

Successive Irish Governments have promoted Ireland as an investment location and knowledge – based economy. This has resulted in a successful and open economy. The tax system supports these aims through the 12.5% rate of corporation tax for trading income, a favourable holding company regime and an extensive network of tax treaties and intellectual property/research and development incentives. The following is an overview of the tax rules for corporates and individuals.

Corporate Taxation

Territoriality and Residence

Irish incorporated companies (subject to certain exceptions) are regarded as Irish resident for tax purposes. For companies incorporated outside Ireland, residence is determined by where the centre of management and control actually resides.

- Companies resident in Ireland are taxed on their worldwide income and gains.
- A non-resident company is liable to Irish Corporation Tax on profits arising from the business conducted through a branch or agency in Ireland. Taxable profits for a branch are determined in the same manner as for a resident company with a deduction available in respect of head office expenses that can be properly allocated to the activities of the branch.

No withholding tax arises on repatriation of branch profits to the foreign head office.

- Disposals of shares by non-resident persons are not generally liable to Irish capital gains tax unless the shares derive the greater part of their value from Irish land, buildings or certain other assets.
- In general, the existence or otherwise of a permanent establishment in Ireland is determined in accordance with the OECD guidelines.
- In the case of a partnership of companies or the participation of a company in partnership with an individual, the company's share of partnership profits is included in its total corporation tax profits for the related accounting period (i.e. the partnership is transparent for tax purposes).
- A joint-venture company is a separate entity and is subject to tax in the normal manner.

Tax Rates

- The current standard rate of Corporation Tax on Irish trading profits is 12.5%. Certain excepted trades (e.g. petroleum activities, certain land dealing activities etc.) are taxed at the rate of 25%.
- The rate of Corporation Tax applying to non-trading income (passive income) or foreign income is 25%.
- The rate of Capital Gains Tax is 25%.

Holding Companies

- Exemption from Capital Gains Tax applies where an Irish holding company disposes of shares in another company where certain conditions are satisfied.
- Dividends received from companies that are resident for tax purposes in other EU Member States or in countries with which Ireland has a tax treaty (a "DTA" country) are subject to the 12.5% rate of Corporation Tax where they are paid out of trading profits. Also, companies that are portfolio investors, who receive a dividend from countries in EU Member States or from DTA countries, will be subject to the 12.5% rate of tax on the dividend income. The portfolio investor in a company is an investor with a holding of not more than 5% in the company.
- All other foreign dividends received are generally treated as passive income and are liable to the 25% rate of Corporation Tax.
- Credit relief may be available via Double Taxation Agreements (Schedule 1).
- Where there is no Double Taxation Agreement relief is available by way of deduction, or unilateral relief.
- Where there is no double taxation agreement unilateral relief may be available for direct or underlying tax on dividends. Unilateral credit relief is available for tax suffered on dividends paid from companies resident in other jurisdictions where the Irish recipient has a shareholding of 5% or more subject to certain conditions.
- An Irish holding company can "pool" tax credits arising on foreign dividends received.

Controlled Foreign Companies

- Ireland does not have any controlled foreign companies' rules (CFC rules).

Thin Capitalisation

- Ireland does not have any specific thin capitalisation rules. A limited form of thin capitalisation exists such that interest paid to 75% non-EU affiliated companies may be treated as a distribution i.e. a quasi dividend. Where this rule applies there is no deduction for it against profits.

Transfer Pricing

- Ireland has only very limited specific transfer pricing rules.

Withholding Taxes

- Dividends paid to foreign resident persons in EU Member States or countries with which Ireland has a double taxation agreement are generally exempt from withholding tax.
- Irish law incorporates the provisions of the EU interest and royalty directives with the aim of eliminating withholding tax on the payment of interest and royalties between associated companies in different EU Member States.
- There is no withholding tax on management fees.
- Withholding tax of 20% applies to patent royalties. However, the majority of Ireland's double taxation agreements eliminates this requirement.

Deductions from Taxable Corporate Income

- In order to be deductible in calculating trading income, expenditure must have been incurred wholly and exclusively for the purposes of the trade.
- The depreciation of assets charged in the accounts is not an allowable deduction except in the case of expenditure on certain intangible assets. However, tax depreciation (known as Capital Allowances) is generally available in respect of capital expenditure on certain tangible assets.
- Capital Allowances on plant and machinery (including computer software) are given at a rate of 12.5% per annum.
- Industrial buildings are tax depreciated at the rate of 4% per annum.
- Tax allowances in the case of certain intangibles e.g. patents, trademarks, know-how and related goodwill, follow book depreciation rates. This is subject to certain ring fencing rules.
- Non-industrial buildings such as offices, showrooms etc typically do not attract tax allowances.

Losses

- Trading losses are set off against non trading income on a value basis for the current year and the previous year. A value basis is used to reflect that trading profits are taxed at 12.5% and other sources of income are taxed at 25%.
- Unused trading losses may be carried forward against future income of the same trade without time limit.
- Capital losses can only be offset against Capital Gains. Development land losses are ring fenced.

Intellectual Property/Research & Development Incentives

- The 12.5% rate of Corporation Tax is available on income derived from intellectual property including licensing fees and royalties where the activity is an Irish trade.
- A full exemption can apply to the first €5,000,000 of royalties and other income derived annually from certain patent royalties where the research and development work is carried out in Ireland or "EEA" (European Economic Area) State.
- Incremental expenditure on qualifying research and development (R&D) incurred by companies in respect of R&D activities carried on by them qualifies for a Corporation Tax credit of 25%. This credit is in addition to any existing deduction or capital allowances for R&D expenditure and means an effective benefit of up to 37.5% of R&D expenditure. Any unused credit may be carried forward and offset against the Corporation Tax liability of the company for future periods.
- 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. Know-how purchased from a related party or acquired as part of a trade transfer may qualify for book depreciation treatment.
- A deduction is available for revenue and capital expenditure on scientific research.
- A deduction against profits is allowable for payments, whether capital or revenue in nature, to a body carrying on scientific research that is approved by the Minister of Finance or to an Irish university in order that the Body of the University may undertake scientific research is available.

Social Security Contributions

Employers

- Employers pay PRSI contributions at a general rate of 10.75%. A lower rate may apply depending on the employee's salary.
- Different rules apply to proprietary directors or self employed individuals.
- Pension contributions paid by the employer on behalf of the employees are deductible for tax purposes. There is no statutory obligation to pay pension contributions on behalf of employees. However, it is common practice to pay a pension contribution of between 5%-10% of an employee's salary. Where there is no company pension scheme, it is necessary for employees to be offered a facility of setting up a PRSA type (self contracted) pension plan.

Employees

- Employees are generally liable to PRSI contribution at the rate of 4% of all earnings, except for the first €127 per week, up to a ceiling of €52,000 (€75,036 from 01/05/09).
- The PRSI rate is applied to gross salary and benefits after deducting pension contributions.
- Foreign nationals coming to Ireland to take up employment with Irish resident employers must contribute to the scheme on the same basis of Irish citizens.

- Foreign workers seconded or assigned to Ireland, but remaining employees of non-resident employers may obtain certain exemptions from liability to Irish contributions and continue to pay social insurance contributions in their own country.
- A health contribution levy of 3.333% annualised on all income is payable except where the income in the year does not exceed €500 per week, or €26,000 in a full year. The annualised health contribution rate is 3.333% for income up to €1,443 per week (€75,036 per annum), 4% for the next €25,064 and 4.16% for income over €100,100 per annum.
- PRSI contributions: Ireland provides a high level of coverage with respect to full rate social insurance contributions e.g. dental, health, unemployment benefits, state pension and maternity benefits.

Individual Taxation

- The first €36,400 of taxable income is subject to income tax at the rate of 20%. The balance of taxable income is subject to tax at 41%. There are options available to married couples that enable a higher standard rate band to be allocated to one spouse up to a maximum of €45,400.
- An income tax exemption exists for certain artist income. However, a minimum level of income tax may be due where the artist's income in total is in excess of €250,000. A PRSI exemption does not apply for artist income.
- A new income levy applies with effect from 1 January 2009. The levy is payable on gross income. Exempt income is liable to the levy. However, certain investment income is exempt from it.

Annualised Income Levy Rates for 2009

Less than €18,304	Exempt
Up to €75,036	1.67%
€75,036 to €100,100	3%
€100,100 to €174,980	3.33%
€74,980 to €250,120	4.67%
More than €250,120	5%

Individuals over 65 years and in receipt of low income are exempt from the income levy. Medical card holders are also exempt.

Foreign Workers

- In general, Irish resident and domiciled persons pay tax on their worldwide income and gains.
- Foreign workers who are not domiciled in Ireland are liable to tax on the remittance basis in respect of the income arising outside of Ireland. However, income from a foreign contract of employment is taxable in Ireland to the extent the duties are performed in Ireland.

Schedule 1 - Double Taxation Agreements

Table of source country tax rates in Irish tax treaties for dividend, interest and royalty payments

Country	Year	Dividends	Interest	Royalties
Australia	1984	15	10	10
Austria	1964	10	0	0/10
Belgium	1973	15	15	0
Bulgaria	2002	5/10	0/5	10
Canada	2006	5/15	0/10	0/10
Chile	2009	5/15	5/15	5/10
China	2001	5/10	0/10	6/10
Croatia	2004	5/10	0	10
Cyprus	1952	0	0	0/5
Czech Rep.	1997	5/15	0	10
Denmark	1994	0/15	0	0
Estonia	1999	5/15	0/10	5/10
Finland	1990	0/15	0	0
France	1966	10/15	0	0
Germany	1959	15	0	0
Greece	2005	5/15	5	5
Hungary	1997	5/15	0	0
Iceland	2005	5/15	0	0/10
India	2002	10	0/10	10
Israel	1996	10	5/10	10
Italy	1967	15	10	0
Japan	1974	10/15	10	10
Korea Rep.	1992	10/15	0	0
Latvia	1999	5/15	0/10	5/10
Lithuania	1999	5/15	0/10	5/10
Luxembourg	1968	5/15	0	0
Macedonia	2010	0/5/10	0	0
Malaysia	2000	10	0/10	8
Malta	2010	5/15	0	5
Mexico	1999	5/10	0/5/10	10
Netherlands	1965	0/15	0	0
New Zealand	1989	15	10	10
Norway	2002	0/5/15	0	0
Pakistan	1968	10/no limit	no limit	0
Poland	1996	0/15	0/10	10
Portugal	1995	15	0/15	10
Romania	2001	3	0/3	0/3
Russia	1996	10	0	0
Slovak Rep.	2000	0/10	0	0/10
Slovenia	2003	5/15	0/5	5
South Africa	1998	0	0	0
Spain	1995	0/15	0	5/8/10
Sweden	1988	5/15	0	0
Switzerland	1965	10/15	0	0
Turkey	Not yet in force	5/10/15	10/15	10
Uk	1976	5/15	0	0
United States	1998	5/15	0	0
Vietnam	2009	5/10	0/10	5/10/15
Zambia	1967	0	0	0

The Irish Government recently signed new tax treaties with Georgia, Macedonia, Malta, Moldova, Turkey, and Vietnam with the legal formalities required to bring these into effect currently being addressed. Not all are immediately in force. Further new tax treaties are under discussion with Albania, Armenia, Argentina, Azerbaijan, Bahrain, Belarus, Bosnia Herzegovina, Egypt, Kuwait, Montenegro, Morocco, Saudi Arabia, Serbia, Singapore, Thailand, Tunisia, Ukraine and United Arab Emirates.

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