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Ireland Finance (No. 2) Bill 2026: Pillar Two side-by-side, KDB to 2032 and R&D changes

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On 19 October 2026 Ireland's Department of Finance published the Finance (No. 2) Bill 2026. It writes the OECD side-by-side package into Irish Pillar Two law, extends the Knowledge Development Box and start-up relief, and widens the R&D tax credit.

Country reference

- **Country:** Ireland
- **Authorities:** Department of Finance; Revenue
- **Topic:** Legislation for Budget 2027 tax measures
- **Key date:** Bill published 19 October 2026 (Budget 2027 presented 6 October 2026)
- **Law:** Finance (No. 2) Bill 2026

What changed

The Bill gives legal effect to Budget 2027, which we covered on 9 October. What is new is the legal text and some items not in the Budget speech, notably the Pillar Two package. The 12.5% corporation tax rate is not affected.

Corporate and international tax

- **Pillar Two:** implements the OECD side-by-side package agreed in January 2026: the simplified effective tax rate, the substance-based tax incentive, ultimate parent entity and side-by-side safe harbours, and a longer transitional CbCR safe harbour. It also reflects OECD guidance from May and September 2026 and updates penalty and filing rules.
- **Knowledge Development Box:** extended to accounting periods starting on or before 1 January 2032, with a time-limited option for existing claimants to opt out.
- **Start-up company relief:** extended by four years to 31 December 2030.
- **Interest relief:** targeted simplification for borrowings used in certain lending and investment activities, the first step in a wider review.
- **Preliminary tax:** administrative changes for more flexibility, with no net revenue effect.

R&D tax credit and other measures

- The 35% rate is unchanged. Subcontracting limits rise to the greater of 20% of in-house spend (from 15%) or EUR 200,000 (from EUR 100,000).
- The first-year payment threshold rises from EUR 87,500 to EUR 105,000, and 5% of qualifying R&D wage costs can be added to the cost base.
- Capital gains tax falls from 33% to 31% from 7 October 2026. Exit tax on Irish funds and life policies falls from 38% to 35%, but not for companies.

What to do now

- Groups in scope of Pillar Two: model the new safe harbours for 2026 and later years before the next return cycle.
- Review R&D contracts with universities and third parties against the higher limits.
- Check KDB claims and decide on the opt-out within the window.
- Follow Committee Stage, where clinical trial rules are still to be added.

Our take

For Gulf groups with Irish holding or IP companies, the Pillar Two safe harbours matter most. They could cut compliance work and, in some cases, top-up tax. Final wording may still change before the Bill is enacted.

Sources

- Department of Finance: Department of Finance publishes Finance (No. 2) Bill 2026 (19 October 2026)
- Department of Finance: Finance (No. 2) Bill 2026 - Explanatory Memorandum (October 2026)
- Houses of the Oireachtas: Finance (No. 2) Bill 2026 (October 2026)

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