UPDATE ON
IRELAND'S INTERNATIONAL TAX STRATEGY

OCTOBER 2016

An Roinn Airgeadais
Department of Finance

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Department of Finance
Government Buildings,
Upper Merrion Street, Dublin 2,
D02 R583, Ireland
Website: www.finance.gov.ie

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Contents >

Foreword by the Minister >

In my time as Minister for Finance I have seen significant shifts in the international tax landscape. We have made some difficult but necessary changes in that time, and now, with the benefit of some perspective, I believe I can say that we made the right changes, at the right time and in the right way.

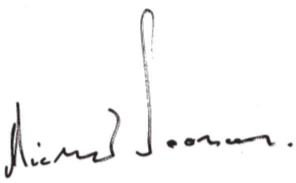
In the ever changing world of international tax reform, Ireland has been the voice of clarity. We have committed to meeting the best new international standards and have set about honouring that commitment without undue fuss or drama.

Our core offering is a competitive, business-friendly regime with a rock solid commitment to the 12.5% corporation tax rate. Our regime meets the highest standards in transparency and we have taken important steps in recent years to make sure that our relationship with our partners in the developing world is a fairer one.

We compete fairly and we play by the rules. Everyone must pay their fair share, whether they are an individual or a company. This is necessary if we are to fund public services and retain the legitimacy of the tax system. Our rules are written in law and they apply to everybody. This is why the Government is challenging the EU Commission's decision on the Apple State aid case. We need to defend the integrity of our tax system; taxpayers need certainty on what their responsibilities are; and we need to defend our sovereign competence in taxation.

Over the coming years, we will bring forward the necessary changes to meet our international commitments by the required deadlines, while ensuring that we remain competitive and responsive to changes in our environment. At times of uncertainty and change, we have shown ourselves to be sure-footed. We remain confident that our core offering is competitive and robust.

This second annual update provides me with an opportunity to point to Ireland's track record of delivering on our commitments under our international tax strategy. We remain responsive to changing demands, but recognise the value of constancy in our core principles. I know that business values certainty and so I have taken the opportunity to map out where we are going in the year ahead. While change is inevitable, uncertainty is avoidable.



Michael Noonan, TD
Minister for Finance

A Brexit Ready tax system

Brexit, and the changing relationship between the United Kingdom and the European Union, is a significant factor when considering Ireland's competitive position for attracting investment and jobs. The economic impact of Brexit will depend on the future relationship between the UK and the EU, especially regarding trade, financial flows, and the movement of labour.

Ireland remains in a very strong position to attract investment and jobs. The Government has committed that this year's Budget would be Brexit-proofed. Taking account of this commitment, and in light of in-depth sector analysis published by the Department of Finance, a number of taxation measures have been announced in the Budget, with a view to getting Ireland "Brexit ready". These include measures in the areas of small and medium enterprises, Irish exporters, entrepreneurship, and the agri-food sector.

A competitive corporate tax policy improves innovation and increases capital investment which can help to maximise the economy's potential in the future. The review of the Irish corporate tax code which has been launched in Budget 2017 will include consideration of how best Ireland can deliver tax certainty for business and maintain the competitiveness of Ireland's corporation tax offering.

The cornerstone of our competitive offering remains the 12.5% Corporation Tax rate. This rate is supplemented with the best-in-class R&D tax credit and Knowledge Development Box. Both of these incentives are designed to attract real jobs and substance to Ireland, and are fully in line with agreed international best practices.

An evaluation of the R&D tax credit has been published with Budget 2017. This evaluation highlights the beneficial impact the credit has had in encouraging innovation and investment in research and development in Ireland.

The Knowledge Development Box ("KDB") was introduced at the beginning of the year to support all companies carrying out substantive innovative activities in Ireland. Legislation will shortly be brought forward by the Minister for Jobs, Enterprise and Innovation to provide an additional benefit, within the parameters of the OECD "modified nexus", for small companies who wish to avail of the KDB.

The Government has also confirmed its commitment to the 3 year corporation tax start up relief. This relief plays an important role in assisting small businesses in starting, growing and creating jobs.

'Getting Ireland Brexit Ready' has been published with Budget 2017 outlining the policy responses to Brexit that have been introduced in Budget 2017 to enable exposed sectors of Ireland's economy to remain competitive, and to protect the public finances from Brexit related shocks.

Ireland and BEPS implementation

The OECD BEPS project is now being implemented around the world. The BEPS Inclusive Framework has been created to provide a forum for countries both in the OECD and beyond to work together on this important task. Part of this task will involve monitoring how all countries implement BEPS to ensure a level playing field worldwide.

Ireland has committed to the BEPS process and will play its full part in implementation. As a small country with an open economy, we must keep pace with this international movement for change.

Ireland has already begun this process. We began by implementing Country by Country Reporting in Finance Act 2015. Many other countries have followed suit and all EU Member States will have rules in place by the end of this year. We are also fully implementing OECD exchange of information requirements in respect of tax rulings as agreed in BEPS Action 5.

The Anti-Tax Avoidance Directive is a significant step towards the implementation of the BEPS reports. The Directive will see three of the other key OECD BEPS recommendations implemented across Europe. These are rules targeting hybrid mismatches, interest deductibility rules and Controlled Foreign Company rules. Ireland will implement these changes in line with agreed deadlines set out in the Directive.

The BEPS multilateral instrument ("MLI") is close to being agreed by more than 90 countries. This MLI will provide the mechanism for extensive changes to tax treaties globally. It will ensure that tax treaties are updated to reflect a number of important OECD BEPS actions, including agreed standards on treaty shopping and dispute resolution. Ireland has played an active part in this work.

In May this year, new transfer pricing rules were agreed at the OECD. We now need to consider what changes are needed to ensure that Ireland's transfer pricing rules meet the standards set in the OECD transfer pricing guidelines.

Ireland will continue to take actions needed to implement the BEPS reports. The review of Ireland's corporation tax code, which has been launched with Budget 2017, will include consideration of what further actions Ireland may need to take to ensure we are fully compliant with the OECD BEPS recommendations.

Ireland's engagement with EU tax proposals

EU Member States acting together have taken significant actions to combat aggressive tax planning. The substantial achievements of the past year have proven that Member States can agree significant Directives which severely restrict the ability of companies to engage in profit shifting or base eroding activities.

The Anti-Tax Avoidance Directive was agreed by EU Finance Ministers in June. The Directive is an important step in efforts to combat aggressive tax planning across Europe. Member States agreed to five significant corporate tax anti-avoidance measures, three of which derive directly from the OECD BEPS process. The other two measure involve an agreed approach to exit taxes and general anti-abuse rules.

Ireland played a very active role in shaping the Directive. In negotiating the Directive, we sought to ensure that Ireland's sovereignty on tax rates was fully protected and that genuine investment in Ireland would not be unduly impacted. The Directive is now being transposed with a timeline that allows business to plan ahead and which should ensure Europe acts consistently with the rest of the world. The measures in the Directive will be implemented by Ireland to meet the agreed deadlines.

Member States continue to debate further proposals to tackle aggressive tax planning. EU Member States are currently considering other tax proposals including the potential reform of the Interest & Royalties Directive and a proposal for a common EU Black List of third jurisdictions. Ireland is actively engaging in work on these files. Ireland is also an active participant in the EU Code of Conduct Group which examines harmful tax competition within the EU.

Further new proposals will be debated by Member States over the next year. These include proposals on improving dispute resolution mechanisms and requiring the mandatory disclosure of aggressive tax schemes. Ireland is one of a small number of countries to already have a mandatory disclosure regime in operation and is in favour of improving dispute resolution mechanisms. While we await details of the exact proposals, Ireland is generally supportive of the need for co-ordinated EU action in these areas.

Later this year, the European Commission will relaunch its proposal on the CCCTB Directive. Ireland will engage fully in discussions on this proposal while assessing whether it is in our best interests. Taxation remains an area for unanimous decision making at Council, as laid out in the Treaties.

Ireland continues to disagree with any harmonisation of tax rates, minimum levels of taxation or the inappropriate encroachment of State aid rules into the core Member State competence of taxation.

Tax transparency & tax and development

Ireland remains a leading supporter of international efforts to increase transparency in the area of corporation tax. The Government has committed to the highest international standards in transparency in the taxation of the corporate sector. Tax transparency and access to information is key to tackling the global problems of tax avoidance and aggressive tax planning.

Ireland has strongly supported work at EU level to ensure that all Member States meet these high standards. Member States have agreed significant enhancements to administrative co-operation and the exchange of information within the EU in recent months.

The Directive on Administrative Cooperation (DAC) is the cornerstone of tax transparency between Member States. The third and fourth iterations of DAC have been agreed during the last 12 months (known as DAC3 and DAC4). The Government has committed to implementing these two transparency Directives by the end of 2016. DAC3, which deals with the automatic exchange of tax rulings among Member States will be transposed later this year. DAC4, dealing with the automatic exchange of Country by Country Reports among tax authorities, will also be implemented in Irish law in Finance Bill 2016.

Member States remain committed to enhancing the exchange of information. A further proposal to amend the DAC is very close to reaching political agreement. The proposal, DAC5, would ensure that tax authorities are given access to relevant information prepared by financial institutions as part of their anti-money laundering requirements. Ireland has strongly supported this proposal which is consistent with the approach currently taken in our national tax legislation.

Tax transparency is necessary worldwide, and not just within the EU. The G20 and OECD are currently developing criteria for a list of countries that are not sufficiently transparent. This OECD list should play an important role in encouraging the adoption of the international standards in transparency across the globe.

Our domestic legislation must also ensure that Revenue have access to all necessary information. Following the publication of the Panama Papers this year, Minister Noonan advised the Revenue Commissioners that he would support granting any additional powers that were necessary to ensure Revenue had access to all relevant information. The upcoming Finance Bill will detail a number of proposals in this regard.

Ireland remains cognisant of our commitment to engage constructively and respectfully with developing countries in relation to tax matters. In last year's Finance Act, new tax treaties with two developing countries were ratified which strike a more appropriate balance of taxing rights. Ireland continues to encourage other developed countries to follow our example and carry out a spillover analysis into the impact of their tax system on the economies of developing countries. Ireland is a leader in this area of research: only one other country has previously carried out a similar spillover analysis project.

Ireland is also an active participant in the EU Platform for Good Tax Governance. This forum brings together representatives from governments, business and civil society to discuss approaches to targeting tax evasion and avoidance.

Update on Ireland's International Tax Strategy

Ireland's International Tax Strategy sets out a Charter with the principles and objectives underlying Ireland's international tax policy. We are setting out below the further progress that we have made on these commitments since last year.

Ireland is committed to maintaining an open, transparent, stable, and competitive corporate tax regime.

We will achieve this by:

- Maintaining a rate of 12.5% on active, trading income and 25% on passive, non-trading income for all domestic and international businesses
- Considering any proposed changes to our tax legislation in terms of its impact on sustainable jobs and economic growth

Ireland is committed to full exchange of tax information with our tax treaty partners ***We achieve this by:*** ▪ Responding to requests for information in an efficient manner ▪ Providing information in as comprehensive a manner as possible taking account of the nature of the request ▪ Complying fully with our responsibilities and obligations as set down in our tax treaties	***Developments since October 2015*** ▪ Legislative changes made in Finance Act 2015 to improve Revenue's ability to access and exchange information. ▪ Text of the Multilateral Instrument agreed at the OECD to update global tax treaties for BEPS recommendations. ▪ Government approval to sign two new Double Tax Agreements. ▪ Government approval to sign a new Tax Information Exchange Agreement.
Ireland is committed to global automatic exchange of tax information, in line with existing and emerging EU and OECD rules ***We promote this by:*** ▪ Timely transposition of relevant EU legislation into Irish law ▪ Full participation in OECD developments, making appropriate provision in Irish law as necessary ▪ Promoting the use of automatic exchange of information with tax treaty partners	***Developments since October 2015*** ▪ The second revision of the Directive on Administrative Cooperation that enabled the automatic exchange of financial account information was implemented in Finance Act 2015. Ireland has actively supported work at EU level on a third, fourth and fifth iteration of the Directive on Administrative Cooperation to facilitate the automatic exchange of information on cross border tax rulings, Country by Country reports and to ensure that tax authorities have access to AML information.

Ireland is committed to actively contributing to the OECD and EU efforts to tackle harmful tax competition	Developments since October 2015
We achieve this by: ▪ Active participation in the EU's Code of Conduct and the OECD's Forum on Harmful Tax Practices ▪ Rejecting introduction of measures in national legislation which could constitute harmful tax competition ▪ Eliminating any measure in national legislation if it is found to be harmful ▪ Active participation in the OECD Base Erosion and Profit Shifting project	▪ Ireland agreed the Anti-Tax Avoidance Directive with our fellow EU Member States to implement a number of BEPS Actions consistently across the EU. ▪ Ireland continues to engage constructively on other EU tax files. ▪ Ireland remains engaged in the OECD's BEPS project and the new BEPS Inclusive Framework as it moves into the implementation phase. ▪ The Knowledge Development Box was introduced in Finance Act 2015 in a manner that fully complies with the international best practice agreed in BEPS Action 5.
Ireland is committed to engage constructively and respectfully with developing countries in relation to tax matters including by offering assistance wherever possible	***Developments since October 2015***
We achieve this by: ▪ Supporting international efforts to build developing country capacity to benefit from enhanced global tax transparency ▪ Promoting the extension of Country-by-Country Reporting to areas beyond the "extractive" sector and greater international reporting to competent authorities ▪ Offering financial support to regional initiatives to strengthen tax administrations in Africa ▪ Strengthening the Public Financial Management systems of developing countries	▪ Ireland continues to encourage other countries to publish their own spillover analysis, modelled on the report published in last year's Budget. ▪ Country by Country Reporting was implemented in Finance Act 2015 and Ireland signed a Multilateral Competent Authority Agreement in January 2016 to share these reports with other tax authorities. ▪ Re-negotiated Tax Treaties with two developing countries which provided for greater source country taxation were ratified in Finance Act 2015.

Tithe an Rialtais
Sráid Mhuirfean Uacht
Baile Átha Cliath 2
D02 R583
Éire

Government Buildings
Upper Merrion Street
Dublin 2
D02 R583
Ireland

T: +353 1 676 7571
www.finance.gov.ie
@IRLDeptFinance