

Doing Business in Ireland

Foreword

This booklet has been prepared for the use of clients, partners and staff of HLB International member firms.

It is designed to give some general information to those contemplating doing business in Ireland and is not intended to be a comprehensive document.

You should consult us, therefore, before taking further action.

HLB Nathans
May 2005

About HLB International

HLB International is a world-wide organisation of accounting firms, each providing clients with a comprehensive and personal service relating to auditing, taxation, accounting and general and financial management advice.

Formed in 1969, HLB can assist clients to do business in over 100 countries, with more than 1,500 partners and 10,800 staff in over 430 offices. It is ranked in the top 12 largest accounting and business advisory groups world-wide.

Up-to-date information and general assistance on international matters can be obtained from any of the partners of HLB Nathans listed in this booklet or from the Executive Office in London:

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Ireland:- Main population centres, air and sea access points.



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General Information

Location and Climate

Ireland is situated off the north west coast of Europe lying 96 km to the west of Great Britain. The island consists of two political entities, Northern Ireland (part of the United Kingdom) and the Republic of Ireland, generally referred to as Ireland. The information contained in this booklet relates only to the Republic of Ireland. The climate is mild with fairly uniform temperatures throughout the country. The high annual rainfall and prevailing winds from the Atlantic contribute to the largely pollution free quality of its environment and scenic beauty for which it is renowned.

Government

Ireland is a parliamentary democracy. Irish law is based on common law and is enshrined in the constitution of 1937. The national parliament consists of the President and two Houses, a House of Representatives (Dail Eireann) and a Senate (Seanad Eireann)

The president is the head of state and the Taoiseach (Prime Minister) and the cabinet exercise executive power.

Population

Ireland has a population of just over 3.9 million people with the greatest concentration on the East and South coasts. The major population centres are Dublin, Cork, Limerick, Galway, and Waterford. Overall population density is 52 persons per square kilometre which is lower than the European average. Approximately 41% of the population are aged under 25.

Currency and Language

The Euro (€) replaced the Irish Pound (IR£) as the unit of currency in Ireland from 1st January 2002. The Euro is made up of 100 cents. The changeover happened simultaneously in all the countries of the Eurozone. There are 11 other member countries of the Eurozone, including Austria, Belgium, Germany, Spain, Finland, France, Italy, Luxembourg, The Netherlands, Portugal and Greece.

English is the spoken language of the people and an increasing number of college graduates have a second European language as part of their qualification.

Labour Market and Education

The labour market in Ireland is estimated at around 43% of the total population and consists of a large pool of young, well-educated workers. The educational system in Ireland is highly regarded throughout the world. The Irish government has invested substantial resources in providing an education and training system to produce highly educated graduates with skills to match the requirements of inward investors. Not only that, but the many people returning from abroad after emigrating, have brought with them, new ideas, skills and experience. This means that we have a young, experienced, highly educated and dynamic workforce.

Labour Relations

The industrial relations system in Ireland is voluntary. A significant number of trade unions exist but these are generally based in indigenous companies. Most inward investors tend to have non-union status. State intervention in industrial relations is mainly confined to providing a mechanism for parties in dispute to find a solution. Over the past number of years government and industry bodies, including unions, have negotiated programmes covering a wide range of employee issues which have led to a stable labour relations climate. While these agreements are not legally binding on non-unionised businesses, they provide useful industry guidelines.

Legal System

Irish Law is based on English common law as modified by subsequent legislation and the Constitution of 1937. Justice is administered in public in courts established by law. Judges are appointed by the president on the advice of government and are guaranteed independence. All courts are governed by the jury system other than the special criminal courts and the Supreme Court where decisions are made by judges.

Economy and Economic Arrangements

The Irish economy is one of the most open economies in the developed world. With a domestic market of only 3.9 million people it is heavily dependent on trade; exports of goods and services alone amount to almost 96% of GNP. The rapid pace of development and industrialisation in recent decades has been due in large measure to policies designed to make Ireland an attractive location for overseas investment. Indigenous industries have also been growing quickly in recent years. As a member of the European Union, Ireland is a part of a large economic area in which goods, services, people and capital can move freely.

Investment Factors

International Relations

Ireland is a member of the European Union (EU) which is now following the recent accession comprised of 25 European countries. Because of its small size, Ireland is heavily dependent on foreign trade. In the 2002 World Competitiveness Report, an annual world-wide publication rating the competitive position of almost fifty countries, Ireland ranked tenth on the “internationalisation” criteria which measure trade and inward investment strength.

Key overseas sectors which produce sophisticated and high value products have been targeted since the 1970’s for attraction to Ireland as foreign investors. The sectors chosen were the chemicals and pharmaceuticals industry, electronics industry and the international traded services sector. Sixteen of the world’s top twenty ranked chemicals and pharmaceutical companies now manufacture in Ireland and more than three hundred of the world’s leading electronic companies have invested in Ireland. Companies locating in Ireland have unrestricted access to the European market of almost 475 million people. This market has expanded greatly since 1 May 2004 with the accession of 10 new countries. Within the EU there are no restrictions on the trade with other member states and goods imported from non-EU countries are subject to uniform EU tariffs with some goods subject to uniform quota restrictions.

Government Incentives

The government is committed to creating an environment conducive to industrial development and attracting foreign investment.

The government provides significant financial incentives to new and existing businesses in the form of tax incentives and direct contribution to certain costs through grant aid. A number of government agencies operate with each one having a particular area of responsibility. IDA Ireland is the main government agency responsible for grant aiding foreign investors in Ireland. One of the other agencies for example–Shannon Development (for business locating in the Shannon area) or Udaras Na Gaeltachta (for business locating in Gaeltacht areas) may deal with the grant application depending on the location of the new business and the type of grant aid sought.

The following are the main types of grants available:

- Capital Grants and Rents Subsidies
- Employment and Training Grants
- Research and Development Grants

The number of jobs created by the new business generally determines the level of grant aid provided. The location of the project and its value to the Irish economy are also taken into account.

Grants are generally paid on receipt of a claim supported by an Auditor's Certificate. In certain circumstances, for example a company ceasing to carry on business in Ireland or sale of a property on which grant aid has been received, all or part of the grant aid may be repayable.

The government agencies hold a portfolio of purpose built factories for businesses who do not wish to construct their own premises as well as greenfield sites where a purpose built premises is preferred. There is also a good supply of modern office accommodation available in all major cities and towns throughout the country to cater for large and small operations.

Sources of Finance

The banking system in Ireland is regulated by the Central Bank and consists of four categories: clearing banks, retail banks, merchant banks and IFSC banks. There are four main clearing banks and these provide a broad range of banking services. Retail banks have over 900 branches nation-wide. Merchant banks provide more specialised services like corporate lending/deposits, installment credit and leasing, underwriting share issues, investment fund management, treasury management, trade and other international services. IFSC banks involving subsidiaries of Irish and foreign banks, offering fund management, dealing and brokerage, treasury management, financing activities and other services to non-residents only.

Foreign Exchange Controls

Exchange controls were abolished in Ireland some years ago. There are no restrictions on importing capital to or exporting capital from Ireland. Bank accounts and financial records may be maintained in any currency. Irrespective of the type of business organisation chosen, bank accounts may also be located outside of Ireland.

Employment Legislation

Ireland is a long-standing member of the European Union and the employment legislation currently in force in Ireland reflects the country's policy of implementing the various EU directives. Legislation has been introduced to: regulate the minimum notice and terms of employment of employees; protect employees from unfair dismissal; provide for annual leave entitlements for employees; protect the rights of pregnant women and protect employees against discrimination on the grounds of sex or marital status.

Immigration

Immigration controls are only applied to non-EU nationals. An individual moving to Ireland to live must notify the Department of Justice within three months of their arrival. A work permit is required if a non-EU national takes up employment in Ireland. This is issued by the Department of Enterprise and Employment and will only be issued in cases where the employer can satisfy the department that the vacancy could not be filled from within Ireland.

E-Commerce

Ireland has one of the most advanced and competitive telecommunications infrastructures in Europe. Extensive investment in recent years has resulted in state-of-the-art optical networks and virtually unlimited bandwidth. The telecommunications market place is fully deregulated. The independent office of the Director of Telecommunications Regulation has placed the driving of competition at the core of its agenda.

Competitive Location

The combination of the geographical location of Ireland, government incentives, access to an extensive network of tax treaties and significant investment over the past number of years in infrastructure has made Ireland one of the most competitive locations for investment.

The National Development Plan published in November 1999 plans an investment of €52 billion over the period 2000-2006. The plan aims to:

- Promote further economic growth and development
- Invest heavily in infrastructure
- Develop human resources through support for education and training
- Reduce social and economic exclusion.

Types Of Business Organisations

Sole Proprietorship

A sole trader is an individual who carries on business on his or her own behalf and is personally liable for the obligations of the business. The principal advantages of sole proprietorships are that it is comparatively easy and inexpensive to establish, operate and to wind up or sell such a business. There are no specific registration, accounting or audit requirements for a sole proprietorship.

Partnership

A partnership is defined by the Partnership Act 1890 as “the relationship which exists between two or more persons carrying on business in common with a view to profit”. Generally, a partnership may not consist of more than 25 persons, although this may be increased for certain professions. The liability of the partners for the obligations of the partnership is joint and several. Their partnership agreement and the Partnership Act govern the partners’ rights and obligations among themselves.

Except for “Limited Partnerships”, there are no specific regulatory registration requirements for a partnership. There are also no legal requirements as to the audit of accounts or holding of meetings. No details of the financial position of a partnership need to be known to the public.

A limited partnership is governed by the Limited Partnership Act 1908. These partnerships have to be registered in public outlining the ownership details. Normally there is a general partner (whose liability is unlimited) and a number of limited partners. These limited partners have indicated in their registration process the scope of their liability.

The business name of a partnership, whether general or limited, must be registered with the Registrar of Business Names.

Companies- General Introduction

Company law in Ireland is governed by the Companies Acts 1963-2003. These generally mirror the U.K. legislation on company law. In addition almost all the various EU directives on company law have now been implemented in Ireland.

A company may be incorporated with any name that is not previously registered, provided that it does not contain the words “bank”, “insurance company” or any undesirable wording. It is possible to obtain advance confirmation that a desired name will be acceptable. The minimum number of shareholders is one although most existing companies have two. Shares may be held by corporate entities and may also be held by nominees. An Irish company is required to maintain a registered office in the state at which the statutory books

and company seal are kept. A return, detailing shareholders, capital and officers of the company must be filed annually with the Registrar of Companies. All private companies with the exception of unlimited companies must file an abbreviated form of audited accounts with this annual return. Unlimited companies that are owned 100% by limited entities are also required to file accounts. A company secretary is required and this can be a corporate entity. Directors hold the executive powers of the company, can not be limited and must always act in a personal capacity within the company.

The following information must be included in headed notepaper and other corporate documents:

- Name of company
- Business name, if any
- Business address
- Address of registered office
- Place of incorporation
- Registered number
- Names of directors and nationality (if not Irish).

There are several forms of companies and they are as follows:

Private Limited Company

This is the most common form of company structure in Ireland. This company must have a minimum share capital of €1.00. The maximum number of members in this type of company is fifty with a minimum of one. Shares may not be offered to the public and a member's right to transfer shares is restricted. The shareholders liability, if the company is wound up, is limited to the amount, if any, unpaid on the shares that they hold.

Public Limited Company

A limited company which is not a private limited company, for example because the number of members exceeds fifty, is a public limited company. The minimum issued share capital is €38,092; of which 25% must be paid up. Shares may be offered to the public and may also be quoted on a stock exchange, although that is not mandatory. There is no maximum number of members but there must be a minimum of seven.

Unlimited Companies

An unlimited company must have a minimum of two members. Such a company has no obligation to file accounts on an annual basis, except where it is owned 100% by a limited entity, but does have an obligation to file an annual return with the Registrar of Companies showing the directors, shareholders and officers of the company. In an unlimited company, there is no limit on the liability of the shareholders.

Companies Limited by Guarantee

There must be a minimum of seven members in this company. The members' liability is limited to the amount they have undertaken to contribute to the assets of the company, in the event it is wound up, not exceeding a specified amount and subject to a minimum of €1.00. Charities and non-profit making associations normally use this type of company.

Branch

Foreign corporations commencing business in Ireland may choose whether to incorporate a separate company or trade through a branch. The decisions whether to trade through a branch or a separate company will depend upon several factors including taxation, accounting, shareholders and dealing with local agencies and financiers. The foreign company must file with the Registrar of Companies details of the date and place of incorporation, the memorandum and Articles or Constitution of the company, details of the directors and person responsible for the operations of the branch. The branch may commence operations once the Registrar issues the Certificate of Registration.

Trusts

A trust is created by the execution of a trust deed which contains the terms and conditions of the trust. The trustee(s) holds the assets and manages the income for the beneficiaries. The use of a trust enables an individual to divest him/herself of the legal ownership of assets, while at the same time preserving the assets for the benefit of the beneficiaries, in accordance with the terms and conditions detailed in the trust. Trusts are primarily established to facilitate estate planning and asset protection. There is no specific Irish legislation which governs the operation of foreign trusts located in Ireland. The law of trusts in Ireland is based on UK legislation-the U.K. Trustee Act of 1893- and precedent UK and Irish case law.

Discretionary trusts are widely used and are flexible in operation. Such a trust affords the settlor the flexibility to guide the trustees by means of a letter of wishes.

Prior to the changes in the Finance Acts of 1993 and 1994, Ireland was not considered to be an attractive location for foreign trusts. The changes introduced provided that a foreign trust is not subject to Irish tax on income or gains. A foreign trust is one where:

- the settlor and beneficiaries are not Irish resident or domiciled,
- the assets of the trust are all located outside the State,
- all income and capital gains arise outside the state and
- the trustees, apart from one specific trustee, are not Irish resident or domiciled.

It is necessary for at least one trustee to be resident in Ireland and this person must be authorised by the Central Bank to act as a trustee in the course of business and carry on a business which includes the management of trusts.

These provisions make Ireland, though not a tax haven, a most attractive environment for the location of foreign trusts.

Company Formation

It normally takes five working days to incorporate a new company. Details of the company name, share capital, directors, secretary, shareholders, registered office, business address, address where central management and control will be carried out and the Memorandum and Articles of Association must be filed with the Registrar of Companies at the formation date. Once the required details have been accepted, the Registrar issues a certificate of incorporation and the company may commence operations. A company may prepare financial statements to a date of its choice.

The approximate cost of incorporating a company varies from €350 to €1,100.

Essential Requirements

Requirement to carry on an activity in the state

A company may not be incorporated and registered unless it appears to the Registrar of Companies that the company, when registered, will carry on an activity in the State. "Activity" means "any activity that a company may be lawfully formed to carry on and includes the holding, acquisition or disposal of property of whatsoever kind."

Requirement to have at least one resident director

Subject to two exceptions, at least one of the directors of a company, which is being incorporated, is required to be resident in the State. The requirement to have at least one resident director does not apply to any company which

A) Holds a bond, in the prescribed form, in force to the value of €25,395 and which provides that in the event of a failure by the company to the whole or part of –

- A fine imposed on the company in respect of an offence under the Companies Acts, 1963-2001 committed by it, being any offence which is prosecutable by the Registrar of Companies and
- A fine imposed on the company in respect of an offence under section 1078 of the Taxes Consolidation Act, 1997 and
- A penalty which has been held liable to pay under section 1071 or 1073 of the Taxes Consolidation Act, 1997

they shall become payable under the bond a sum of money for the purpose of same being applied in discharge of the whole or part of the company's liability in respect of any such fine or penalty.

The bond must have a minimum period of validity of 2 years, commencing no earlier than the occurrence of the event giving rise to the requirement for the bond. A certified copy of the bond must be made available by the surety to the Companies Registration Office.

B) Obtain an exemption from the Revenue Commissioners by virtue of the fact that a Company has a real and continuous link with the State. This exemption is then filed along with a Form B67 with the Companies Registration Office who then issue a Certificate confirming that a Company has a real and continuous link with the State.

Financial Reporting

Companies are required to keep proper financial records. The directors are required to prepare accounts on a periodic basis which give a true and fair view of the state of the current affairs and the results of the company for its financial period.

A company having more than one shareholder is obliged to hold an Annual General Meeting (AGM) each year so that the audited accounts can be put before its members. The first AGM of the company must be held within 18 months of the date of incorporation and thereafter within 9 months of the end of the accounting period. Every company is allocated an Annual Return Date (“ARD”). The deadline for filing the audited accounts and the annual return with the Registrar of Companies is 28 days after the ARD. A new company’s first Annual Return should be made up to a date which is not later than the day which is six months after the date of its incorporation. No accounts are required to be filed with the company’s first annual return post-incorporation. The second annual return is required to be made up to a date which is no later than the anniversary of the company’s first ARD. Audited accounts do not have to be submitted to the registrar with the annual return for an unlimited company, except where it is owned by a limited entity.

A company, which is classified as a small or medium sized company is permitted to exclude certain details from the accounts, filed with the Registrar of Companies. It is possible to file abridged financial statements if the company satisfies two out of three criteria relating to turnover, balance sheet value and average number of employees for the period.

An Irish subsidiary company with an EU incorporated parent needs to not file entity accounts with the Registrar, if the parent company has guaranteed its liabilities and a copy of the consolidated accounts of the parent is filed with the annual return of the Irish company.

A branch of a foreign company must file the financial statements of the foreign company with the Registrar of Companies within 11 months of the company’s year-end.

Limited Companies with a turnover of less than €317,425 are exempt from the necessity to have their accounts audited by a registered auditor. This exemption is available to all companies with an accounting year beginning on or after 21 February 2000.

Other criteria are:

- The balance sheet total does not exceed €1.9 million (approx.).
- The average number of employees does not exceed fifty.
- The company is not a parent or subsidiary.
- The company is not regulated under financial, banking, insurance investment or trade union legislation.

However there is still a statutory requirement to keep up to date books and records and to prepare accounts which give a true and fair view. It will also be necessary for abridged accounts to be filed with the Registrar of Companies on time.

The turnover amount for an audit exempt company was increased to €1,500,000 in respect of financial years on or after 1 July 2004.

Corporate Taxation

Introduction

The rules for assessing companies to tax on their profits and capital gains are contained in the Taxes Consolidation Act 1997. This Act is updated every year in the annual Finance Act.

Scope

All Irish resident companies are subject to corporation tax on their world-wide profits. A company is resident in Ireland if it is registered in Ireland and/or is “managed and controlled” here. The place where management and control is exercised is generally regarded as the place where the strategic decisions affecting the company are taken. Other factors, for example the location of the directors’ meetings, the place where negotiations of major contracts is carried out, the location of the books and records of the company and the location of the company bank account, may also be taken into account in determining residence.

A non-resident company is subject to corporation tax on the profits of a trade carried on in Ireland through a branch or an agency. If a branch or agency does not exist then tax is only payable on Irish source income and gains. Relief may be available under a double taxation treaty.

Fiscal Year

Corporation tax is assessed on the profits of companies for accounting periods. A company may prepare financial statements to a date of its choice and tax will be assessed by reference to events happening within that accounting period. An accounting period for tax purposes may not continue for more than 12 months and profits will be apportioned on a time basis if financial statements are prepared for a longer period.

Taxable Profits

Profits for corporation tax purposes consist of trading and investment income together with capital gains (other than gains on development land).

Expenses

Revenue (non-capital) expenses which are wholly and exclusively incurred for the purposes of the trade of a company are allowable deductions for tax purposes with certain exceptions provided by legislation. The major exceptions include depreciation, client entertainment expenses, leasing charges of passenger motor vehicles costing over a specified limit, and general provisions. A tax deduction for pre-trading expenditure is available in certain circumstances. Royalty charges, license fees and shared costs are also deductible provided that the rate of charge is not regarded as excessive. Interest on trade related borrowings is generally deductible.

Tax depreciation

Book depreciation is not allowed for tax purposes. Instead, tax depreciation, commonly referred to as capital allowances in Ireland, is granted for industrial buildings, plant & machinery, motor vehicles, patent rights and some capital expenditure on scientific research. The rates are:

Industrial Buildings	4% per annum straight line
Plant and Machinery	12.50% per annum straight line from 4 December 2002
Motor vehicles	12.50% per annum straight line from 4 December 2002 (max. of €22,000 for passenger cars)
Scientific research expenditure	100% per annum
Goodwill	may not be depreciated.

Losses

Trading losses are calculated in the same way as trading profits and may be carried forward indefinitely against income from the same trading activity. Trading losses are first set off against trading income of the current accounting period and if required can also be offset against trading profits in the previous accounting period of equal length. If there is an excess unused amount of losses they may be set off against all other income (i.e. passive non-trading/investment income) as a credit on a value basis.

Groups of Companies

There are a number of provisions in Irish law for the transfer of losses, the transfer of assets and the payment of dividends and interest within a group.

For Irish tax purposes a “group” means a parent company and all of its 75% subsidiaries which are tax resident in Ireland or in another EU Member State. Current year trading losses incurred by a member of a group may be offset as an allowance against trading profits of another member of the same group. If there is an excess amount of unused losses after claiming such allowances, the excess may be offset against the corporation tax payable on passive income/gains by way of credit on a value basis.

A consortium can also benefit from loss relief. The consortium is formed where five or fewer companies own at least 75% of the ordinary share capital of the loss-making company, if the latter is either:

- a) a trading company or
- b) a parent company which holds trading companies resident in Ireland or the EU which are 90% subsidiaries.

Where the business of an Irish branch of a non-resident company is transferred to an Irish company, any unused losses of the branch may be used against future profits of the new company subject to certain conditions.

Assets may be transferred between members of a group without liability to corporation tax on capital gains.

Interest and patent royalties can be paid between EU member state companies which form a group with a 51% shareholding relationship.

Dividends paid between Irish tax resident companies or from an Irish company to a company tax resident in the EU or treaty country are not subject to withholding tax.

Rates of corporation tax

The standard rate of corporation tax for trading companies is 12.5% from 1 January 2003.

The standard rate applies to active trading income. Non-active or passive income such as rental and investment income are taxable at the rate of 25%. Income arising outside Ireland is also taxable at the 25% rate.

Manufacturing relief.

A Special tax rate of 10% applies to companies which were carrying on a manufacturing trade at 23 July 1998. As part of the introduction of the 12.5% standard rate, it has been agreed with the EU that the 10 % rate of tax will be phased out. Companies which qualify under the pre 1998 rule can generally continue to avail of the 10% rate of tax until 31 December 2010. Newly established companies however can only avail of the 12.5% rate of tax which comes into effect on 1 January 2003. There is a special 10% rate for manufacturing companies (available until 2005) for pre 1998 projects licensed to operate in the Shannon Free Zone and the International Financial Services Centre. New operations in these areas can benefit from the 10% rate until 31 December 2002.

Filing Requirements

A Self-assessment system operates in Ireland and each company is obliged to file a tax return, calculate and pay its liability without request. The tax return must be filed on the 21st day of the ninth month after the end of the company's accounting period.

Advance/Preliminary corporation tax is payable in two instalments for a company's accounting period. The first payment is due on the 21st day of the month preceding the company's accounting period end and the second payment is due on the 21st day of the sixth month after the company's accounting period end. The amount of the first instalment can vary depending upon the circumstances of the company but the second instalment must be of such an amount to bring the total tax payment up to 90% of the company's final liability to corporation tax for an accounting period. The balance of tax of 10% is payable on submission of the tax return which is on the 21st day of the ninth month after the company's accounting period end.

Company Capital Gains

Chargeable gains realised by companies are subject to corporation tax (with the exception of gains realised on Development Land). The rate of tax is effectively 20%. An Irish resident company is liable to capital gains tax on its world-wide gains subject to relief under a tax treaty. In computing the taxable gain, the net sales proceeds are reduced by the acquisition cost of the asset. The acquisition cost of the asset can be increased by an inflation adjustment providing the asset was purchased pre 31 December 2002. Assets purchased after 31 December 2002 do not benefit from the inflation adjustment which has now been abolished.

Recent Developments

The 2004 Finance Act introduced a number of measures designed to encourage multinational corporations to locate their headquarters and holding companies here. This includes allowing an exemption from Irish CGT on the disposal of a trading subsidiary by an Irish resident company. There is also a provision for double tax relief where dividends are paid to a parent company.

INTELLECTUAL PROPERTY (IP) / RESEARCH & DEVELOPMENT (R& D)

The exploitation of IP rights in a low tax jurisdiction has always made sense, and the abolition of a 9% transfer tax on the transfer of IP will further assist Irish based companies in acquiring and exploiting these rights tax efficiently. Under measures introduced incremental R&D expenditure will qualify for a tax credit of 20% in addition to a tax deduction of 12.5%, giving a potential tax write-off for R&D expenditure of 32.5% and removing any lack of competitiveness in this area.

The following is a summary of the tax treatment of intellectual property rights in Ireland:

Patents

The cost of acquiring a patent can be written off over a maximum period of 17 years or less depending upon the life of the patent.

Scientific Research

Both capital and revenue expenditure for the advancement of knowledge in the fields of natural or applied science (except mining or oil exploration activities) are allowed as a trading expense in the year in which the expenditure is incurred.

Know-how

Expenditure on industrial know-how can be written off as a trading expense in the year in which it is incurred. Know-how cannot be treated as a trading expense if it is purchased from a related party or acquired as part of an existing business.

Trademarks

The costs incurred in registering a trademark are deductible. The costs of development or acquisition of trademarks are not deductible.

Software

This is written off at the rate generally applicable to plant and machinery – this has changed to 12.5% p.a. from 4 December 2002 onwards.

Copyright

No deduction is allowable for expenditure relating to copyright.

For an Irish company, investment income is taxed at a different rate to trading income, i.e. 25% as opposed to 12.5%. Depending on the level of substance and trading activity, it is possible for a company trading in/exploiting intellectual property to benefit from the 12.5% trading rate.

Repatriation of profits

General

Profits derived from operations carried out in Ireland may be repatriated in a number of ways including dividend payments, interest charges, royalties and cost sharing agreements.

Dividends and Distributions

Ireland operates a 20% Dividend Withholding Tax (DWT) on dividends paid by an Irish Company to Irish resident individuals. DWT is not deductible from dividends paid to non-Irish resident shareholders in the EU or in Tax Treaty countries, dividends paid to pension funds, charities and other Irish companies.

Royalties

There is a full tax exemption in respect of patent royalties from EU registered patents where the design and testing of the patented product was carried out in Ireland and relates to a radical innovation. To benefit from the exemption, royalties must be charged on an arms length basis and must be in respect of a manufacturing activity if the owner and user of the patent are connected. A full tax deduction is available for business related royalties on a paid basis.

Royalties paid in respect of a patent are liable to a withholding tax of 20% subject to a reduction or elimination as provided by relevant double taxation agreement. Such payments between 51% group companies are not subject to withholding tax, subject to certain conditions.

Interest

No withholding tax will apply where interest is paid during the course of a trade or business to a company resident in the EU or treaty country. Interest paid to a 75% non-resident parent or associated company is classified as a deemed dividend and is not allowable as an expense of the trade. However, interest paid to a 75% parent or associated company which is resident in an EU or treaty country will not be subject to withholding tax, on condition that the interest paid is a trading expense of the company.

Cost Sharing Agreements

Payments, which typically cover research and development, under cost sharing agreements marketing, etc. are generally tax deductible subject to the normal rules for expenses in relation to calculating taxable profits. Such payments do not attract withholding tax.

A listing of double taxation agreements and withholding taxes is outlined on page 30.

Personal Taxation

Introduction

The rules of Irish personal taxation are established by the Taxes Consolidation Act 1997. This is updated annually by the Finance Act. The major changes to be brought in by the new Finance Act are generally presented in the annual Budget in December.

Scope

An Irish resident and domiciled individual is liable to Irish tax on world-wide income.

An individual who is resident but not domiciled and/or non-ordinarily resident in Ireland is liable to Irish income tax on Irish and UK source income but only on foreign income (non-Irish, non-UK income) to the extent to which it is remitted to Ireland. This is known as the remittance basis of taxation. The remittance basis facilitates very effective tax planning for an individual who has foreign source income and is resident in Ireland, but remains non-domiciled. Individuals who are not tax resident in Ireland are liable to Irish income tax on Irish source income only. Fees from directorships of Irish companies are liable to Irish tax irrespective of the residence or domicile position of the individual.

Ireland Operates a “Pay and File System”

The Irish income tax year runs from 1 January to 31 December in line with the calendar year. Income Tax Returns are due for submission on 31st October of the year following the end of the tax year. This is also the due date for payment of any balance of Income Tax outstanding from the previous tax year and in addition, 31st October is also the date on which preliminary tax for the current tax year is due for payment.

Tax Rates and Bands

A husband and wife may choose to be assessed jointly, separately, or as single individuals. The rates of individual income tax for the tax year 2005 are as follows:

	Single	Married (two incomes)	Rate
Taxable income up to:	€29,400	€58,800	20%
	Married (one income)	One-parent families	
	€38,400	€33,400	20%
Balance taxable at			42%

PAYE

A withholding tax system operates in Ireland which ensures that employee taxes are collected at source by the employer. This system is known as the PAYE (Pay-As-You-Earn) system. Each employee, on commencement of employment applies to the tax authorities to obtain a certificate of tax credits which is then used by the employer to ensure the correct amount of tax is deducted at source.

PRSI

Social welfare taxes are known in Ireland as Pay-Related-Social-Insurance (PRSI). PRSI is generally payable by all people in the Irish Tax system. A national of an EU member state in Ireland on temporary assignment (generally up to 5 years) may opt to remain on their home country social security system. Any payments made under the Irish system will generally be recognised by the other EU State and vice versa. In the case of employees, PRSI is withheld at source by the employer.

The standard PRSI rates are as follows:

<i>Employer:</i>	<i>Rate</i>
Salary paid to employee is €356 per week or less	8.50%
Salary paid to employee is €357 per week or more	10.75%
<i>Employee:</i>	
Salary received is €287 per week or less	Exempt
Salary received is €288 per week or more	4% on first €42,160

Note: An allowance of €127 per week relates to certain classes of employee PRSI payments.

<i>Self-employed:</i>	
Percentage of PRSI paid on gross income (after capital allowances)	3%
Minimum contribution of PRSI per annum	€254

Health Levies

Employees and self-employed people who earn more than €356 per week are also subject to a Health Levy at the rate of 2% on gross income.

Tax Credits

The tax system in Ireland provides for tax credits and allowances including Single/married persons credit, PAYE credit, health Expenses, pension & permanent health expenses, educational Fees, cost of renting private accommodation, medical insurance (at source) and mortgage interest (at source).

Residence and Domicile

Residence

An individual is resident in Ireland for the current tax year if he spends:

- 183 days in Ireland during the tax year or
- 280 days on aggregate in Ireland in any two-year tax period where at least 30 days are spent in the current tax year.

An individual is considered to be ordinarily resident in Ireland in a tax year, if he/she was resident in Ireland for three preceding tax years to the tax year in question.

Domicile

An individual is generally regarded as domiciled in the country which he/she considers as a permanent home. A domicile of origin is acquired at birth (normally that of the father) and this is deemed to continue until a domicile of choice is acquired. A domicile of choice may generally be acquired provided the individual moves from the domicile of origin with the intention of remaining permanently in the new country of choice.

Remittance Basis Taxation

The remittance basis may facilitate effective tax planning for an individual who has foreign source income and is resident in Ireland, but remains non-domiciled or non-ordinarily resident.

The remittance basis of taxation applies to resident but non-domiciled and non-ordinary resident persons. Effectively a non-domiciled individual is liable to Irish Income Tax and Capital Gains Tax on Irish and UK source income. In addition, he/she may be liable to gains or income from foreign sources, but only to the extent that they are remitted to Ireland. The part of the gains or income remitted to Ireland is taxed in the year in which it is brought into Ireland rather than in the year in which the disposal was made or income earned.

Split Year Residence – employment income

There are special rules regarding the year of arrival and the year of departure of an individual who is in receipt of employment income. Generally, employment income arising before the date of arrival and after the date of departure is not taken into account for Irish tax purposes even where the individual is considered resident for that particular tax year.

Foreign Nationals

A non-citizen EEA requires permission to remain in Ireland for more than 3 months in the form of a residence permit. In order to obtain a residence permit, it is necessary to obtain a work permit, or business permission or to show independent means.

Business permission

To obtain business permission an individual needs to submit a business plan providing for

- Investment in Ireland of at least €381,000
- Employment for at least 2 EEA citizens or at least maintaining the employment in an existing business
- Enhancement of the commercial activity and competitiveness of the State
- A viable trading concern which will provide sufficient income for the applicant and family

If the business permit is granted it entitles the applicant, his/her family, and those people directly involved in the business venture and necessary for its existence to remain in the state for a period of 12 months. After 11 months an application needs to be made to extend the business permission, at which stage the application will be reviewed to ensure that the criteria have been satisfied. Should this be the case the permission will be extended.

Work Permit

The following do not require a work permit to work in Ireland:

- EEA citizens
- Persons employed in an EEA state sent on contract to another EEA state
- Spouses of Irish nationals
- Parents of Irish citizens
- Asylum seekers and persons with refugee status
- Persons seconded/transferred by an international group or company to Ireland for a period not exceeding 4 years (This procedure is temporarily suspended)
- Persons coming to Ireland for training, for a period not exceeding 3 years

In the case of a person not covered by the above exceptions a work permit is required. The employer would need to apply on behalf of the employee, and is also responsible for proving that it has not been possible, in spite of reasonable efforts being made, to find an EEA citizen to fill the position. As well as supplying all the relevant information the employer is responsible for paying the €159 per year processing fee if the work permit is granted. The applications usually take about 7 weeks to process.

Citizenship

Persons born in Ireland are entitled to apply for Irish Citizenship. Persons not born in Ireland can gain Irish citizenship by any of the following means:

- Descent (persons with Irish parents or grandparents are entitled to apply for citizenship)
- Post-nuptial citizenship (spouses of Irish nationals may be entitled to claim citizenship after 3 years of marriage)
- Naturalisation (persons resident in Ireland for 5 years may apply for citizenship)

Naturalisation is available to persons who fulfil the following criteria:

- are of full age (18 years or over)
- are of good character
- have spent 5 of the last 9 years in Ireland
(the last of which has to be a continuous year leading up to the application)
- intend (in good faith) to continue to reside in Ireland
- make a declaration of fidelity to the Nation

The decision to grant citizenship is at the Minister's absolute discretion. The processing of applications usually takes approximately 15 months.

Incentives

There are a number of tax incentives from which individuals can benefit:

Remittance basis of taxation – see page 24

Artists exemption

A complete exemption from Irish tax is available to a tax resident individual in receipt of profits or gains from the sale, publication etc. of certain artistic works. A work must be original and creative and would include a book, play, musical composition, painting or sculpture. There are specific guidelines for qualification for this exemption issued by the Irish revenue authorities.

Patent royalties

An individual who researches, develops and patents an invention in Ireland is completely exempt from income tax on royalties received.

Stallion services and greyhound stud fees

Income from the services of stallions kept in the state is exempt from Irish tax. A similar exemption also applies to greyhound stud fees.

Woodlands

Profits and gains from the occupation of woodlands on a commercial basis are exempt from tax.

Sports persons

Irish tax resident sports persons involved in certain sports (i.e. football, rugby, badminton, motor racing, squash, swimming, boxing, athletics, golf, horse racing, cycling, and tennis) on a professional basis during their playing career and who permanently cease participation in the sport, can claim relief in the form of a deduction equal to 40% of their net earnings for a period of up to 10 years prior to retirement. This relief is applicable only in respect of earnings deriving directly from participation in the sport and includes prize money and performance fees but it is not applicable to sponsorships, etc.

Other Taxes

Capital Gains Tax

An individual who is resident and domiciled in Ireland is liable to capital gains tax on world-wide gains. An individual who is resident but not domiciled is liable to tax on Irish and UK source gains and remittances of foreign gains.

The standard rate of capital gains tax is 20%. There is an annual tax free allowance of €1,270 available per individual and this is not transferable between spouses. Companies or trusts cannot avail of the annual allowance.

Specified Assets

Gains on the following assets will be liable to Irish CGT irrespective of the residence position of the person making the disposal:

- Land and buildings in Ireland
- Minerals in Ireland including exploration or exploitation rights in a designated area of the Continental shelf.
- Unquoted shares deriving their value or the greater part of their value from assets mentioned above.
- Assets of a business carried on in Ireland through a branch or agency.

Indexation Relief

A capital gain is calculated by deducting from the net sales proceeds, the cost of acquisition and other deductible expenses which have been indexed for inflation. The inflation index has been discontinued from 1 January 2003, it will only apply to future disposals of assets which were acquired prior to this date.

Clearance Certificates

A clearance certificate is required where the sale proceeds exceed €500,000 for disposals of specified assets after 1 January 2003. If such a certificate is not available the purchaser is obliged to withhold 15% of the gross purchase price and pay it over to the revenue authorities.

Development Land

Gains on the sale of all development land are also taxed at 20% but are subject to a special regime, which effectively restricts the inflation relief outlined above.

Approved Share Option Schemes

Capital gains tax treatment applies to certain share option schemes. Capital gains tax at 20% is calculated on the difference between the option price and the share disposal price.

Exemptions/relief from Capital Gains Tax

There is no charge on profits from the sale of an individual's principal private residence and on profits from the sale of qualifying business assets on retirement subject to qualifying conditions. All assets passing on the death of an individual are exempt as are assets passing between spouses.

Capital Acquisition Tax

Under Irish law gift and inheritance taxes (CAT) are levied on the beneficiary. The exposure to tax arises at the time of the gift or inheritance. Exposure to CAT is based on residence of the donor / beneficiary or the location of the asset in Ireland. A non-Irish domiciled donor needs to reside in Ireland for 5 consecutive years before an exposure arises. There are life-time tax-free thresholds and reliefs which may reduce any tax liability.

The rate of Inheritance/Gift tax is 20%. Inheritances and gifts between spouses are exempt.

Capital Duty

Duty at the rate of .5% applies to the issue of shares in Irish limited companies.

Stamp Duty

Stamp Duty is charged on documents, particularly those relating to property and share transactions. A document is subject to stamp duty if it:

- is executed in Ireland,
- relates to Irish situated property or
- relates to anything done or to be done in Ireland.

Value Added Tax - VAT

VAT is charged on the sale of goods and the provision of services in the course of business. A business supplying goods or services subject to VAT in Ireland must register with the tax authorities. The overall system is devised to provide a system of credits for traders so the eventual VAT cost is borne by the end user or consumer.

In accordance with EU Directives Irish VAT is no longer payable at the point of import on goods imported from other EU countries with the exception of a number of products including alcohol and tobacco products.

Customs Duties

Customs Duties only apply to imports from non-EU countries and the rates applied are those laid down by the EU Directives.

Listing of Double Taxation Agreements and Withholding Taxes

Ireland has concluded a large number of tax treaties. The table below sets out the rates of Withholding tax to be applied to interest, dividends and royalty payments from Irish payers to Treaty and non-Treaty countries.

Payee resident in	Withholding tax on		
	interest(%)	royalties(%)	Dividends(%)
Non-treaty countries	26	26	20
Argentina (in negotiation)			
Australia	10	10	0
Austria	0	0	0
Belgium	15	15	0
Bulgaria	5	10	5/10***
Canada	26*	0	0
China	10	10	5/10***
Croatia	10	0	10
Cyprus	0	0	0
Czech Republic	0	10	0
Denmark	0	0	0
Estonia	10	5/10**	0
Finland	0	0	0
France	0	0	0
Germany	0	0	0
Greece (not yet enforce)			
Hungary	0	0	0
Iceland (not yet enforce)			
India	10	10	10
Israel	10	10	0
Italy	10	10	0
Japan	10	10	0
Korea (Rep)	0	0	0
Latvia	10	5	0
Lithuania	10	5	0
Luxembourg	0	0	0
Malaysia	10	8	0
Mexico	10	10	0
Netherlands	0	0	0
New Zealand	10	10	0
Norway	0	0	5/15***
Pakistan	0	0	0
Poland	10	0	0
Portugal	15	10	0
Romania	3	3	3
Russia	0	0	0
Slovak Republic	0	10	0
Slovenia	15	5	5
South Africa	0	0	0
Spain	0	5/8/10**	0
Sweden	0	0	0
Switzerland	0	0	0
United Kingdom	0	0	0
United States	0	0	0
Zambia	0	0	0
EU Countries	0	0	0

Note: New treaties are being negotiated on an ongoing basis. Further enquiries should be made about countries not featured above or if more detail is required. **The rate varies depending on the subject of the royalties.

*in practice this is limited to 15% ***Depends upon beneficial Shareholding

Effective Tax Rates

The following table of effective tax rates help illustrate Ireland's attractiveness as a location for doing business.

Country	Corporate tax rate	Regional/State/Local Taxes	Dividend withholding Tax
UK	30%	N/A	0%
Germany	26.375%	13-21%	0-21%
France	34/35%	N/A	0-25%
Italy	33%	4.25%	0-27%
USA	35%	0-15%	0-30%
Netherlands	34.5%	N/A	0-25%
Luxembourg	22.88%	7.5%	0-20%
Ireland	12.5%	N/A	0-20%
Spain	35%	N/A	0-15%
Austria	25%	N/A	0-25%
Denmark	30%	N/A	0-25%
Switzerland	8.5%	6-32%	0-35%

IRELAND - STATISTICS AT A GLANCE

Climate 2003

	Average hours(hrs) sunshine	Average(c) temperature
Dublin	4.09	9.66
Cork	4.10	10.7

Labour Force ('000)s

	2004	2003
Agriculture, forestry and fishing	117	118
Other production industries	301	304
Construction	206	199
Wholesale & retail trade	260	260
Hotels & restaurants	108	124
Transport, storage & communications	113	111
Financial & other business services	237	230
Public administration and defence	89	92
Education and health	295	280
Other services	110	101
Total at work	1,821	1,821

Population and Largest Cities

	2002	1996
	3,917,336	3,626,087
Dublin greater area	1,122,600	953,000
Cork	228,000	180,000
Limerick	104,000	79,000
Galway	97,000	57,000
Waterford	62,000	44,000

Earnings (€) (weekly)

	2003	2001
Adult males	628.36	512.38
Adult females	425.10	347.32

Main Trading Partners 2001

	Imports(€m)	Exports(€m)	Trade Balance
Great Britain and Northern Ireland	19,860	22,431	2,571
Other EU Countries	12,981	37,287	24,306
U.S.A	8,504	16,894	8,390
Rest of the world	13,956	17,111	3,155

Sources: Central Statistics Office,
Meteorological Services,
Department of the Environment.

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James Kiely
Tom Barry
Carl Dillon

Branch Offices

Skibbereen
Mallow
Carrigaline

Kanturk
Castletownbere