Doing Business in Ireland

CrowleysDFK

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1.1 Brief overview of Ireland

The island of Ireland is situated in the extreme north-west of the European continent. The population of Ireland is approximately 4.5 million people. The Republic of Ireland consists of 26 counties. It is a stable parliamentary democracy with its own written constitution. There are an additional 6 counties on the island (Northern Ireland) that are part of the United Kingdom. Information in this document relates to the Republic of Ireland.

Ireland is part of the European Union (EU), which comprises 28 member states. Ireland uses the Euro (€) as its official currency.

Ranked first in the world for the availability of skilled labour and 4th for the quality of its education system (according to the IMD Work Competitiveness Report.), Ireland's workforce is young and highly skilled. Half of the Irish workforce is under the age of 35 and 48% of 25-34 year olds have a third level qualification (compared to the EU average of 33%).

Ireland was one of the first EU countries to pass the electronic commerce legislation. The telecommunications market in Ireland is fully de-regulated. Ireland can boast high-tech broadband capacity with links to all major EU cities, the US and Asia.

1.2 Transport infrastructure

Ireland has four national airports – Dublin, Cork, Shannon and Knock. EU funding has enabled the country to continuously develop a new motorway system. The National Development plan will see investment of over €100 billion of public, private and EU funds in roads, public transport and other services.

1.3 Development Agencies

The two main national development agencies in Ireland are:

The Industrial Development Authority (IDA) provides support to overseas companies considering setting up in Ireland. The IDA also provides advice to companies who have already set up.

Enterprise Ireland (EI) was established to encourage foreign industries in the food, drink and timber sectors to Ireland. EI also support indigenous Irish industries

Ireland is home to many European branches of multinationals. There are three principal forms of business organisation in Ireland: unincorporated ventures such as sole traders and partnerships, and corporate bodies such as companies. The most common structure, however, is the private limited company.

2.1 Sole traders

A sole trader is a person carrying on business on his/her own account. The business and personal affairs of the individual are not separated in any way. Any debts, whether business or personal, can be recovered against business and personal assets.

Accounting periods are governed by personal taxation considerations. The tax year for sole traders is the calendar year. Accounts have to be filed with the Revenue Commissioners by 31 October following the end of the tax year. All business profits are treated as income for the individual. Preliminary Income Tax is payable by 31 October of the tax year. Any balance of tax owing when the Revenue Commissioners make their tax assessment of the sole trader is payable by 31 October following the end of the tax year.

2.2 Partnerships

A partnership involves two or more people carrying on a common business. Most partnerships are unlimited liability ventures with all partners having joint and several liability for the debts of the business. Any business debts may be recoverable from partners' personal as well as business assets. Personal debts may be recovered against a partner's individual share of the business. A Partnership Deed will usually set out the rights, responsibilities and rewards of the partners.

Accounts for the partnership have to be filed with the Revenue Commissioners within 10 months of the end of the relevant tax year in which the accounting period ends – the partners can decide on the date of the end of the accounting period.

Partnership profits are shared by the partners as income and they pay tax on this income in exactly the same way as for a sole trader.

2.3 Companies

Companies have a legal identity separate from their members. The most common form of company is a limited company ("Limited") where the liability of the members (shareholders) is limited to the amount unpaid on their shares. No management board is required, although at least one director and a company secretary, who may also be a director, but not the sole director, is required. The Company Secretary is legally responsible for ensuring that the various statutory information returns are made. These company officials need not be shareholders.

The directors of limited companies are employees of the company and are paid salaries; shareholders benefit from the profits made by the company through the payment of dividends. If a shareholder is also a director he can choose to some extent between dividends and salaries. The choice is largely tax driven.

Limited companies are formed under the Companies Acts and must file their accounts:

- with the Registrar of Companies within 9 months of their year-end
- with the Revenue Commissioners within 9 months of their year-end

Limited companies are also required to file details of their directors and other key documentation with the Registrar of Companies.

All documents filed the Registrar of Companies are publicly available and may be obtained by any individual or business, subject to payment of a fee.

Limited companies may be privately owned or publicly owned. Publicly owned companies may make their shares available to the public at large and their shares can be traded on the various securities markets. Public companies are denoted by the letters "plc", "Plc" or "PLC" at the end of their name. These companies are subject to greater regulation than privately owned companies. In particular, they are subject to substantial regulations concerning corporate governance including such matters as the appointment of non-executive directors.

Limited companies will prepare accounts for a 12 month period, and they can choose the date on which this period ends.

What structure?

There are both legal and taxation matters that need to be considered in deciding on the most appropriate Irish operating structure. Advice should be sought from an Irish accountant before making any such decision.

Company Formations

If you wish to form a limited company in Ireland, there are specialist providers of company secretarial services and company formation agents that can provide the assistance required. Most firms of accountants and lawyers can provide this service.

2.4 Other corporate entities

An overseas business wishing to commence operations in Ireland does not need to set up a company in Ireland. As alternatives, it can establish a representative office or a branch. Both require to be registered with the Registrar of Companies.

The representative office will usually be an extension of the overseas trading operation, but sufficient to gain some measure of protection from Irish taxation under the terms of an appropriate double taxation convention. A branch will normally be a self-contained Irish operation, albeit acting within its overseas parent.

Both these entities will need to file, annually, the financial statements of the overseas business. There is no requirement for these financial statements to be audited.

Both entities will need to deal with Corporation Tax, VAT and employment matters in the same way as any other Irish business.

3.1 Requirements and Thresholds

All companies are statutorily required to have their financial statements audited by an independent auditor, unless they are eligible for and choose to avail of audit exemption.

The audit exemption criteria are as follows:

1. A company must qualify as a **"small company**" for the purposes of claiming audit exemption.

   For current and previous years, companies must have filed their annual returns on time and have met 2 of the following threshold criteria: Turnover <€8.8m; Balance Sheet Total <€4.4m; Average no. of employees <50.

2. Where a company is **part of a group** they can also avail of the exemption provided the group meets the "small group" criteria.

   All Irish registered companies in the group must have filed returns on time and the group taken as a whole meets 2 or more of the following criteria after the elimination of intra-group balances (in current and previous year):- Turnover <€8.8m; Balance Sheet Total <€4.4m; Average no. of employees <50.

3. **Dormant Companies, Companies Limited by Guarantee** and **Unlimited Companies**, are also eligible for audit exemption provided that Companies Limited by Guarantee and Unlimited Companies meet the above criteria and dormant companies meet the ''dormant'' company criteria.

   a) Annual returns filed on time in current and previous years
   b) The company had no significant accounting transaction in the year
   c) The company's assets and liabilities comprise only permitted assets and liabilities

4.1 Company taxation

Companies are subject to Corporation Tax on their total taxable profits. The very low Corporation Tax rate on trading income of 12.5% in Ireland makes it an attractive market to do business.

The tax year for Irish companies follows the company's accounting period. At present a company must make either one or two preliminary tax payments, depending on its corporation tax liability in the previous accounting period.

Companies, whose corporation tax liability was €200,000 in the previous accounting year, must make only one payment of preliminary corporation tax one month before the accounting year-end.

All other companies must pay preliminary corporation tax in two instalments: the first in the sixth month of the accounting period and the second one month before the accounting year-end.

4.2 Initial losses

Subject to certain criteria being satisfied, both an Irish limited company and other entities established in Ireland may carry forward trading losses indefinitely to offset against future profits of the same trade. In some overseas jurisdictions it may be possible to offset branch losses against the parent company's other profits.

There is also an exemption from corporation tax for start-up companies in their first three years of trading. This exemption is subject to certain conditions.

4.3 Value Added Tax (VAT)

VAT is a turnover tax that is levied at every stage of the sale and purchase of goods and services within the Ireland and the EU. It is payable to the Revenue Commissioners. Businesses with an annual turnover of €75,000 from the supply of goods must register for VAT. Businesses with an annual turnover of €37,500 from the supply of services must register for VAT. The current rates of VAT range from 0% to 23%.

VAT registered businesses can reclaim VAT paid when purchasing goods and services; they must charge VAT on goods and services they provide to customers. VAT charged to customers must be collected by the business and paid to the Revenue Commissioners.

VAT registered businesses must complete and submit a regular VAT return form. The return is used to calculate the difference between VAT reclaimed from the Revenue Commissioners and VAT to be paid to the Revenue Commissioners. The difference results either in a credit or a payment to be made. Should a payment to the Revenue Commissioners be required, this must accompany the VAT return.

4.4 Income Tax

An employer is responsible for deducting Income Tax from the earnings of each employee and paying this over to the Revenue Commissioners. He must follow the procedures for the deduction at source of employees' Income Tax. They are known as:

- Pay As You Earn (PAYE)
- Pay Related Social Insurance (PRSI)
- Universal Social Charge (USC)

The Irish tax year runs from 1 January. The standard rate of income tax is 20% and the marginal rate is 40%.

4.5 Tax incentives

Ireland has a long history of encouraging international trade and there is a wide range of taxation benefits available to corporate investors wishing to commence business in Ireland.

The two national development agencies can provide information on particular incentive schemes.

4.6 Capital Gains Tax

Capital Gains Tax is payable on chargeable gains arising on the disposal of assets. A disposal takes place whenever the ownership of an asset changes and includes a part disposal. The computation of chargeable gains and allowable losses is made by comparing the proceeds of disposal with the original cost of the asset. Relief is granted by allowing the cost and, if applicable, additional expenditure on the asset to be adjusted by multiplying it by an amount specified in Irish tax legislation. The multiplier is designed to negate the effects of inflation. This indexation relief does not apply to the disposal of assets which were purchased after 2002.

The rate of capital gains tax is 33% for assets sold on/after 6th December, 2012. Capital gains of companies are chargeable to Corporation Tax. Certain reliefs are available which include individuals retiring from business, disposals of assets within a group of companies or a new entrepreneur relief that reduces the rate of capital gains tax to 10% subject to certain conditions being met.

4.7 Stamp Duty

Stamp Duty is charged on instruments i.e. written documents. In the main, Stamp Duty is based on the value of the transaction. The rate of duty for non-residential transactions is 2%. For residential property transactions a 1% rate applies where the value does not exceed €1,000,000. A higher rate of 2% applies to the excess over €1,000,000. The Stamp Duty rate for transfer of shares is 1%.

There are a number of transactions exempt from Stamp Duty which include transfers between spouses, most financial services instruments, transfers between associated companies, transfers of intellectual property, issue or increase in share capital, etc.

4.8 Double taxation agreements

Ireland has signed double taxation agreements with **72 other countries.**

Albania	Greece	Poland
Armenia	Hong Kong Hungary	Portugal
Australia	Iceland	Qatar
Austria	India	Romania
Azerbaijan****	Israel	Russia
Bahrain	Italy	Saudi Arabia
Belarus	Japan	Serbia
Belgium	Jordan	Singapore
Bosnia & Herzegovina	Kazakhstan****	Slovak Republic
Botswania	Korea (Rep of)	Slovenia
Bulgaria	Kuwait	South Africa**
Canada	Latvia Lithuania	Spain
China	Luxembourg	Sweden
Chile	Macedonia	Switzerland
Croatia	Malaysia	Thailand
Cyprus	Malta	Turkey
Czech Republic	Mexico	Turkmenistan****
Denmark	Moldova	Ukraine
Egypt	Montenegro	United Arab Emirates
Estonia	Morocco	United Kingdom
Ethiopia	Netherlands**	United States of America
Finland	New Zealand	Uzbekistan
France	Norway	Vietnam
Georgia	Oman****	Zambia
Germany	Pakistan	
Ghana****	Panama	

* Treaty signed. Legal procedures to bring it into force are being followed
** Currently being re-negotiated
*** In the process of negotiation
**** Negotiations concluded and expected to be signed shortly

5.1 Capital Allowances

Capital allowances are granted for 'chargeable periods' – accounting periods in the case of companies liable to corporation tax and years of assessment in the case of other persons liable to income tax.

The annual wear and tear allowance rate is 12.5% and is calculated on a straight line basis. This allowance is available for the wear and tear of plant and machinery, fixtures & fittings and motor vehicles in use for the purpose of a trade, profession or employment at the end of a basis or accounting period.

Capital allowances are also available on Industrial Buildings, expenditure on dredging, scientific research and patent rights, copyright, trademarks and other intangible assets.

5.2 Tax Credits

In 2004 a new incentive to companies to carry on Research and Development (R&D) in Ireland was introduced. A credit of 25% of the expenditure on revenue items, royalties, plant and machinery related to R&D can be offset against a company's corporation tax liability and its PAYE, PRSI and USC liabilities, subject to certain conditions.

A credit of 25% of the cost of a building used for the purposes of R&D and in respect of which capital allowances are granted is available.

A company which has engaged in R&D in Ireland and which now earns profits from "qualifying assets" resulting from that R&D, can now avail of a tax relief under the Knowledge Development Box (KDB). The profits associated with the Irish R&D will be taxable at an effective rate of 6.25%, subject to certain conditions.

6.1 Pension Schemes

Every employer in Ireland is required to provide access for all employees to a pension scheme. Employers may, if they wish, make contributions to a pension scheme on behalf of an employee. The employee is not subject to income tax on such payments made by the employer.

6.2 Employee Benefits

In addition to a monthly (or weekly) paid salary, an employer may provide additional benefits to an employee. This could include a car and fuel, private medical insurance, bonus payments, etc.

The rules concerning the provision of these additional benefits are complex and advice should be taken before providing them. Generally an employee is subject to Income Tax on the value of the benefit provided. The employer is obliged to assess the benefit and collect the tax thereon from the employee. The employer is liable to PRSI on the value of the benefit provided.

6.3 Employment of Foreign Personnel

A foreign employer who employs personnel to carry out duties in Ireland is responsible for deducting Income Tax from the earnings of each employee and paying this over to the Revenue Commissioners.

There is an exemption from this requirement where:

- The employee is resident in a country with which Ireland has a double taxation agreement and is not resident in Ireland for tax purposes
- There is a genuine foreign employment
- The employee is not paid by, or on behalf of, an employer resident in Ireland
- The cost of the employment is not borne by a permanent establishment in Ireland of the foreign employer, and
- The duties of that employment are performed in Ireland for not more than 60 working days in a tax year, and for a continuous period of not more than 60 working days

7.1 Royalties

Royalties and other sums in respect of the use of a patent are generally paid under the deduction of standard rate tax. The gross royalty is allowed as a deduction in arriving at the statutory income of the taxpayer, but the taxpayer is accountable for the tax deducted.

7.2 Dividends

Tax at the 20% standard rate applies to distributions made by an Irish resident company. A recipient who is liable to tax on such a distribution, such as an Irish resident individual, can claim an off-set for the tax withheld against his tax liability. Exemption is granted to residents of tax treaty countries, residents of EU Member States, companies not resident in the State which are ultimately controlled by residents of tax treaty countries

An Irish resident company which receives a dividend from a subsidiary (in which it has at least a 5% holding) which is resident in a territory with which Ireland does not have a double tax treaty will be entitled to reduce Irish tax on the dividend by any withholding tax paid in that territory on the dividend and by an appropriate part of the foreign tax on the income underlying the dividend.

WHY DO BUSINESS IN IRELAND?

There are many reasons for doing business in Ireland. The small island can provide an extremely competitive and profitable environment for investment.

Some of the key motivators include:

1. Low corporate tax environment
2. Favourable Government support
3. Generous development incentives
4. Highly skilled workforce
5. Advanced telecommunications system
6. High standard of living
7. Stamp Duty exemption on intellectual property
8. Competitive tax environment for establishment of regional headquarters and holding companies
9. Tax credits for research and development expenditure
10. Access to EU Markets
11. Capital Gains Tax exemption on the disposal of certain shares
12. Extensive treaty network (credits for foreign taxes)

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About us

With offices in Dublin and Cork, the firm has been providing client focused audit, accountancy, taxation, consultancy and advisory services since 1975.

Driven by strong leadership, the firm has steadily grown to become one of Ireland's leading firms of chartered accountants.

We are proud to deliver services to a client base that includes branches, subsidiaries and European headquarters of overseas and multi-national companies and indigenous owner-managed businesses. They represent a diverse range of today's most innovative industries and sectors.

At Crowleys DFK, we believe in creating value for our clients. We do this by getting to know you and your business and delivering a service that makes a difference.

James O'Connor
Managing Partner
james.oconnor@crowleysdfk.ie

Edward Murphy
Partner and Head of Tax Services
edward.murphy@crowleysdfk.ie

Dublin
16/17 College Green
Dublin D02 V078
T: 01 670800

Cork
5 Lapps Quay
Cork T12 RW7D
T: 021 4272900

www.crowleysdfk.ie

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Partners: James O'Connor FCA (Director) Siobhán O'Hea CTA Tony Cooney FCA (Director) Vincent Teo FCA
Edward Murphy FCA CTA (Director) Colette Nagle FCA (Director) Harry O'Sullivan FCA

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