
The report of the Innovation Task Force was launched on 11th March. This report sets out some key recommendations and proposals aimed at transforming Ireland into a global innovation hub.

The report makes a number of recommendations that are of particular interest to the SME sector including the following:

- Increasing the current cap on outsourcing (in the context of the R&D credit) to 25% to encourage a more collaboration between multinationals and indigenous Irish companies.
- Investigating the possibility of introducing an improved tax credit for qualifying SMEs.
- Building on current State initiatives, introduce a targeted innovation audit scheme for qualifying SMEs by January 2011, including for those SMEs that do not engage in any R&D at present.
- When reviewing the current research funding scheme (see below) introduce initiatives to encourage:
 - More involvement by SMEs and collaborative research, both with indigenous companies, with M&C's and with Irish and non Irish Higher Education Institutes.
 - More R&D contracts between small companies and customers.
- Change from an incremental basis to a volume basis for the R&D credit.
- Develop and attract a competitive high value mobile talent regime.
- Introduce a new State seed capital scheme (in addition to existing EI supports).
- National portfolio of business angel funds
- New tax initiatives to incentivise start up and angel funding activity together with recommendations to enhance and simplify the existing BES and seed capital incentive to include the following:

- A reduced effective rate of CGT of 12.5% available on sale of shares in an innovation based export lead company provided the proceeds on disposal are reinvested in another qualifying start up
- A new “entrepreneurial tax credit” is designed to alleviate some of the shortcomings of the existing seed capital tax incentive. This new incentive would provide a tax credit or rebate to an entrepreneur in a qualifying company where new jobs are created by their company. For every 5 jobs created in addition to their own they would be entitled to a rebate of the tax paid on their salary in each of the first 3 years capped at €100,000.
- Introduce “founder share options” which are eligible only for CGT treatment – these are shares options designed to reflate founder entrepreneurs so that they are not diluted by subsequent rounds of venture capital funding.
- Increase the level of BES relief to €5m
- Amend the scheme so that it is available to all micro, small and medium sized companies.
- Amending the current geographical limits to allow medium sized enterprises as defined and located in all areas of the country to qualify for BES and seed capital funding.
- Reassess the qualification criteria for BES and see capital relief to make it less burdensome from an administrative perspective.
- In addition there should be some incentive in the relief to get involved or mentor the company where this is appropriate. Instead the current restrictions essentially make it very difficult for someone with a genuine interest or significant shareholding in the company (30% plus) to avail of the relief.

The innovation task force disagreed with the Commission on Taxation proposal that the exemption for patent royalties would be discontinued. In their review the regime which had already been significantly curtailed, it would be counter productive to remove it now.