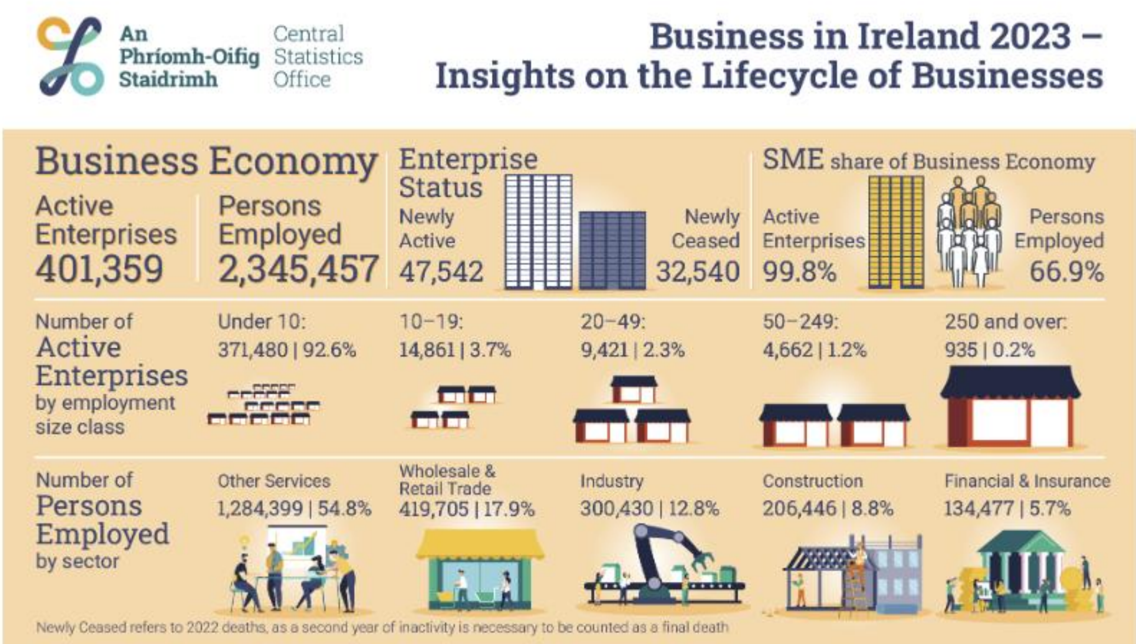
Summary

The Department of Enterprise consultation on Enterprise policy to 2035 was published in August and asks three questions:

- What should Ireland's enterprise economy look like in 2035?
    - ***By 2035, indigenous enterprise should have grown to the extent that the difference between GDP and GNI* is less than 10%.***
- How can Ireland strengthen innovation and the commercialisation of new technologies across enterprises of all sizes?
    - ***The Enterprise Ireland data on this question are clear: innovation, productivity and export capacity all increase substantially when enterprise size exceeds 100 employees. Scale-up of small firms should therefore be the priority of industrial policy.***
- How should enterprise policy respond to changing global trade and investment patterns?
    - ***Enterprise policy should respond by allowing robust, resilient indigenous businesses across all sectors to scale up from the small (10-49 employee) size, which makes up approximately 6% of our business demography, and encouraging them to grow to over 100 employees.***

Ireland's Business Demography 2023[1]

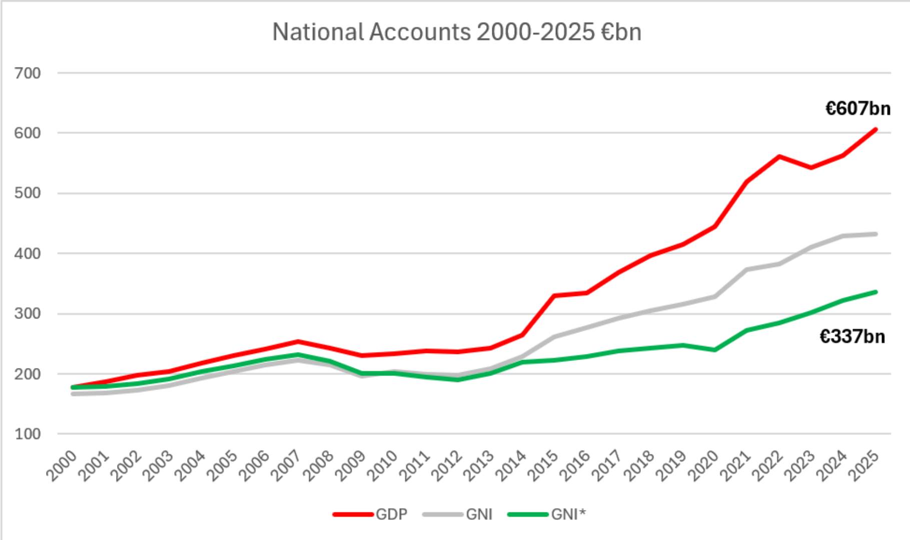


The Concentration Issue

The issue for Ireland is that, while our overall economy is the envy of most EU countries, its success is overwhelmingly dependent on a relatively small number of companies in the FDI

[1] https://www.cso.ie/en/statistics/enterprisestatistics/businessinireland-insightsonthelifecycleofbusinesses/

sector, with the indigenous enterprise sector making a far more modest contribution to national wealth.



In fact, as a percentage of GDP, modified GNI (GNI*), which more closely approximates to the levels of output in the indigenous economy, ran at 55% in 2025. In effect, the output of less than 300 large, mostly FDI companies in Ireland almost matches the entire output of the rest of the economy.

Of itself, having a GDP much larger than GNI* is not problematic: it means the Irish Exchequer enjoys large a bounty of corporation tax that is the envy of our EU neighbours. But it also comes with severe downsides:

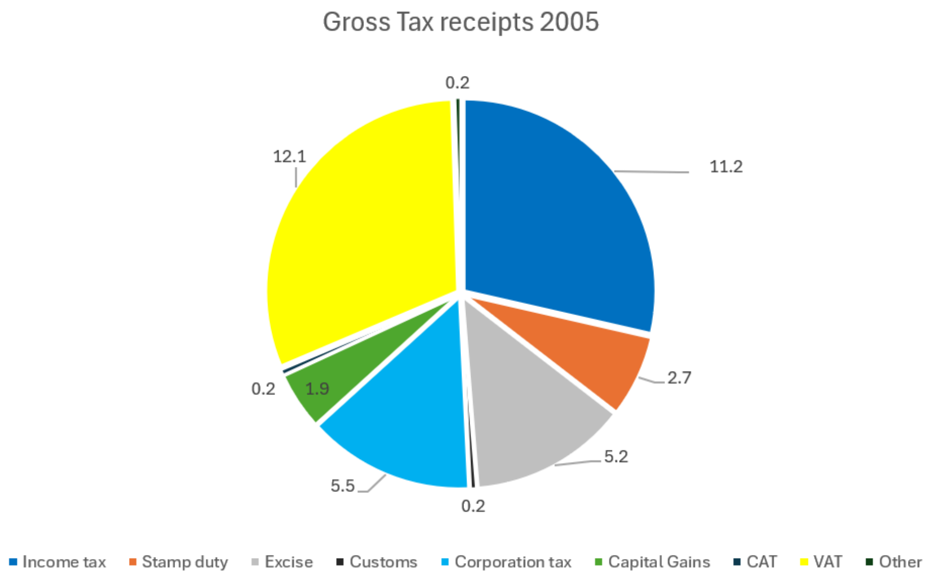
- Dutch Disease[2] (or Tortuga Disease[3]) exist where large capital inflows to a particular sector have harmful, distorting consequences beyond that sector.
- The Baumol[4] effect, where these capital inflows reduce productivity outside the relevant sector (including in the public sector), by increasing labour costs across the entire economy, not just in the booming sector. This also impacts costs of services such as accommodation and hospitality.

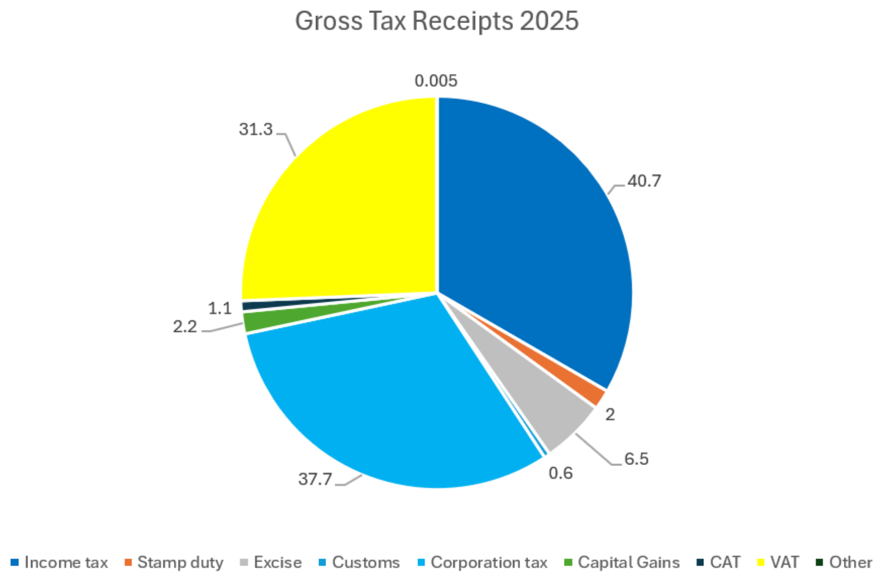
Compounding the issue of the structure of the economy is that of the structure of earnings thrown off by our economic base.

The output of companies and government spending translates into earnings for workers, and taxes paid to the state in the form of income, corporation and value-added taxes, and social welfare payments. The problem is that these too have become more concentrated.

[2] https://www.imf.org/en/publications/fandd/issues/series/back-to-basics/dutch-disease
[3] https://academic.oup.com/isq/article-abstract/61/2/312/3850831
[4] https://www.productivity.ac.uk/wp-content/uploads/2023/11/PIP025-Public-Sector-Productivity-FINAL-Nov-2023.pdf

In fact, our Exchequer income sources are more concentrated today than they were before the Great Financial Crash (GFC). In 2005, Income and Corporation (CT) taxes comprised 43% of Exchequer income. Today, they account for 64%. The "Top 3" (Income, CT & VAT) made up 73% of revenues in 2005, today they make up 90%.





The income tax issue, while less visible, is of equal systemic importance for Ireland. In 2025-

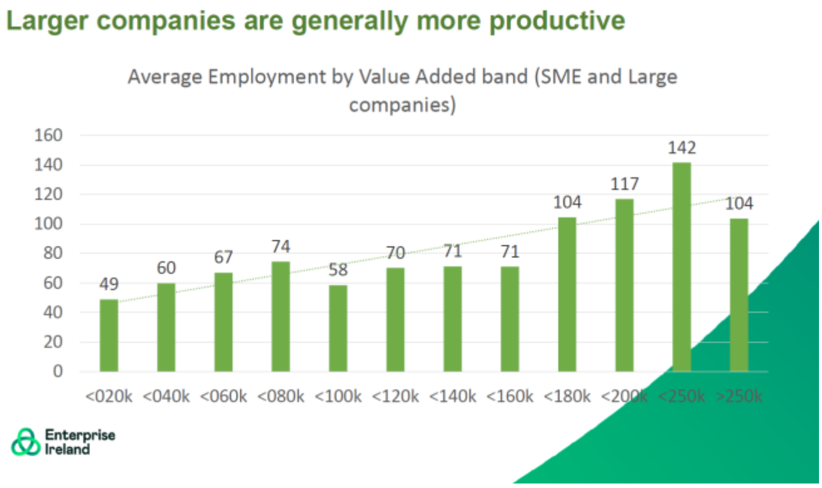
- 59% of Ireland's income tax came from the top decile.
- 77% of income tax came from deciles 9 & 10.
- 86% of income tax came from deciles 8, 9 & 10.

These income deciles are disproportionately concentrated among the two highest-earning cohorts in the labour force, public servants and workers in large (mostly FDI) companies.

Ireland therefore has a double concentration problem: the Exchequer is overwhelmingly reliant on the FDI sector of the economy for both corporation tax and income tax.

Both the Department of Finance's Income Tax Strategy Paper[5] (p20) and the Corporation Tax Strategy Paper[6] (p8-9) acknowledge the scale of tax concentration in Exchequer returns. What neither paper proposes is how to rectify this concentration. ISME's Indigenous Enterprise Policy and our Pre-Budget Submission describe how we believe this should be done, which can be summarised as reducing the gap between GDP and GNI* by scaling up indigenous business.

Tax yield is fundamentally a function of profitability, which is inextricably linked to productivity. And Enterprise Ireland data show that productively, as well as innovation and export intensity, are very closely correlated with enterprise size. EI figures suggest the productivity "sweet spot" as between 100 and 150 employees.



Enterprise scale should therefore be the priority of government strategy. Achieving business scale is not a problem unique to Ireland, and Mario Draghi has recently commented[7] on the need for European businesses that cannot scale organically to coordinate in doing so, for example by large EU companies pooling AI commitments into contracts big enough to attract large scale investors. He cites one estimate showing the euro area-US productivity gap widened from $9 per hour in 2018 to $21 in 2025.

Scaling businesses, increasing innovation capacity and export intensity requires upskilling of business owners and managers, but we must prioritise those in the small (10-49) sector. There is plenty of money in the National Training Fund to do so.

Ireland's shortcomings in this respect have been masked by the annual overperformance of corporation taxes, but we cannot presume this will persist indefinitely. We have to derisk our economic future. Even with the large FDI element in our GDP figures, the jump in national productivity in 2015 was widely derided as "leprechaun economics" which contributes little

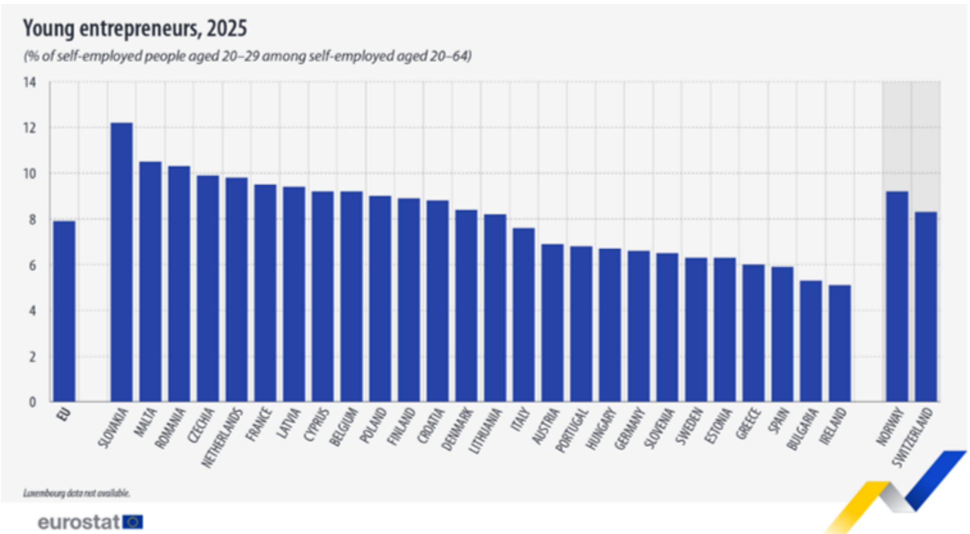
[5] https://assets.gov.ie/static/documents/5851eb5d/TSG_26-01_Income_Tax_.pdf
[6] https://assets.gov.ie/static/documents/8bc57be5/TSG_26-03_Corporation_Tax_and_Enterprise_Tax_Supports.pdf
[7] https://www.ft.com/content/f054f927-b512-452a-b494-ea53f5ac1079?

of substance (beyond corporation tax) to Ireland. Department of Finance and CSO figures accept that contract manufacturing[8] plays a significant part in our national accounts figures, but makes little real contribution to real domestic wealth.

Indigenous Enterprise Policy

The other small, advanced economies (SAE) of Europe all have at least one company in the FT Global 500. Ireland has none. These businesses have frequently grown from family businesses, transferred through the generations and growing constantly in size. In doing so, their countries retain the inherited intellectual property within them. This is not the case in Ireland, where tax treatment of business transfer encourage sale rather than scale. And the domestic business environment is extremely accommodative of FDI, while disincentivising local entrepreneurs and entrepreneurship.

The most recent Eurostat research[9] shows that Ireland has the lowest entrepreneurial participation rate for 20–29-year-olds in the EU27. Our participation rate is 5.1% against the EU27 average of 7.9%. This should be of material concern to policy makers.



Other SAEs have grown an indigenous enterprise base, frequently from scaling inter-generational family businesses. We have rented our economy from foreign multinationals.

ISME published its Indigenous Enterprise Policy Paper[10] in March 2026. This paper sets out policy imperatives as follows:

1. Using the tax system to encourages business scale-up.
2. Avoid a "picking winners" strategy and focus on ensuring a competitive indigenous enterprise base where everyday entrepreneurs will produce the hidden champions.
3. Provide a financial system that provides ready and affordable access to capital.

[8] https://www.cso.ie/en/interactivezone/statisticsexplained/nationalaccountsexplained/contractmanufacturing/
[9] https://ec.europa.eu/eurostat/web/products-eurostat-news/w/edn-20260421-1
[10] https://isme.ie/wp-content/uploads/2026/03/ISME-Indigenous-Enterprise-Policy-ISME-March-2026.pdf

4. Provide an educational system that maintains our lead enjoys in youth education, while addressing educational under-performance among adults and deficits in life-long learning.
5. Ensure that FDI policy attracts businesses which have positive spill-over effects for indigenous enterprise.
6. Recognise the disconnect between policy and execution. We need no more reports, we need action-oriented industrial policy, which dictates tax policy; not tax policy which negatively determines industrial performance.
7. Italy's Industry 4.0 strategy[11] is a useful template for Ireland to employ to scale Irish business.

Pre-Budget Submission 2027

ISME published its Pre-Budget Submission 2027 on 11th June.[12] The objective of this year's pre-budget was to set out the taxation and expenditure measures we believe necessary to execute our strategy to scale indigenous enterprise.

Tax policy greatly influences the ability of businesses to scale. ISME recommends a number of initiatives that would assist businesses to grow in size, while not punishing entrepreneurs for growing their business:

1. Introduce a standard rate of CGT at 25%, and a lower rate of 20% for sales of IP, and sale of businesses held for 15 years or more.
2. Tax dividends at the CGT rate, not the marginal income rate.
3. Reform the R&D Tax Credit to encourage greater take-up by indigenous enterprise. Legislate change of qualification from "new to industry" to "new to enterprise" if necessary, by reference to firm size.
4. Reform CAT rules so as not to saddle family businesses with tax debt on intergenerational business transfer.
5. Reform the KEEP scheme and Employee Ownership Trusts to encourage equity participation by employees in business.
6. Reform Entrepreneur Relief to encourage serial entrepreneurship and angel investors. The lifetime of €1.5m should be extended to a *per occurrence* basis for sale of qualifying business assets.
7. Remove the 3% USC surcharge applied to self-employed income over €100,000 as it is both discriminatory and anti-entrepreneur.
8. Reform or repeal Sec 135 (3A) of the TCA 1997[13] treating MBO capital injections as distributions.
9. Simplify and reform the EII scheme, and allow no more retrospective rule changes, in order to encourage uptake.
10. Eliminate the irrational Close Company Surcharge[14] on retained earnings in small firms.

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[11] https://www.hlb.global/industry-4-0-italys-masterplan-for-growth/
[12] https://isme.ie/wp-content/uploads/2026/06/ISME-Pre-Budget-Submission-2027.pdf
[13] https://www.irishstatutebook.ie/eli/1997/act/39/section/135/enacted/en/html
[14] https://www.revenue.ie/en/tax-professionals/tdm/income-tax-capital-gains-tax-corporation-tax/part-13/13-02-05.pdf

11. Reduce the Revenue Section 56[15] VAT threshold from 75% to 50% to stimulate exports.

Figures released by the Irish Venture Capital Association (IVCA) this September[16] suggested foreign contributions represented 82pc of the total investment in Irish SMEs in the first half of 2026. Irish SMEs do not have access to affordable capital, therefore it is foreign buyers who have access to the best intellectual property and the best firms in Ireland.

Scale without capital is not impossible to achieve, but it is difficult. Small and start-up funding vehicles such as the German NDF[17] and Austrian Wirtschaftsagentur[18] are good exemplars of templates that could also be used for SME funding. The UK's ISA[19] product offers retail investors an opportunity to invest some savings in tax-efficient savings vehicles while also putting deposits to productive use.

[15] https://www.revenue.ie/en/tax-professionals/tdm/value-added-tax/part10-special-schemes/zero-rating-goods-and-services-s56/special-schemes-s56-zero-rating-goods-and-services.pdf
[16] https://www.siliconrepublic.com/start-ups/ivca-raises-alarm-over-foreign-vc-dominating-irish-sme-rounds
[17] https://non-dilutive-funding.com/loans/erp-startgeld-gruenderkredit/
[18] https://wirtschaftsagentur.at/
[19] https://www.gov.uk/individual-savings-accounts/how-isas-work