



Why Ireland?

Irish Tax Incentives

The Irish Tax System contains a number of international tax advantages for businesses and entrepreneurs. As a result, Ireland is the global base of choice for some of the world's largest corporations and has become a magnet for foreign direct investment. This document highlights some of those advantages and the principal reasons why Ireland has been so successful in attracting investment.

12.5% Rate

Ireland offers one of the lowest corporation tax rates in Europe. The National Recovery Plan 2011-2014 and the Budget 2012 both confirm Ireland's position on maintaining the 12.5% corporate tax rate as the cornerstone of Irish taxation policy. Irish tax resident companies benefit from a corporation tax rate of 12.5% on trading profits and certain distributions received from foreign trading subsidiaries. The scope of activities which may be considered as trading is quite broad and can include the development and exploitation of intellectual property. A company is tax resident in Ireland if it is incorporated in Ireland or if Ireland is the place of central management and control of the company.

Extensive Tax Treaty Network

Ireland has signed double taxation treaties with 65 countries. New treaties with Albania, Hong Kong and Montenegro are in force since 1 January 2012. New treaties have been signed with Armenia, Panama and Saudi Arabia. Updated treaties with Germany and Switzerland have been signed and an updated treaty with Belgium is expected to be signed shortly.

Participation Exemption

Ireland provides a tax exemption on capital gains realised by an Irish company on the disposal of qualifying shareholdings in subsidiaries. The subsidiary must be resident in an EU Member State or in a State with which Ireland has a Double Taxation Agreement, and carry on a trade or be part of a trading group.

Inbound Dividends

Where dividends are received from companies resident in the EU or in a tax treaty country and are payable out of trading profits of such subsidiaries, those dividends are taxed in the hands of the Irish holding company at the lower 12.5% rate. The availability of the underlying and withholding tax suffered as a credit against

Irish corporate tax, together with the facility of tax credit pooling, can often result in no effective Irish corporate tax being payable on dividend receipts.

Foreign Tax Credits

Dividends paid to an Irish company may be liable to withholding tax in the country of origin. This tax may be relieved under the double tax treaty provisions, in accordance with the EU Parent-Subsidiary Directive or under Irish law which provides for a pooling of foreign tax credits to enable maximum set-off. Foreign tax credits may also be carried forward.

Withholding Tax Relief

Although Irish law imposes withholding tax on dividend, royalty and interest payments to non-residents, domestic law, Ireland's EU membership and wide treaty network provide for a wide range of exemptions from these obligations.

Research and Development

Ireland offers a tax credit of 25% on the first €100,000 spent by a company on qualifying research and development in 2012. The credit applies on an incremental basis to expenditure above €100,000. In order to qualify, expenditure on R&D activities must seek to achieve scientific or technological advancement and involve the resolution of technical uncertainty. Expenditure incurred on subcontracted R&D activities undertaken by a third party can also qualify for the relief. The credit is granted in addition to the regular tax deduction available for R&D expenditure, giving an effective tax deduction of 37.5%. The credit can be refunded in certain circumstances where there is an insufficient corporation tax liability to utilise the full credit for the accounting period in which the expenditure was incurred. Companies can also surrender their R&D tax credit to reward key employees on a tax free basis.

Intellectual Property Regime

Ireland offers a host of tax incentives in the area of intellectual property and intangible assets.

Tax relief is available in respect of capital expenditure on the acquisition of a wide range of intellectual property and intangible assets, including patents, trademarks, brand names, know how, scientific processes and goodwill. The tax deduction will either follow the company's accounting depreciation policy or a write down period of 15 years. The deduction available is restricted to 80% of the profits associated with the exploitation of the relevant intellectual property or intangibles for which the deduction is claimed.

A tax deduction is available for revenue and capital expenditure on scientific research. This deduction is available even where the expenditure on the research is not related to the trade of the company in question. A deduction against profits is also available for payments, whether capital or revenue in nature, to a body carrying on scientific research that is approved by the Minister for Finance to an Irish University in order to undertake the scientific research.

Expenditure incurred in relation to the acquisition of know-how purchased from a third party and not as part of a trade is tax deductible. However, unlike the deduction for expenditure on scientific research, a deduction for expenditure on know-how is not available where it is not related to the trade being carried on by the company in question. Know-how purchased from a related party or acquired as part of a purchase of a trade may qualify for book depreciation treatment.

Irish tax law also provides for an exemption from stamp duty on the transfer of intellectual property.

Financing

Irish tax law provides for a deduction from total income for interest paid on debts incurred to acquire shares in certain subsidiary companies. Interest incurred on borrowings used for the purposes of the company's trading activities is also generally deductible for corporation tax purposes.

Start-Up Company Exemption

Companies who commence new trades in Ireland in 2012, 2013 and 2014 are exempted from corporation tax where the annual corporation tax liability does not exceed €40,000. Marginal tax relief is available where the corporation tax liability exceeds €40,000.

Transfer Pricing, CFC rules and Thin Capitalisation

Ireland has limited transfer pricing rules which do not apply to small and medium sized businesses and it does not have any relevant thin capitalisation or controlled foreign corporation rules for foreign income.

Group Loss Relieving Provisions

Group Relieving provisions from Irish corporation tax are provided for within Irish tax law. This allows certain losses and deficiencies incurred by a member of the group to be surrendered to another member of the same group, thus reducing the Group's cashflow and tax burden. There are also provisions which provide relief to Irish Parent companies in respect of certain losses and deficiencies incurred by non-Irish resident subsidiary companies which are resident in the EU, or in a country with which Ireland has a double tax treaty.

Exit Arrangements

Where multinationals establish Irish operations and wish to exit Ireland, the Irish tax code facilitates an opportunity to exit Ireland free of tax. Where a company resident in Ireland wishes to transfer its residence abroad, the transfer can occur without giving rise to an immediate tax charge. A condition for this is that at least 90% of the share capital of the company is ultimately owned by non residents and under the control of persons resident in a country with which Ireland has a double taxation treaty.

Stamp Duty

Transfers of Irish shares are subject to stamp duty of 1% on the consideration paid. The duty rate imposed on transfers of other Irish commercial property (real estate) is 2%. Some transactions can be structured to be outside the scope of stamp duty.

There are a number of reliefs and exemptions available on the transfers of intra-group assets, bona fide reconstructions and amalgamations. Stamp duty can also be avoided on certain share-for-share and share-for-undertaking transactions.

Capital duty no longer forms part of the Irish tax system, therefore no stamp duty will arise on the issuance of shares by Irish companies.

Ease of Incorporation

The process of incorporating an Irish company is relatively straightforward and it can be achieved within 5 working days. The company must have 2 directors, one of whom is resident in the EEA and one company secretary and it must have a registered office in Ireland.

Conclusion

For any international tax planning initiative, Ireland is a key component. It has consistently and continually demonstrated its commitment to the 12.5% tax rate and has established one of the world's most favourable holding company regimes. This has led to the establishment of some of the world's largest multinationals in Ireland and this trend is expected to continue and expand in the future.

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