expanding the participation exemption, and maintaining economic activity, it leaves critical issues untouched. Addressing the high CGT rates and simplifying tax rules would be essential moves to strengthen Ireland's competitive position on the global stage.

Padhraic Mulpeter, Tax Consultant, Walkers (Ireland) LLP: Although there were relatively few Budget announcements relating to immediate legislative change in the financial services sector, overall, the measures and consultations announced are positive for the sector.

Broader tax simplification measures relating to the tax treatment of interest, dividends and withholding taxes have been sign-posted in the Budget. In particular, the publication of an action plan with the aim of reforming Ireland's tax regime for the taxation and deductibility of interest is very welcome. The reform is essential for Irish businesses seeking to raise finance to support growth, and more broadly for taxpayers and advisors to apply the rules, which have in recent years become multi-layered and difficult to navigate.

Although the reduction in exit taxes from 41% to 38% for individual Irish taxable investors in Irish domiciled regulated funds and life assurance policies is a positive, it falls short of industry hopes of significant change to these tax rules. Irish retail investors remain incentivised by our tax system to consider riskier investment options, such as individual share acquisitions (CGT at 33%), rather than highly regulated and sophisticated Irish and EU funds.

We are hopeful that there will be further changes to the tax rules applicable to Irish retail investors. The promise of a roadmap to be published early next year setting out the intended approach to adapt the Irish tax framework to encourage retail investment is a welcome next step in that process.

Finance Bill 2025

What are your observations on the upcoming Finance Bill 2025? In particular what areas/changes have been overlooked in the Budget 2026 announcement that you hope may still make it into Finance Bill 2025?

Padhraic Mulpeter, Tax Consultant, Walkers (Ireland) LLP: Notwithstanding the very positive tax regime we currently have in place for Irish fund structures, there are a couple of areas where we would like to see some enhancements.

The Funds Sector 2030 report identified some areas for potential changes to the Irish tax regime. We have already seen some positive movement on this front with the introduction of a dividend participation regime in Finance Act 2024. The changes announced in the Budget to update and expand this exemption are welcome and should bring us more in line with other jurisdictions. Where possible, private equity managers typically want to establish the subsidiary holding companies in the same jurisdiction as the fund vehicle (i.e. an ILP). There is one notable gap in our taxation regime for this type of structure - the current lack of a dividend withholding exemption on Irish dividends paid to an ILP is undermining the attractiveness of the ILP regime and this was recognised in the Funds 2030 Report. We are hopeful that this gap will be addressed in Finance Bill 2025.


Padhraic Mulpeter

"The current lack of a dividend withholding exemption on Irish dividends paid to an ILP is undermining the attractiveness of the ILP regime... We are hopeful that this gap will be addressed in Finance Bill 2025."

As a result of recent reforms to dividend taxation, dividends from qualifying non-resident subsidiaries to an Irish holding company are now generally exempt from tax (assuming the relevant conditions are satisfied). This is the case regardless of whether the subsidiary is trading (under Irish tax principles) or not. However, a sale of a non-trading subsidiary is potentially subject to Irish capital gains tax. This creates an incoherence which can lead to Ireland being discounted as a location for investment vehicles. Ireland compares unfavourably with other jurisdictions where there is an equality of treatment between dividend taxation and capital gains taxation. The existence of a trading requirement complicates the practical operation of the exemption as it requires an assessment in relation to trading status either at the subsidiary level or in respect of the combined position of the parent and its qualifying subsidiaries. We would like to see some changes made in Finance Act 2025 to rectify this inconsistent tax treatment.

These measures, if introduced, would further enhance Ireland's holding company regime and make Ireland a more attractive location for private asset investment.

Colin Farrell, Tax Partner, Financial Services, PwC Ireland: While Budget 2026 provided some announcements of the participation exemption for foreign dividends, the geographic scope remains narrow (including after the amendment) and falls short of international reforms. The definition of "relevant subsidiary" is also overly restrictive, particularly where it requires information about third-party companies. Closing this knowledge gap for parent companies would make compliance feasible and encourage greater use of the exemption. Moreover, including Ireland as a "relevant territory", which currently appears unintended and unfair, would be a welcome change in Finance Bill 2025. Rectifying this, with retrospective effect to 1 January 2025, when the participation exemption rules were brought into force would improve the legislation.

It is crucial that Finance Bill 2025 addresses key issues concerning the Residential Zoned Land Tax (RZLT). Notably, the current legislation penalises forward fund transactions, common among developers and Approved Housing Bodies, through clawback provisions. Additionally, the definition of "residential property" should be broadened, alongside introducing appropriate exemptions or deferrals. Protections should also be provided for landowners appealing judicial reviews related to planning permission. Urgently addressing these matters would significantly enhance the effectiveness of RZLT as a tax incentive to alleviate the ongoing housing shortage.

Other areas likely to feature in this year's Finance Bill are firstly, the introduction of automatic exchange of top-up tax information returns under Pillar Two between EU Member States in accordance with DAC9, as adopted by the European Commission and secondly, changes to interest rules that apply to the leasing sector to simplify the regime and encourage investment in the aviation industry.

Deirdre Barnicle, Partner, McCann FitzGerald: From an Irish funds sector perspective, it is very disappointing that the Budget 2026 did not include a number of key provisions as recommended by the Department of Finance in the Funds Sector 2030 Report, published in October 2024. The Report had recommended a number of tax changes designed to ensure that Ireland maintains its leading position in the asset management and funds servicing industries. While the reduction in the rate of investment undertaking tax for Irish resident individual investors from 41% to 38% is welcome, it falls far short of the recommendation to reduce the rate to 33% to align it with the CGT rate as set out in the Report.

"The failure to remove the eight-year 'deemed disposal' rules, which trigger an exit tax on the eighth anniversary of an investment in an Irish authorised fund for Irish tax resident investors is disappointing as this is a significant deterrent for Irish individuals to invest in Irish authorised funds."

Separately, it is very disappointing that there has been no introduction of an exemption from Dividend Withholding Tax (DWT) from distributions to Investment Limited Partnerships (ILPs), particularly as the Department of Finance had engaged in a formal consultation process with key stakeholders on a potential exemption earlier this year. Similarly, the failure to remove the eight-year "deemed disposal" rules, which trigger an exit tax on the eighth anniversary of an investment in an Irish authorised fund for Irish tax resident investors is disappointing as this is a significant deterrent for Irish individuals to invest in Irish authorised funds. However, it is helpful that an Implementation Plan for the Funds Sector 2030 Report was published on Budget Day which notes that many of these key measures are under consideration and demonstrates a commitment of the Government to introduce these changes in the medium to long term. We hope to see further detail on a timeline for these changes in a further Roadmap which is to be published in early 2026.

In relation to R&D, the Minister announced that further changes to the R&D Tax Credit are being considered, with a R&D Compass to be published in the coming weeks. We would hope that the upcoming Finance Bill would include a broader definition of qualifying expenditure, as well as a reduction in the cap for outsourced R&D, to better recognise the commercial realities of modern R&D investment.

Finally, we note that the 2024 Indecon Report made several recommendations as to the taxation of share-based remuneration, such as restricting the scope of the employer PRSI exemption and changing the tax treatment of RSUs for internationally mobile employees. While it is disappointing that these measures have not been implemented in Budget 2026, it is hoped that the Finance Bill 2025 may contain some of these recommendations.

Claire Healy, Partner, Transfer Pricing, Forvis Mazars: The announcement of Budget 2026 was met with a sense of disappointment among many. It has been described by the Minister of Finance as a budget that builds on Ireland's resilience and seeks to secure jobs, prosperity and stability, with many of the tax changes expected being deferred or subject to further consultation. While many of the details outlined in the Minister's speech and various Department of Finance publications since will be accurate representations of what will make it to Finance Bill 2025, a number of details remain to be seen.


Claire Healy

A number of technical amendments are to be made to the participation exemption for foreign dividends introduced last year. Details of the impact of the VAT reduction on co-living and student accommodation remain to be clarified. Details of a potential cap on the number of units in a development of apartments entitled to claim the enhanced corporation tax deduction remain to be seen, given that this gives a tax saving of €6,250 per apartment to developers. Details of the Residential Zoned Land Tax introduced in Budget 2022 are to be elaborated on in the upcoming Finance Bill also.

Several initiatives outlined by the Minister are subject to approval by the European Commission, however, as none of these are contentious in nature, we do not foresee any issues arising.

With the exception of the above, and a few other immaterial amendments, we would not expect many shocks when Finance Bill 2025 is published in the coming weeks.

R&D Tax Credit

Can you share your observations on Ireland's R&D Tax Credit and its international competitiveness? (In your response please comment on any Budget 2026 announcements in this area)

John Burke, Director, R&D Tax, Forvis Mazars: Ireland's Research & Development (R&D) Tax Credit has long been a cornerstone of the country's innovation strategy, supporting both indigenous enterprises and multinationals in their pursuit of technological advancement. The recent Budget 2026 announcement, which confirmed an increase in the R&D tax credit rate from 30% to 35%, marks another significant step in the Government's ongoing commitment to fostering innovation-led growth.


John Burke

The increase to 35% sends a clear signal: Ireland is serious about remaining competitive in the global race for innovation. This follows a previous increase from 25% to 30%, reinforcing a trend of incremental enhancements aimed at future-proofing the regime.

From an international perspective, Ireland's R&D tax credit now ranks among the most generous globally. Countries such as Germany and the Netherlands offer similar rates, while others like Singapore and Australia provide alternative models with highly effective benefits. However, Ireland's approach – offering a cash refund mechanism and a broad scope of qualifying expenditure – remains particularly attractive to both SMEs and large enterprises.

"Simplifying the claims process, expanding qualifying definitions, and introducing targeted incentives for green and digital innovation will be key."

Looking ahead, Ireland must continue to evolve its R&D tax regime to remain competitive. Simplifying the claims process, expanding qualifying definitions, and introducing targeted incentives for green and digital innovation will be key. The increased rate is a welcome development, but it should be viewed as part of a broader strategy to position Ireland as a global leader in research, talent, and investment.

Deirdre Barnicle, Partner, McCann FitzGerald: Ireland's R&D Tax Credit is key to incentivising companies to carry out R&D activities in Ireland. We welcome the increased R&D Tax Credit rate announced in the Budget. This increase (30% to 35%) is the first effective increase for those multinationals within the scope of Pillar 2 rules since 2008. Many multinationals have not benefitted from historic increases as such increases will be offset by the Pillar 2 rules. Increasing the R&D Tax Credit rate to 35% provides a tangible benefit to all claimants and positions Ireland as a competitive choice for R&D investment by multinational companies.

The Budget also increased the first-year payment threshold from €75,000 to €87,500. This increase provides only a marginal benefit to first-year R&D companies, especially compared to previous rules which provided full offset against corporation tax. We suggest this threshold be increased further to encourage new companies to invest in R&D and ensure companies get vital cashflow at the earliest opportunity.

The Minister also announced that a R&D Compass will be published in the coming weeks which will consider targeted changes to the R&D Tax Credit, including areas such as outsourcing and qualifying expenditure definitions. We recommend a reform of unnecessarily narrow restrictions in these areas to better align Irish provisions with the commercial realities of modern R&D. We would welcome broadening the scope of qualifying expenditure to include a wider range of overheads like rent, insurance, IT support, equipment maintenance, etc, which would more accurately recognise the wider costs incurred in carrying on R&D activity. In addition, we would propose increasing the 15% cap on outsourced R&D expenditure. As R&D projects grow in scale and complexity, companies increasingly rely on specialised expertise and technology that may not be feasible to support in-house. Removing these restrictions would increase accessibility and scalability and bring Ireland into line with competitor jurisdictions operating more flexible regimes.

Colin Farrell, Tax Partner, Financial Services, PwC Ireland: PwC welcomes the Budget's enhancements to Ireland's research and development (R&D) incentives and Digital Games tax credit.

The increase in the R&D tax credit rate to 35% is very helpful in boosting our competitiveness. Also, the extension of the Digital Games Tax Credit by six years, and consideration of broader innovation supports is welcomed. We would like to see more consideration given to extending the Digital Games tax credit to cover partial game development.

> **"A refundable innovation credit would have been a welcome addition to the suite of RD&I tax tools on offer by Ireland."**

Further work is required on the scope, design and timing of broader R&D and innovation supports that will be targeted in the Department of Finance's forthcoming Compass. This will be important in building on the positive Budget announcements and in ensuring Ireland remains attractive for the next wave of R&D and broader innovation investments.

Ireland's R&D tax credit remains pivotal to attracting high-value investment and skilled jobs. Our recent client survey shows that without the credit, most companies would conduct less than half of their current Irish R&D. While recent reforms preserved value under Pillar Two by moving to a fully payable credit, these changes have largely maintained rather than enhanced competitiveness, with the three-year payout schedule limiting cash-flow benefits.

However, Ireland's competitive position is eroding as peers offer richer, more flexible regimes.

For example, Portugal provides a higher base rate (32.5%) plus 50% incremental credit, and Spain offers a 42% incremental rate, alongside broader outsourcing flexibilities (e.g., France's higher subcontracting caps).

In contrast, Ireland is constrained by a narrow definition of qualifying costs and activities, a 15% cap on subcontracted R&D, and capital rules on buildings that limit access where R&D use of 35% is not achieved or industrial building allowances do not apply.

Notably, many modern innovation efforts, especially early-phase work such as concept development and high-level feasibility studies, are excluded because they are seen as commercially driven. Broader eligibility, as seen in competitor countries, would better support investment and sustain Ireland's innovation competitiveness. The Knowledge Development Box's limited effectiveness for companies in-scope for Pillar Two further weakens Ireland's IP offering. A refundable innovation credit would have been a welcome addition to the suite of RD&I tax tools on offer by Ireland.

EU VAT reform

Despite being the EU's most harmonised tax, VAT rules remain fragmented, costly, and ill-suited to modern business models. SMEs are particularly disadvantaged by divergent reporting obligations, refund processes, and interpretations of key concepts.'* Can you please discuss the EU VAT landscape and efforts to make it better suited to today's EU economy?

Avril McDowell, VAT Director, PwC Ireland: One of the main criticisms directed towards the EU VAT system is that it is fragmented, making it hard for business - particularly SMEs - to comply with the varying requirements. Efforts are being made to tackle the level of fragmentation within the EU VAT system, and one example of this is the introduction of the EU VAT SME scheme earlier this year. The aim of the scheme is to allow SMEs to trade in other Member States without having an automatic requirement to VAT register in said countries.

Avril McDowell

The threshold for this scheme is a total annual turnover of €100,000 ("the Union threshold") across the EU. It is difficult to envision a wide range of SMEs trading in multiple Member States who meet the Union threshold. In addition to this, there are domestic thresholds which can vary significantly from State to State.

As a temporary solution, the European Commission has published a table of National SME rules which sets out the domestic thresholds in each state.

In addition to the EU VAT SME scheme, there have been other efforts made to tackle the current fragmentation. VAT in the Digital Age (ViDA) is a proposal to modernise the EU's VAT system through real time digital reporting, updating VAT rules for the platform economy and expanding upon the current OSS model to allow more businesses to fulfil their VAT obligations across the EU through a single portal in a Member State.

Furthermore, an e-invoicing mandate will come into effect for intra-EU B2B transactions from 1 July 2030 which will introduce a standardised EU-wide e-invoicing format, thereby reducing the administrative burden for businesses who may otherwise be required to deal with several different formats. In addition, from 1 July 2035, all unilaterally introduced domestic e-invoicing regimes will be required to conform with one single, standardised format.

> **"It was announced as part of Budget 2026 that there will be a phased implementation of e-invoicing for Irish businesses, beginning with 'large corporates' in November 2028."**

As referenced above, many countries have unilaterally introduced e-invoicing regimes in advance of the EU-wide e-invoicing mandate under ViDA (effective July 2030). In Ireland, it was announced as part of Budget 2026 that there will be a phased implementation of e-invoicing for Irish businesses, beginning with "large corporates" in November 2028 and concluding with all VAT-registered Irish businesses engaged in intra-EU B2B trade by July 2030 (in line with ViDA).

Deirdre Barnicle, Partner, McCann FitzGerald: While VAT is one of the EU's only common tax systems, its inconsistent implementation and burdensome administrative procedures have created compliance difficulties for both taxpayers and tax authorities across member states.

The EU is seeking to modernise and streamline the EU VAT framework through the Value-Added Tax in the Digital Age (ViDA) legislation, adopted in March of this year. The legislation aims to address the growing misalignment between the EU VAT system and the commercial realities of business today. The introduction of digitised reporting requirements and e-invoicing, as well as the expansion of the One-Stop Shop system, is intended to simplify VAT compliance for taxpayers and reduce fraud risk for the government.

In response to ViDA, the Minister for Finance announced in the Budget that the Revenue Commissioners will begin a phased roll-out of domestic electronic invoicing for business-to-business transactions. A paper setting out further detail on the initiative is to be published in the coming days.

In addition, the EU VAT SME scheme which came into effect in January 2025 works to reduce the administrative burden of cross-border trade for eligible SMEs. The scheme allows qualifying SMEs to take advantage of VAT exemptions outside their member state of establishment, reducing the need for multiple VAT registrations where national exemption thresholds diverge.

Claire Healy, Partner, Transfer Pricing, Forvis Mazars: At an EU level, the approval for implementing the VAT in the Digital (ViDA) Package in November 2024 is seen as a tangible effort by the EU Commission and Member States to modernise and streamline VAT systems across the EU, particularly in the areas of e-invoicing and Continuous Transaction Controls (CTC).

Claire Healy

The proposal aims to harmonise diverse VAT frameworks across Member States, reduce administrative burdens, improve VAT compliance and combat fraud. These reforms are expected to deliver substantial benefits to SMEs and public administrations in promoting efficiency and uniformity in practice.

> **"The cost and investment for SMEs in reacting to these changes are expected to be offset by the long-term benefits, including reduced administrative burdens, enhanced VAT accuracy and related cash flow benefits, as well as reduced fraud exposure risk."**

These reforms are intended to take effect from 1 July 2030, so while some years away, this lead-in time is necessary to allow the EU State tax administrations to harmonise and implement the necessary digital reporting framework, together with allowing SMEs to acquire advisory support and to update their reporting systems to align with the new reporting regime.

The cost and investment for SMEs in reacting to these changes are expected to be offset by the long-term benefits, including reduced administrative burdens, enhanced VAT accuracy and related cash flow benefits, as well as reduced fraud exposure risk.

However, its success in improving the operation of the EU VAT landscape and efforts to be better aligned to current global economic activity will depend on effective preparation, adaptation and ongoing review during the various stages of implementation.

The Single Market

Accountancy Europe recently published a briefing paper* on streamlining the EU tax system. To reduce uncertainty and compliance costs the paper makes recommendations to tackle inconsistent implementation of EU directives across the bloc, including making EU guidance legally binding on Member States. What are your views on this and any possible unintended consequences from taking away flexibility on implementation for Member States?

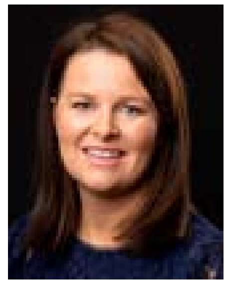
Claire Healy, Partner, Transfer Pricing, Forvis Mazars: The recommendations made by Accountancy Europe focus on issues encountered by all businesses trading across several member states. We particularly appreciate the relevance of the recommendations made to address the administrative burden and the complexity of tax rules (by proposing to assess and remove overlaps between ATAD, DACs and Pillar 2 rules or by pushing for upgrades in the IT systems of all Tax Authorities), the differing tax treatments and interpretations of directives (by harmonising the legislations for cross border employees and permanent establishments rules for example), and the mismatch in application and operation of VAT directives (by harmonising and simplifying the process for VAT refunds incurred in another Member State).

Simplifying the tax systems across all Member States, or at least bringing clarity and certainty on cross border matters, would be a significant improvement. While the EU guarantees the free movement of goods, capital and individuals, the complexity of the tax rules and systems creates informal barriers.

Simplifications should not come at the detriment of the efficiency of legislation previously adopted. In this context, improving the IT system to facilitate the exchange of information and avoid taxpayers having to provide similar data multiple times appears particularly pertinent.

However, a major limitation for legally binding EU guidance on tax matters is the impact this would have on the sovereignty of Member States over their own domestic taxation and fiscal rules. Member States have always been attached to this fundamental principle. In Ireland, it has enabled the government to maintain the 12.5% corporate tax rate. A change to that principle would mark a significant shift, requiring all Member States to agree unanimously on the guidance, with the risk of vetoes and paralysis, or the risk that the imposition of EU rules over domestic legislation in respect of tax matters could be used politically.

Deirdre Barnicle, Partner, McCann FitzGerald: As noted in the above briefing paper, there is an increasing tax compliance burden for businesses doing cross-border trade within the EU. Taxpayers face inconsistent rules, duplicate requirements, and mismatched reporting obligations across member states, undermining the efficiency and competitiveness of the single market.



Deirdre Barnicle

The European Council has recognised the need for increased harmonisation of the EU tax system with the approval of the tax simplification and decluttering agenda in March this year. The agenda includes aims to revise the Directive on Administration Cooperation (DAC), the common VAT system, and withholding tax on dividends and interest. The agenda joins other legislative efforts to simplify the EU tax system like the Faster and Safer Tax Relief of Excess Withholding Taxes Directive and ViDA (discussed in further detail above.)

However, it is important to note that the EU must perform a fine balancing act between harmonisation and standardisation. Under the Treaty on the Functioning of the European Union (TFEU), the power to levy and collect taxes is reserved for member states. While the EU can adopt provisions for the harmonisation of national taxation legislation (through Article 113 or Article 115), it requires unanimous approval from member states and must be done through a special legislative process. While the EU must work to maintain the integrity of the single market, it must do so within the limits of its competences conferred by the TFEU and without eliminating the chance for member states to position themselves as globally competitive.

Colin Farrell, Tax Partner, Financial Services, PwC Ireland: Additional EU guidance on interpretative matters is needed to provide clarity on several tax issues. Guidance is helpful in providing an interpretative code that assists national legislators, judges and tax administrations in delivering the objectives of EU Directives and Treaties. For taxpayers operating in multiple Member States, guidance could eliminate the need for opinions or rulings from several jurisdictions on the same transaction. The areas where guidance would be most helpful include; VAT issues not currently dealt with via Regulations (due to increasing complexity of local legislation), the public country-by-country reporting rules (specifically the meaning of "commercially sensitive") and various aspects of the Directive of Administrative Cooperation (DACs 1- 9).


Colin Farrell

CBAM

The EU's Carbon Border Adjustment Mechanism (CBAM), which was simplified in a number of ways in February 2025, comes into full effect from 1st January 2026. What are the implications for taxpayers and how can corporates prepare for the new rules?

Deirdre Barnicle, Partner, McCann FitzGerald: The CBAM transitional period, where importers are required to register on the transitional registry and make quarterly reports of their CBAM goods, will come to an end on 31 December 2025. From 1 January 2026, imported goods will be subject to a charge relative to their embedded carbon volume. The charge is intended to equalise the playing field for EU-produced goods subject to similar carbon costs and prevent 'carbon leaking', where production is relocated to jurisdictions to take advantage of less carbon-intensive rules.

The CBAM rules apply to CBAM goods listed in Annex 1 of Regulation (EU) 2023/956. The list includes certain goods made of iron, steel, cement and aluminium, as well as certain fertilisers, electricity and hydrogen. Companies should be mindful that this list will likely be extended in the future.

The end of the transitional period means increased reporting and payment obligations for importers of CBAM goods. In preparation for 1 January, in-scope importers should seek status as an Authorised CBAM Declarant through the European Commission website and ensure that they have filed their quarterly returns on the transitional registry

Colin Farrell, Tax Partner, Financial Services, PwC Ireland: The Carbon Border Adjustment Mechanism (CBAM) is a European Union initiative designed to combat 'carbon leakage' - companies relocating production to countries with less stringent climate policies. Under CBAM, importers of materials such as steel, aluminium, cement, and fertilisers must: become authorised to import such goods, calculate the carbon emissions associated with these imports, report this data to the European Commission and, from 2027 (but backdated to include 2026 imports), purchase CBAM certificates in proportion to these emissions.

The February 2025 Omnibus package introduced a series of important simplifications to ease the administrative and financial burden on importers. Most notably, a new exemption threshold of 50 net tonnes per year means that importers below this level are no longer required to submit CBAM reports, providing significant relief for small businesses and "accidental" CBAM importers.

Additionally, importers can delegate the process to a third party, such as a customs agent, without the need for official accreditation, though the importer remains legally responsible for the accuracy of the data.

The calculation of emissions has also been simplified: certain emissions from downstream processing of aluminium and steel are excluded, and default values used for emissions reporting no longer require third-party verification, making compliance easier.

The annual reporting deadline has been extended from 31 May to 31 August, giving companies more time to gather and submit the necessary data.

Financial obligations have also been reduced, with the minimum rate of certificates to be held lowered from 80% to 50% of reported emissions, and the ability to reuse data from previous years for the same products and countries.

For taxpayers and corporates, these changes mean a more accessible and manageable compliance process, especially for smaller importers. However, companies above the exemption threshold must still prepare by mapping their supply chains, establishing robust emissions tracking and reporting systems, and ensuring timely and accurate declarations. While the new rules significantly reduce the burden for many, larger corporates must invest in compliance infrastructure and stay informed to meet the evolving requirements of the CBAM regime.

Claire Healy, Partner, Transfer Pricing, Forvis Mazars: The Carbon Border Adjustment Mechanism (CBAM) is a system designed to ensure that a fair price is paid for the embedded carbon emissions generated during the production of certain goods imported into the EU. It is a charge on the carbon emissions of certain imported goods to ensure they are taxed equally to products made in the EU.

"CBAM goods will be subject to a carbon charge when imported. There will be a requirement to declare yearly quantities and embedded emissions of CBAM goods. CBAM certificates must be purchased by the importer and surrendered to cover the declared emissions."

Importers affected by the Carbon Border Adjustment Mechanism (CBAM) system must comply with registration requirements and reporting obligations. The obligations imposed by CBAM apply to all who import CBAM goods (iron, steel, aluminium, cement, electricity, fertilisers, and hydrogen), where the total intrinsic value of the CBAM goods within the consignment exceeds a value of €150.

The implementation of CBAM commenced in October 2023, with a transitional phase applying from 2023 to 2025. During that time, importers of CBAM goods were required to register on the CBAM transitional registry, and as of January 2024, they have been required to file quarterly reports on CBAM imports.

If a company imports 50 tonnes or more of CBAM goods per calendar year, it must now apply for the status of Authorised CBAM Declarant to continue importing CBAM goods into Ireland from 1 January 2026. From that date, CBAM goods will be subject to a carbon charge when imported. There will be a requirement to declare yearly quantities and embedded emissions of CBAM goods. CBAM certificates must be purchased by the importer and surrendered to cover the declared emissions.

While the transitional measures have been in place since October 2023, with full implementation of CBAM scheduled for 1 January 2026, taxpayers should consider the various implications and how to best prepare. Due consideration should be given to any potential impact of CBAM on your supply chain, which may require broader decarbonisation strategies and consideration of mitigation measures. Contracts in place with suppliers should be reviewed to ensure the required references to CBAM obligations are stated therein. This should facilitate compliance with the additional reporting obligations. Needless to say, with new CBAM requirements comes additional financial costs for a company. Taxpayers should be prepared for these to avoid any interruption to the importation of CBAM goods..

Artificial Intelligence

Artificial intelligence (AI) is one of the fastest growing industries worldwide, with the global AI market projected to surpass $400 billion by 2027. How can businesses determine if their tax function is keeping pace with AI-driven tax authorities?

Johnny Wickham, Tax Partner, Tax Technology & Transformation, PwC Ireland: The US leads the AI sector, followed by China and the UK, and Ireland is now attracting a growing number of AI companies, building on its strong track record of US investment. As tax authorities worldwide accelerate their digital transformation, the integration of automation and AI into tax administration is rapidly becoming the norm. Over 70% of tax administrations globally are already leveraging AI to enhance compliance management, risk assessment, and taxpayer services, with adoption rates rising each year. The Irish Revenue Commissioners, in line with international peers, are investing heavily in digital infrastructure, real-time analytics, and automated compliance checks. Increasingly, tax authorities receive data directly from business systems, moving towards machine-to-machine data exchanges that require minimal human intervention.


Johnny Wickham

The traditional manual approach to tax compliance, which is characterised by spreadsheets and periodic reconciliations, is quickly becoming obsolete. The volume and complexity of tax data is growing exponentially, driven by e-invoicing, digital platforms, and cross-border transactions. Regulatory initiatives such as the EU's VAT in the Digital Age (ViDA) and BEPS 2.0 Pillar Two are further raising compliance expectations, demanding greater agility and precision from tax functions. Irish Revenue will roll out eInvoicing in phases: from November 2028 large corporates must use mandatory eInvoicing and real-time reporting for domestic B2B transactions, from November 2029 these requirements extend to VAT-registered businesses engaged in EU cross-border B2B trading, and from July 2030 they apply to all cross-border EU B2B transactions (Revenue, 2025).

Recent data from the OECD highlights the scale of this transformation. Technologies such as network analysis, machine learning, robotic process automation (RPA), and real-time analytics are now widely used by tax authorities. AI is being applied to detect tax evasion and fraud, assess risk, provide virtual assistance, and support administrative decision-making (See below in Table 1). These advancements mean that tax authorities are operating with a level of technological sophistication that organisations must match to ensure compliance and manage risk effectively.

While traditional automation tools excel at handling repetitive, rule-based tasks, the next frontier is agentic AI with intelligent agents powered by trained machine learning models and natural language processing. These AI agents can interpret unstructured data, adapt to new information, and exploit historical patterns. They can handle complex queries, simulate tax scenarios, and provide real-time, context-aware guidance.

Agentic AI enables end-to-end tax workflow orchestration, integrating data from multiple sources and supporting activities from scenario planning to audit preparation. These agents not only drive efficiency but also empower tax teams to focus on higher-value activities and proactively manage risk.

"In the organisations we support, tax tech is treated as an enterprise capability. Where businesses can get data right at the source, they can modernise controls for real-time assurance and design flexible architectures, enabling them to upskill teams, embed explainable AI, and align tax, finance and IT for auditable and resilient automation".

Adopting advanced tax technology need not be a big-bang overhaul. A phased path with small, targeted automations enables organisations to build capability, fix data and integration issues, and upskill teams. As tax authorities innovate, companies must keep pace to meet compliance and unlock value. The future is agentic, data-driven, and automated. Those that match regulators' sophistication will navigate change and win advantage.

In the organisations we support, tax tech is treated as an enterprise capability. Where businesses can get data right at the source, they can modernise controls for real-time assurance and design flexible architectures, enabling them to upskill teams, embed explainable AI, and align tax, finance and IT for auditable and resilient automation.

Table 1. AI use cases in tax administration

Use Case	Percentage (%)
Detection of tax evasion and fraud	75.5
Risk assessment processes	69.4
Virtual assistants	53.1
Assistance of tax officials in making administrative decisions	49
Automated provision of personalised information to stakeholders	48.5
To ensure the integrity of tax administration systems/processes	18.4
Other use cases	26.5
Making recommendations for actions	12.2
Making of final administrative decisions	6.1
Dispute resolution	6.1

Source: OECD