

Tax advantages of Ireland

Ireland is considered a favoured onshore location for multinational companies (MNCs) establishing regional, or even global, headquarters to manage the intellectual property functions (IP) and shareholdings associated with their international businesses. Irish headquarters & holding companies

The following features of the Irish tax regime have been, and remain, critically important for Ireland in attracting and retaining MNC investment:

- standard 12.5% tax rate for active business profits;
- tax efficient holding company regime
- effective tax exemption on foreign dividends and branch profits;
- attractive R&D tax credit regime and intellectual property structures;
- no thin capitalisation, controlled foreign corporation (CFC) or domestic transfer pricing provisions;
- access to EU directives and an extensive tax treaty network; and
- generally no outbound withholding taxes under domestic (as opposed to tax treaty) provisions.

Tax benefits in Ireland

Recent years have seen the introduction of significant enhancements to the Irish holding company regime, the outcome of which is that Ireland can now offer a tax package that compares very well with other potential

holding company regimes. This package comprises:

- a tax exemption on gains from disposals of qualifying shareholdings;
- a pooling and carry forward of excess foreign tax credits;
- the abolition of capital duty on equity investments;
- double taxation relief for foreign branch profits; and
- an effective tax exemption on qualifying foreign dividends with the tax rate reduced from 25% to 12.5%.

R&D incentives

It has always been recognised that encouraging innovation is an important strategic objective for improving Ireland's competitiveness by developing a knowledge economy. The government markets the advantages that Ireland has to offer in this area. These advantages include a highly skilled and educated workforce, a strong technical infrastructure, significant grant incentives from domestic and EU funds and an R&D tax credit regime.

R&D grants

Two types of support are available under the RD&I programme:

- feasibility and training support of up to €250,000 which is designed to stimulate and develop RD&I initiatives within eligible companies; and

- RD&I project support which provides support to companies at all stages of RD&I development.

Feasibility and training support

The feasibility assistance provided to companies is to enable them to investigate potential RD&I projects to be carried out in Ireland while the training assistance available is to upskill a company's staff to carry out a small pilot or a full RD&I project. The training grants can be used to provide formal internal training to staff, send staff to formal training programmes in Ireland or abroad, or send staff to existing RD&I facilities to acquire technology and RD&I management skills.

RD&I project support

The aim of the RD&I grant programme is to enable companies to move from start-up R&D, through developing capacity and adding competence, to a fully integrated RD&I function. The grant rate available varies according to the type of research being conducted, but is likely to be at a maximum of 25% of eligible costs with an extra 15% available for research projects that involve collaboration with a third-level institute or other industrial partners.

R&D tax credit

A 25% tax credit is available for qualifying incremental R&D expenditure over and above that incurred in a fixed base year (2003). The credit can be used to offset current or future corporation tax liabilities. For accounting periods commencing on or after 1 January 2009, the R&D tax credit can also be offset against corporation tax liabilities in the prior period. Furthermore, in a very positive development, any unused credits can be refunded (subject to certain conditions). A tax credit is also available for expenditure incurred on qualifying R&D buildings, with the ability to claim a refund for the tax credit in year one, again subject to certain conditions.

Intellectual property

The introduction of a tax allowance for intellectual property transferred to Ireland, together with a generous R&D tax credit

regime, has further bolstered Ireland's status as a favourable location for tax planning.

In another positive development, the G20 Summit in April 2009 affirmed Ireland's standing in terms of the transparency of its tax system, with the OECD publicly backing the current Irish tax regime. This is a very welcome development highlighting the stability of the Irish tax system which should give comfort to those looking to invest in Ireland.

Of course, investment location decisions by MNCs generally depend on a host of factors of which tax is just one. It is important that any potential location is competitive on the various commercial, legal, regulatory and business environment requirements of MNCs.

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