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Improvements to Ireland's tax regime

As widely expected, the Double Irish regime has been abolished for new companies from 1 January 2015, with grandfathering provisions for existing structures until the end of 2020. However, there are several alternative structures which provide the same benefits to US groups, with further improvements to our IP regime making the case for Ireland even more compelling.

Ireland has introduced significant changes to its corporate tax regime, aimed at both enhancing our global reputation for transparency and also further enhancing our attractiveness as a location for knowledge based activities and IP generally.

The abolition of the Double Irish structure was well flagged in advance; initial reaction suggests that it will not lead to a flight of capital from Ireland. The six year deferral for existing structures should provide adequate time for groups to restructure their existing Intellectual Property (IP) arrangements in an appropriate manner.

Importantly, the Budget statement provided a clear roadmap for the future of Ireland's FDI offering, making a long-term compelling case for overseas investors to locate activities here.

Corporate tax residence changes

The changes to our corporate tax residence rules broadly ensure that any Irish incorporated companies will be regarded as Irish tax resident, unless they would be regarded as tax resident in a double tax treaty jurisdiction under the terms of a treaty with that country. The effect of this change is that it will no longer be possible for an Irish incorporated company to be regarded as solely tax resident, for example, in Bermuda (as Ireland has no tax treaty with Bermuda).

The changes apply to Irish companies incorporated after 1 January 2015. However, existing companies will continue to base their tax residence on current rules until the end of 2020. From 1 January 2021, all Irish incorporated companies will follow the same rules in determining Irish tax residence.

A key issue for many existing companies will be the transition from an existing Double Irish structure before 2020. Broadly, the options include migrating the IP to another low tax jurisdiction or moving the IP "onshore" to a location such as Ireland.

For new US groups looking at Ireland, there are several structures that provide similar benefits to the Double Irish, either through a jurisdiction such as Malta or via a traditional tax haven and 'check the box' election.

Grant Thornton can provide advice to groups considering their options in this regard, with an assessment of the US tax implications critical. Our dedicated US Irish Business Group ensures that clients receive a co-ordinated and seamless service, often spanning more than just Irish and US advice in order to deliver the most appropriate solution.

For groups considering moving their IP to Ireland, there were several changes announced in the Finance Act that make Ireland's offering even more compelling. A summary of these changes is outlined below.

Knowledge Development Box

The Irish regime will be significantly bolstered by the **introduction of a new Knowledge Development Box**, likely to be similar in many respects to the UK regime, with an emphasis on substance.

There is currently a consultation phase to consider how best to structure the Knowledge Development Box, with legislation expected late in 2015.
The new regime will provide an income based innovation relief and complement our existing cost based IP regime.

At present there is no detail regarding the applicable tax rate to income generated from the IP or the qualifying criteria for the IP in order to access the new relief. However, a tax rate of 5% has been discussed as the potential applicable rate.

Research and development

There were also improvements made to our **R&D tax credit regime**, which provides a 25% credit (in addition to the standard 12.5% deduction) for qualifying R&D expenditure. The R&D tax credit regime means that the net cost of every €100,000 of R&D spend is €62,500, representing a significant incentive to locate R&D in Ireland.

IP regime

The current Irish IP regime offers tax relief for the capital costs of IP. In a positive move, the recent budget abolished the 80% restriction on capital allowances and interest that may be deducted against related IP income from 2015.
Furthermore, the list of specified intangible assets qualifying for relief has been extended to include customer lists. These changes will further enhance the attractiveness of our IP regime and complement the planned **Knowledge Development Box**.

Attracting foreign executives

Our existing income tax relief aimed at **attracting overseas executives** to Ireland was also enhanced, ensuring that Ireland can offer a full suite of tax incentives to overseas investors.

Contact

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