itm

Irish Tax Monitor

The Roundtable November 2022

BEPS

How optimistic are you that Ireland can retain the substantive competitive advantage it has regarding the headline and other rates of corporation tax in light of current and prospective developments?

Angela Fleming, Partner & Head of Financial Services Tax, BDO: Last October, Ireland, along with over 130 other countries, signed up to an historic agreement to address the tax challenges arising from digitalisation and globalisation. The agreement contains a two-pillar approach: Pillar One envisages a re-allocation of a proportion of profits to market jurisdictions; Pillar Two consists of two interlocking domestic rules, the GloBE rules, and the Subject to Tax Rule.

It is the GloBE rules which propose to introduce a global minimum effective tax rate of 15% for in-scope business. Frequently, as tax advisors, we are asked about this new 15% tax rate, and the impact that it has on the long-standing 12.5% Irish corporation tax rate. There is a general misunderstanding, particularly with regard to inward investment, that the 12.5% rate has now been (or is to be) replaced by the 15% rate. That, however, is not the case, and even when the new rules do come into play, the vast majority of businesses in Ireland will be outside the scope of the new 15% rate. As the new rules only apply to businesses with turnover in excess of €750m per annum, it is expected that the 15% rate will apply to 56 Irish multinationals employing approximately 100,000 people, and 1,500 foreign owned MNEs based in Ireland employing approximately 400,000 people. For over 160,000 businesses in Ireland, employing approximately 1.8 million people, there will be no change to their corporation tax rate.

Angela Fleming

Ireland's commitment to the two-pillar approach is in line with the country's long-standing position that co-ordinated multilateral action is the best approach to ensuring the international tax system keeps pace with changes in how business today is conducted internationally. However, Ireland is also committed to maintaining a corporation tax regime that is internationally competitive, and attractive for foreign direct investment.

In conjunction with the introduction of the GloBE rules into Irish tax law next year, commitment has also been made to consider options for a move towards a territorial corporation tax system. Such a move would ensure that Irish tax would be limited to Irish profits, and remove foreign source dividends and branch income from the scope of Irish taxation. This would have the effect of improving Ireland's tax competitiveness internationally, and be a positive next step in the evolution of the Irish corporate tax regime. It also provides an opportunity for Ireland to simplify some of its most complex tax law – foreign tax credit rules.

Therefore, I am confident that Ireland can play its part in international tax reform, while continuing to offer an internationally competitive corporate tax regime and remaining an attractive location for FDI.

BDO

Finance Bill

From a tax administration and planning viewpoint can you please comment on what features of the Finance Bill are worthy of particular note?

Yvonne Diamond, Senior Manager, Financial Services Tax, BDO: In a national housing situation, frequently described as a crisis, the introduction of the Vacant Homes Tax (VHT) will be viewed by many as long overdue. In Finance Bill 2022, Government seeks to address one of the contributing factors to the crisis and the collection of this "low hanging fruit" will be welcome by tenants struggling in the rental market.

The objective of this legislation is simple, to increase supply to an overpopulated rental market.

The tax will apply to properties which are residential properties for the purposes of Local Property Tax ("LPT"), that is, habitable properties, which are occupied as a dwelling for less than 30 days in a chargeable period (1 November to 31 October, commencing 1 November 2022).

Yvonne Diamond

VHT will be charged at a rate equal to three times the property's existing LPT liability, with no increase or reduction to the liability for the local authority adjustment factor.

There are several exemptions from the VHT, for example, properties that were recently sold, properties currently listed for sale or rent, properties that are vacant as a result of significant refurbishment work and properties that were the sole or main residence of a deceased chargeable person in the chargeable period.

The tax will operate on a self-assessment basis with the filing date for VHT returns being 7 November each year with the payment date following each 1 January. Returns are to be filed electronically.

As with any other taxes, the legislation provides for penalties, interest and a late filing surcharge to be applied in cases of non-compliance.

Section 84 of Finance Bill 2022 further proposes the establishment of a register of vacant homes and their associated chargeable persons. In order to administer the tax and maintaining the register, it also provides for the exchange of information between Revenue and other bodies, such as local authorities.