TAX E-NEWS

Monthly Update

Glacken Accountants
registered auditors & accountants

Dear Client,

Welcome to our monthly tax newsletter designed to keep you informed of the latest tax issues.

We hope you enjoy reading the newsletter; remember, we are here to help you so please contact us if you need further information on any of the topics covered.

Best wishes

Tracey Glacken

INTRODUCTION

As this is a traditionally quiet time of year, coming between the release of the "Years Finance Act" in February and the busy season of personal tax between September and November, it is perhaps appropriate to take time out and reflect on what Ireland has to offer overseas investors and the issues they need to consider.

THE 12.5% CORPORATE TAX RATE

Central to any discussion on tax incentives in Ireland is the 12.5% tax rate on trading profits arising to companies in Ireland. The Irish Government have recently reaffirmed their commitment to this low tax rate policy, which is central to Ireland's attractiveness as a centre for Foreign Direct Investment.

With the very continuation of the Euro project under threat, the fact that there are seismic shifts underway in certain European countries does not and should not undermine this policy. The often cited comment that "he who pays the piper calls the tune" in the context of EU (German) support for the 2010 bailout and their apparent hostility towards this low rate of corporate tax in Ireland will not have any effect in Ireland in the short term.

In the longer term, with all of the main G8 countries beginning to look at economic stimulus measures, there will have to be a realisation among Ireland's larger EU partners that the 12.5% tax rate attracts jobs into Ireland. This comes at the expense of other non-EU States, rather than at the expense of our EU colleagues.

It is this pan EU "one economy" approach that will best serve Europe's interests in the long run.

Parallel to this is the concept of the Common Corporate Consolidated Tax Base (CCCTB) which is based on a model of:

(i) Looking at the combined overall profits of associated companies in the one overall Group located in Europe.

(ii) Ascertaining the employees, resources and assets used by such a Group as a whole.

(iii) Allocating profits earned in Europe to nation States on the basis of proportion of assets/employees etc in use in each State.

In all likelihood, this would have the effect of reducing Ireland's overall share of European Group profits. While not immediately impacting on the 12.5% tax rate, this may well drastically reduce Ireland's yield from corporate taxes going forward.

This has been discussed for many years but with ideologically divergent Governments now becoming a feature of the European landscape, it remains to be seen if such a concept will ever actually come to fruition.

OTHER CORPORATE TAX INCENTIVES

These can be summarised as follows:

(i) Research and Development Tax Credits

Any company utilising employees to carry out research and development activities will always obtain a tax deduction for costs, arising on the basis that they are "wholly and exclusively" incurred in the course of a company's business. In 2003, an additional tax credit of 20% was granted to a company qualifying costs of this nature; this has now risen to 25%. Very importantly, such credits can avail a company even where it does not have a corporation tax liability in a particular year, as the credits can be repaid over a period of time.

A key condition is that there are matching payroll tax costs in the same and previous year.

(ii) Corporation Tax Exemption

While a low tax rate and additional tax credits are all very welcome, what is more preferable is if a company does not have to pay any tax at all.

Recent tax changes extended the availability of the exemption, afforded to trading profits of certain start-up companies where such profits are less than €320,000 per annum. Unfortunately there is a requirement for such companies to have matching Employers or National Insurance costs equal to the corporation tax relieved, which greatly reduces the effectiveness of this relief.

(iii) International Tax

This could warrant an article in itself, but suffice to say that Ireland has an extensive Double Tax Treaty network which, along with domestic tax provisions, gives considerable relief from Irish tax on inbound income such as dividends from subsidiaries etc. Also, an absence of withholding taxes on most outbound distributions is also attractive to companies wishing to locate activities in Ireland. The adoption of transfer pricing legislation last year shows that Ireland is anything but a tax haven and will continue to adopt best international practice in the conduct of its tax affairs.

CONCLUSION

Ireland always has been and will continue to be a centre for inward investment in Europe. All macro-economic policies by current and future Governments of whatever persuasion will continue to support this policy going forward. Continued diligence will, however, be required in dealing with our international partners.

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