

# IRELAND'S INTERNATIONAL TAX STRATEGY



An Roinn Airgeadais  
Department of Finance

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[The key word in relation to Ireland's international tax strategy is 'openness']

## 1. Foreword by the Minister for Finance

I welcome the opportunity in this policy statement to set out Ireland's international tax strategy in order to provide a clear and accurate picture of our corporate tax regime.

The key word in relation to Ireland's international tax strategy is 'openness': Ireland is one of the most open economies in the world.

Ireland is 'open for business' and we are committed to continuing to compete fairly to attract new foreign direct investment into Ireland.

Ireland's corporate tax system is open, transparent, and all the rules are clearly set down in our national law. Our stable, low corporate tax rate is one of the cornerstones of our strategy for attracting foreign direct investment. It is a key factor in creating employment and generating economic activity.

Ireland participates constructively and purposefully in international fora in relation to tax matters — in particular, we are active in, and supportive of, the work of the EU and the OECD.

As outlined in our recently launched policy "One World, One Future", we are also committed to an all-of-government approach to International Development and to supporting developing countries to raise their own domestic revenue in ways that are more efficient, that promote good governance and equitable development, and that can allow them to eventually exit from a dependence on official development assistance (ODA).

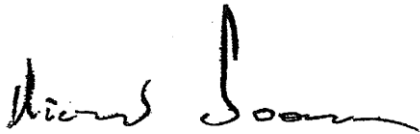
Recently, Ireland also ambitiously pushed forward the international tax reform agenda during our EU Presidency 2013, and achieved significant progress, in countering tax fraud and aggressive tax planning.

Ireland was also one of the early movers in relation to new international initiatives on automatic *exchange of tax information* – being the fourth country in the world to sign a FATCA agreement with the United States.

As well as clearly setting out Ireland's policies in relation to international tax issues, this policy statement for the first time also sets out **Ireland's**

**International Tax Charter** – a set of policy objectives and commitments for how we view and will deal with a variety of international tax policy issues.

I hope you find this policy statement on Ireland's International Tax Strategy both informative and useful.

A handwritten signature in black ink, appearing to read "Michael Noonan". The signature is fluid and cursive, with a prominent vertical stroke at the beginning.

Michael Noonan, T.D.  
Minister for Finance

15 October 2013

## 2. Introduction

Ireland is open for business and we are competing each day to attract new investment into Ireland.

We have a very strong track record of attracting companies of real substance to invest and create thousands of jobs in Ireland. Many large international companies have been here for decades and see Ireland as the ideal base from which to serve their customers in Europe and further afield.

These companies have set down significant roots in local communities and the Irish economy generally. The Government will continue to take steps to enhance Ireland's attractiveness through investment in our people, investment in our infrastructure, and our strong commitment to Europe.

Over 1,000 international companies have successfully located in Ireland and, despite the challenges that the Irish economy has faced in recent years, that pipeline has remained strong. Indeed, it is estimated that over 285,000 people are employed across the country directly or indirectly servicing this key sector of our economy.

Our competitive taxation system is, of course, an element of the Irish package and we remain committed to our competitive 12.5% tax rate.

Aggressive tax planning by companies is a major issue for legislators across the world and it needs to be addressed. Ireland is very much involved in the process of addressing the issue. We set out how in section 5.

Ireland's new policy for international development "One World, One Future" provides an overarching framework for a whole of government approach to international development, and recognises that the achievement of international development goals must be underpinned by the ability of all countries, including developing countries, to raise their own revenue.

*[The Government will continue to take steps to enhance our attractiveness through investment in our people, investment in our infrastructure and our strong commitment to Europe]*

### 3. Ireland's International Tax Charter

We are publishing this International Tax Charter to set out the principles and strategic objectives that guide Ireland's approach to international corporate tax issues.

<b><i>Ireland's International Tax Charter</i></b>	
<p><b><i>Ireland is committed to maintaining an open, transparent, stable, and competitive corporate tax regime.</i></b></p> <p>We achieve this by:</p> <ul style="list-style-type: none"> <li>- <b><i>Maintaining a rate of 12.5% on active trading income and 25% on passive non-trading income for all domestic and international businesses</i></b></li> <li>- <b><i>Considering any proposed changes to our tax legislation in terms of their impact on sustainable jobs and economic growth</i></b></li> </ul>	
<p><b><i>Ireland is committed to full exchange of tax information with our tax treaty partners</i></b></p> <p>We achieve this by:</p> <ul style="list-style-type: none"> <li>• Responding to requests for information in an efficient manner</li> <li>• Providing information in as comprehensive a manner as possible taking account of the nature of the request</li> <li>• Complying fully with our responsibilities and obligations set out in tax treaties and other bilateral and multilateral agreements</li> </ul>	<p><b><i>Ireland is committed to global automatic exchange of tax information, in line with existing and emerging EU and OECD rules</i></b></p> <p>We promote this by:</p> <ul style="list-style-type: none"> <li>• Timely transposition of relevant EU legislation into Irish law</li> <li>• Full participation in OECD developments, making appropriate provision in Irish law as necessary</li> <li>• Promoting the use of automatic exchange of information with tax treaty partners</li> </ul>
<p><b><i>Ireland is committed to actively contribute to the OECD and EU efforts to tackle harmful tax competition</i></b></p> <p>We achieve this by:</p> <ul style="list-style-type: none"> <li>• Active participation in the EU's Code of Conduct and the OECD's Forum on Harmful Tax Practices</li> <li>• Rejecting introduction of measures in national legislation which could constitute harmful tax competition</li> <li>• Eliminating any measure in national legislation in the event that it were found to be harmful</li> <li>• Active participation in the OECD Base Erosion and Profit Shifting project</li> </ul>	<p><b><i>Ireland is committed to engage constructively and respectfully with developing countries in relation to tax matters including by offering assistance wherever possible</i></b></p> <p>We achieve this by:</p> <ul style="list-style-type: none"> <li>• Supporting international efforts to build developing country capacity to benefit from enhanced global tax transparency.</li> <li>• Promoting the extension of <i>Country-by-Country Reporting</i> to areas beyond the "extractive" sector and greater international reporting to competent authorities</li> <li>• Offering financial support to regional initiatives to strengthen tax administrations in Africa.</li> <li>• Strengthening the Public Financial Management systems of developing countries</li> </ul>

## 4. Ireland's Corporation Tax Strategy

In Ireland in the 1950s there was a major shift in industrial and tax policy from protectionism to a more open and outward-orientated approach.

### Figure 1: History of Corporation Tax Policy in Ireland

**1956** – Export Profits Tax Relief introduced - zero rate of tax on income from export sales of manufacturing goods

**1973** – Ireland joins what is now known as the European Union – agrees to phase out the zero rate

**1980** – 10% rate of tax on manufacturing activity introduced with EU State Aid Approval

**1987** – 10% rate of tax on international financial services introduced with EU State Aid Approval

**1996** – The above sectoral tax incentives are phased out between 1996-2010 and replaced by:

**1996 - 2003** – a phased reduction in the general rate of corporation tax to apply equally to all corporate taxpayers – 12.5% on trading income and 25% rate on non-trading income

Industrial policy continues to be focussed on attracting and retaining foreign direct investment and a competitive corporate tax strategy is a key tenet of that policy.

A comprehensive review of all aspects of Ireland's tax system was undertaken in 2009. The independent *Commission on Taxation* recommended that a low, stable corporation tax rate should remain a core aspect of Irish tax policy. Empirical research undertaken by the OECD has established a ranking for the different types of taxes and in particular which ones are conducive or harmful to economic growth.

Increases in corporate taxes are identified as being most harmful to economic growth as they can increase the cost of capital and reduce foreign direct investment. An OECD multi-country study found that a 1% increase in the corporate tax rate reduces inward investment by 3.7% on average. Consumption tax and property tax increases on the other hand have been identified as being less harmful to economic growth and recovery.

Every country chooses its own tax policy mix according to what best suits its economy and its citizens. In terms of business taxes, this choice can reflect factors including the existing industrial base, the size of the market, natural resource assets, distance to export markets, and a range of other factors.

Ireland's corporate tax system scores well in terms of good governance and transparency.

#### **4.1 Good Governance and Transparency**

Ireland has a statute-based 12.5% rate applied to a broad base, which includes the worldwide foreign branch income and foreign dividend income of resident companies. All companies operating in Ireland are fully chargeable to corporation tax at the 12.5% rate on the trading profits earned from their Irish operations.

A statute-based 25% rate of corporate tax applies to investment / non-trading income to guard against 'brass-plate' operations with low substance and to reinforce the role of Ireland's corporation tax regime in fostering active, substantial, trading operations here.

Ireland has full exchange of tax information with partners through 69 double tax agreements, 22 tax information exchange agreements and was one of the first countries to sign a FATCA agreement with the US (Model 1 Inter-Governmental Agreement in December 2012), which is now recognised as the emerging global standard for automatic exchange of tax information.

In 2010 Ireland introduced mandatory disclosure rules to—

- obtain early information about certain tax schemes and how they work,
- obtain information about who has availed of them, and



- close down by legislative action, or use of anti-avoidance provisions, any such schemes that are viewed as aggressive.

A General Anti-Avoidance Rule (GAAR) has been in place since 1989 – the European Commission is now calling for all Member States to introduce such domestic legislation – and Irish transfer pricing rules are based on the OECD arm's length standard.

Notwithstanding the evidence which shows that Ireland only engages in fair tax competition and complies with all relevant international rules, some company structures have been criticised as examples of legal but aggressive tax-planning by international companies.

Tax planning by companies relies to a great extent on mismatches between the domestic rules of different countries. It is clear that these issues cannot be addressed at national level alone - we need a co-ordinated international response. This is now being addressed in the OECD's 'Base Erosion and Profit Shifting' project, in which Ireland is taking an active part to find workable solutions.

## 5. Ireland is Countering Aggressive Tax Planning . . .

*[Ireland is taking an active part in the BEPS project]*

Ireland has been active in efforts at European and OECD level to develop a response to aggressive tax planning.

### 5.1 . . . through the OECD

Given the OECD's pre-eminent role in setting international tax standards, its Base Erosion and Profit Shifting (BEPS) project represents the most effective response to the issue and the BEPS Action Plan provides the main toolkit of the global effort to tackle these issues.

Ireland welcomes the BEPS project, and also the coordinated effort at OECD/G20 level to deal with the challenges BEPS poses.

The purpose of the project is to better align the right to tax with real economic activity. We already do this – profits charged in Ireland reflect substantive operations here – and we are fully supportive of solutions that would extend the alignment of tax and real economic activity internationally.

Ireland is taking an active part in the BEPS project and we are committed to working with our OECD colleagues to address aggressive international tax planning.

### 5.2 . . . through the EU

On 30 June 2013 Ireland finished its seventh Presidency of the Council of the European Union. Ireland's Presidency coincided with tax policy issues taking centre stage in the international arena.

Against this elevated profile for taxation, the Irish Presidency's plan to focus on tackling tax fraud and tax evasion was very much in line with international developments. At a practical level our Presidency prioritised the work in the following areas: tackling tax fraud and tax evasion, achieving a mandate to negotiate with third countries on the Savings Taxation agreements, tackling hybrid mismatches and enhancing administrative cooperation on tax.

In addition we carried forward the work on the Financial Transaction Tax (FTT), Energy Tax Directive and the Common Consolidated Corporate Tax Base (CCCTB).

Given the international attention on the issue of tackling tax fraud and tax evasion, the informal meeting of EU Economic and Finance Ministers (Ecofin) in April in Dublin held a special debate about this issue and the practical steps that could be taken at national, EU, and international levels. Following this productive debate, Minister Noonan and the EU Commissioner for Taxation Algirdas Šemeta wrote a joint letter which identified seven actions that would deliver concrete results in the short term. By the end of the Irish Presidency agreement had been reached on five out of the seven actions identified:

1. A Mandate was adopted to enable the Commission to negotiate with Switzerland, Andorra, Liechtenstein, Monaco and San Marino on a revision of the bilateral savings tax agreements. The existing agreements need to be updated.
2. Agreement by ECOFIN on comprehensive Council Conclusions on tackling aggressive tax planning, tax fraud and tax evasion.
3. Agreement was reached on a VAT Anti-fraud package. This involves two Directives (Quick Reaction Mechanism and Reverse Charge Mechanism) and commitments in relation to the improvement of the VAT system. This agreement will significantly enhance Member States' ability to tackle very serious VAT fraud.
4. Agreement was reached on the Fiscalis 2020 Programme. This administrative cooperation programme is an important tool for Member States revenue authorities in the fight against tax fraud and evasion.
5. Agreement was achieved by Ministers to enhance the current level of automatic exchange of information at EU and international level. This political commitment resulted in a revised proposal from the Commission published in June for an amendment to the Administrative Cooperation Directive.

Ireland is an active participant in the EU Code of Conduct Group examining harmful tax practices in the EU.

Ireland also participates in the new EU Platform for Tax Good Governance. The Platform has been formed to assist in developing initiatives at EU level to promote good governance, address double taxation and tackle aggressive tax planning. It brings together expert representatives from Member States, business, tax professional and civil society organisations and enables a structured dialogue and exchange of expertise, which can feed into a more coordinated and effective EU approach against tax evasion and avoidance.

### **5.3 . . . through domestic legislation**

When the OECD work on the automatic exchange of information is completed we will bring forward legislation to enable Revenue (with the consent of the Minister) to make regulations to implement the automatic exchange of information agreements envisaged. This is also in line with our commitment in the charter to *promote global automatic exchange of tax information, in line with existing and emerging EU and OECD rules*. If, as expected, the OECD's report is completed in mid-2014, we will propose legislative measures in the context of the Finance Bill later that year.

Furthermore, in this year's Finance Bill we will be including two measures in domestic legislation that will further extend our information exchange network and help in tackling aggressive tax planning.

The first of these is the ratification of three new international tax agreements. These are the double taxation agreement with Ukraine, and tax information exchange agreements with Montserrat and with Dominica; which provide for information exchange on request between the Revenue Commissioners and the tax authorities of the other country, further broadening Ireland's comprehensive network of information exchange.

The second measure to be included in the Finance Bill is a change to our company residence rules aimed at eliminating mismatches - that can exist between tax treaty partners in certain circumstances – being used to allow companies to be 'stateless' in terms of their place of tax residence.

### **5.4 . . . through engaging with Developing Countries**

At a time when resources are most needed for the poorest communities around the world, aid budgets across the developed world are under sustained pressure.

Ireland's new Policy for International Development commits to ensuring that our Key Partner Countries emerge from their dependence on aid. Lasting solutions to problems of poverty and hunger must be underpinned by developing countries' own ability to raise domestic revenue. We will therefore undertake efforts to help developing countries increase their domestic revenues in ways that are more efficient, fairer and better promote good governance and equity.

We will do this by working both at an international level to combat illicit financial flows and capital flight and at a national level to strengthen revenue collection and management.

We will do this using a whole-of-government approach, which seeks to both address policy inconsistencies and maximise potential collaboration across all government departments and bodies. Domestically, the relationship between tax and development policies is discussed at the Inter-Departmental Committee on Development.

At OECD level, the ongoing collaboration between the Committee on Fiscal Affairs and the Development Assistance Committee has an important role to play in assisting developing countries in building more effective tax administrations in a more transparent international tax environment.

Ireland, through Irish Aid, supports domestic resource mobilisation in developing countries. Country strategy programmes support the strengthening of Public Financial Management systems, including tax policy and administration.

Irish Aid also contributes to the OECD work on tax and development, the African Tax Administration Forum, the World Bank's facility for Investment Climate Advisory Services, and collaborates with the Irish Revenue Commissioners on technical support for developing countries. Irish Aid gives support to the Association of European Parliamentarians with Africa (AWEPA), to strengthen parliamentary oversight of how national revenues are generated, with participation from Irish TDs.

Irish policy in relation to tax treaties is aimed at meeting the interests of both sides to these agreements as far as possible and in this respect we are very conscious of the needs of countries in the developing world.

## 5.5 . . . by supporting Country-by-Country Reporting

To improve tax transparency and compliance in developing countries, civil society groups have for some time now been campaigning for international companies to publicly report on a country-by-country basis in their annual financial statements which could discourage profit-shifting between countries

*[Ireland supports the G8 Lough Erne Declaration on country-by-country reporting.]*

It was originally focused on extractive industries but increasingly there have been calls for its extension to other business sectors. Published country-by-country reporting could assist in discouraging profit-shifting between countries, support the fight against corruption and promote good governance in developing countries.

Ireland supports the G8 Lough Erne Declaration on country-by-country reporting.

Ireland supports the on-going work at OECD level on tax and development issues, including work on country-by-country reporting.

Ireland has given country-by-country reporting a significant boost by negotiating its extension to the financial services sector under our recent EU Presidency.

As a result of the EU CRD IV Directive and the Accounting Directive, the extractive industry and the financial services sector will be subject to country-by-country reporting.

## **5.6 . . . by supporting the Automatic Exchange of Information**

Another powerful tool to improve tax transparency is automatic exchange of information.

During Ireland's term as President of the Council of the EU, work in the area of tax transparency was prioritised. Progress was made on the Negotiating Mandate to align EU savings taxation agreements with non-EU jurisdictions with the extended scope of the proposed revised Savings Tax Directive, which provides for automatic exchange of information.

The European Council conclusions on tax (of the 22nd May) adopted during the Irish Presidency, called for automatic exchange of information to be extended at a global level. Ireland supports the global move towards the automatic exchange of information and welcomes the European Commission's recent proposal to amend the Directive on Administrative Co-operation in the Field of Taxation.

## 6. Conclusion

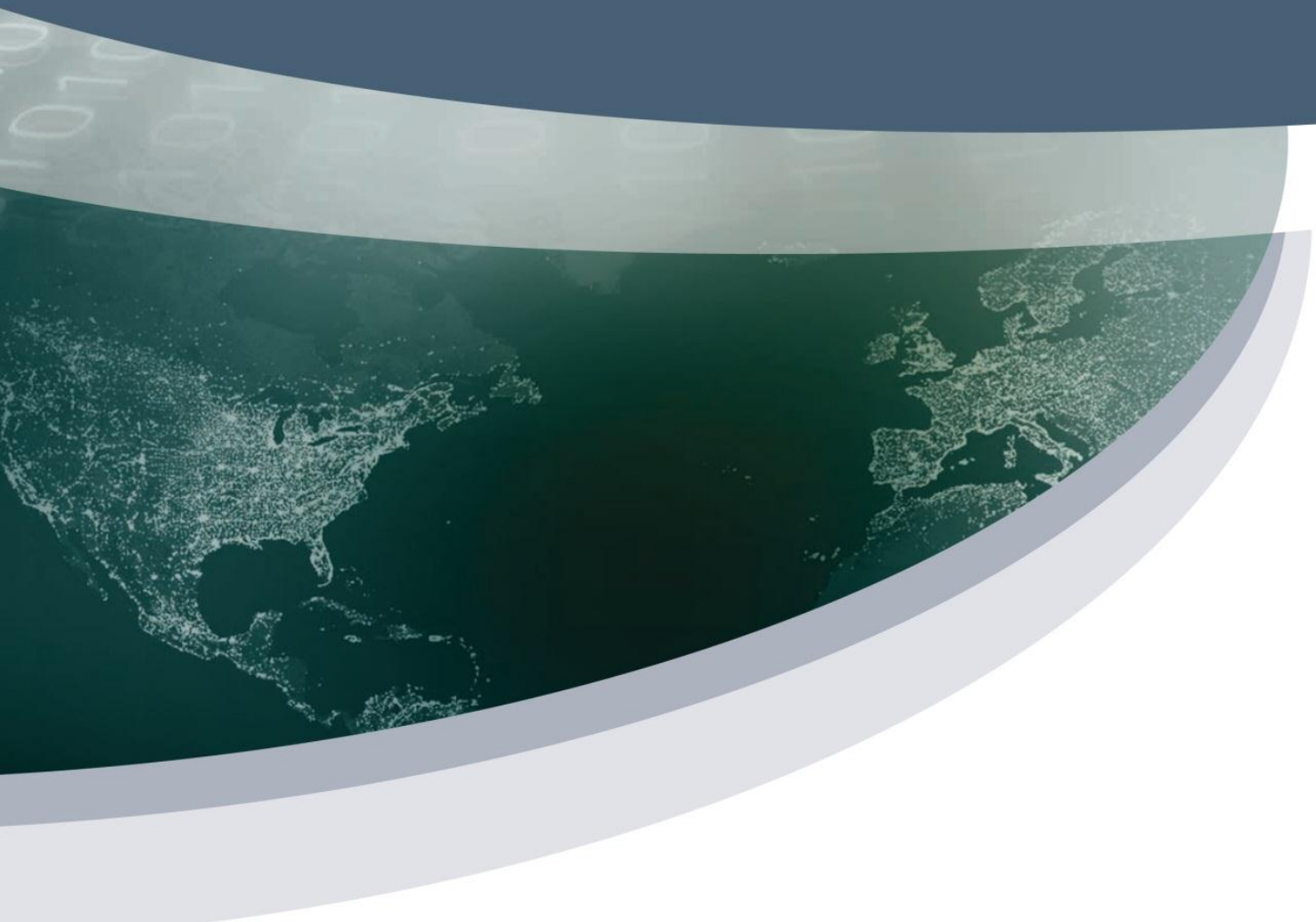
Ireland's stable low corporate tax rate is one of the cornerstones of our economic recovery strategy. It is a key factor in creating employment and generating economic activity.

International tax challenges cannot be addressed at national level alone – we need a coordinated international response.

Ireland is participating constructively and purposefully in international fora in relation to these matters – in particular we are active in the work of the EU and the OECD.

Our new international tax charter, contained in this strategy statement, sets out our policy objectives and commitments addressing a range of international tax policy issues.





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