



PwC's Budget 2025 Submission: Leveraging tax policies for sustainable business growth



Introduction



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With a significant surplus expected, Budget 2025 represents a critical opportunity for the Irish Government to support businesses and individuals in the face of global uncertainty and in the pursuit of opportunities.

Inflationary pressures and capacity constraints continue to pose significant challenges to individuals, households and businesses. Whilst there is a pressing need to tackle economic issues in the short-term, Budget 2025 also presents the Government with the opportunity to secure and embed the remarkable economic growth achieved over recent years for the benefit of future generations.

At the same time, the Government has ambitious climate goals that need the right tax policies to incentivise investment and innovation in renewable energy and the decarbonisation effort. Ireland has committed to achieving climate neutrality no later than 2050, with a 51% reduction in greenhouse gas (GHG) emissions by 2030. In order to achieve these objectives, the Government will need to make considerable capital investment in the area of sustainability in the coming years to transition to a low carbon, climate resilient and environmentally sustainable economy. The business community and investors have a key role to play in this goal and they can do so in a manner which, most importantly, improves Ireland from an overall sustainability perspective whilst simultaneously facilitating economic growth.

Ireland's acute housing shortage is our most immediate challenge and one that must be addressed. From an economic perspective, it represents a significant threat to fiscal growth when businesses cannot attract or retain talented workers to live in cities, towns or villages due to a lack of housing stock. A recent American Chamber of Commerce Ireland survey indicated that the housing crisis is by far the biggest problem for US firms doing business in Ireland. Close to half of firms surveyed said housing is the most important challenge to overcome for their business in order to invest and expand in Ireland. Moreover, some 98 per cent of firms said the shortage is an issue for employees in their Irish operations. Tax policy can play a vital role in reversing this situation and we have outlined a number of relevant measures in our submission. These range from extending the "retrofitting scheme" aimed at modernising Ireland's housing stock and bringing stock into the market, to reducing the tax cost for Irish businesses letting properties to staff at below market-rates, to developing incentives to promote carbon and cost-efficient modern building methods including modular homes or housing components. It is essential that certainty and stability of tax regime is provided to encourage investment and large scale development.

From an international perspective, the global tax landscape is undergoing significant changes with the introduction of new rules and reforms that will affect Ireland's corporate tax attractiveness and competitiveness. While the Government presses ahead with implementing global tax reforms, pro-growth initiatives that attract investment and encourage employment (such as reducing the cost of employment, increasing the after-tax returns for entrepreneurs and incentivising climate change projects) have been conspicuous by their absence in recent years. It is imperative that Budget 2025 places a renewed emphasis on this crucially important dimension of Ireland's economic success.

PwC, as a leading provider of tax and advisory services, has developed a number of insights and proposals for Budget 2025, based on our extensive experience and expertise in the Irish market. These insights and proposals aim to address the needs and expectations of various sectors and stakeholders, including private enterprise, family businesses, corporate taxpayers, and individuals. They also reflect PwC's vision of building trust in society and solving important problems, such as creating sustainable economic growth, enhancing social mobility and fostering a culture of entrepreneurship.

Some of the key measures which PwC would like to see implemented in Budget 2025 are outlined below.

1. Delivering against our energy transition objectives:

The submission recognises the urgency and the opportunity of transitioning to a low-carbon economy and achieving climate neutrality by 2050. It proposes various tax incentives and reliefs to promote innovation and investment in the energy transition, including green clean technologies, renewable energy activities and green industrial park and port infrastructure. It also suggests tax measures to encourage households and communities to make changes in their energy consumption and behaviours, engaging in home retrofitting and using more sustainable transport methods. Furthermore, it highlights the potential of the Irish funds sector to support sustainable finance and proposes tax breaks or reduced rates for funds that focus on high-impact sustainable projects.

- 2. Supporting private business:** The document highlights the importance of the domestic private business sector as the backbone of the Irish economy and points to the need to support its growth and resilience in the face of rising costs, challenges to talent acquisition and retention, and global tax reform. The document proposes tax measures to assist private businesses in securing investment and raising funds, such as allowing interest earned on loans by angel investors to be taxed at 12.5%, increasing the lifetime limit for Revised Entrepreneur Relief to €5m, and removing cash as a non-qualifying asset for Capital Acquisitions Tax (CAT) Business Relief purposes. The submission also proposes tax incentives to help private businesses incentivise, retain and attract key talent, such as share schemes and allowing companies to rent properties to employees at favourable tax rates.

- 3. Growing the financial services sector:** The submission acknowledges the key role of tax policy in supporting the Irish financial services sector and its contribution to the economy and society. Continual evolution is needed to meet the needs of an ever-changing market, and maintain Ireland's leading position as a financial services jurisdiction of choice. We propose tax measures to enhance Ireland's position as a hub for sustainable finance, such as introducing tax incentives for Irish funds that prioritise investments in projects or companies with significant positive environmental impacts. Our submission also welcomes the introduction of a participation exemption for dividends which will simplify the tax system and improve Ireland's attractiveness as a destination for inward and outward investment. Measures to manage the costs of construction and promote house-building need to be front of mind to increase stock in the market. Finally, the submission calls for tax measures to increase private investment and retail market participation, such as reviewing the taxation of investment products and ETFs and addressing the barriers to domestic household investment in funds.

- 4. Simplifying tax code:** The document stresses the urgent need for tax simplification and decreasing compliance complexity. This would provide tax certainty and consistency to both domestic and multinational enterprises so as to improve Ireland's competitive offering. The need to declutter tax legislation is a growing theme internationally, but Ireland has an opportunity to be a first-mover to facilitate ease of doing business in our territory. Our submission suggests a full review and rewrite of Schedule 24 of the Taxes Consolidation Act 1997, which governs the double tax relief system, in light of the introduction of a participation exemption for foreign dividends. A review of the existing interest deduction rules is required and the submission welcomes the ongoing work of the Business Tax Stakeholder Engagement Forum in this area. The submission also advocates for simplifying the existing tax measures that support the indigenous Small Medium Enterprise (SME) sector, such as the Research & Development (R&D) tax credit, Real-Time Reporting and the Employment Investment Incentive Scheme (EIS), by reducing the administrative burden and the punitive measures that apply to these reliefs.

5. Attracting foreign direct investment

(FDI): The document reaffirms the importance of continuing to attract foreign direct investment from a broad range of international companies in the ever intensifying battle for global investment. The key focus in relation to pro-growth initiatives that attract investment and encourage employment are equally important to FDI. Sustainability initiatives which support existing multinational companies based here and encourage new investment in renewable projects are high priority. It will be important to introduce participation exemptions for dividends, branches and gains that are compatible with one another and with the OECD Pillar Two legislation (Pillar Two). We recommend revisiting the policy decision for the participation exemption not applying for a deemed disposal arising under the Exit Tax provisions. Finally, our submission outlines the important need to align the Irish corporate tax system with the operation of the Pillar Two rules so as to avoid any distortions that may arise from these rules. The simplification and decluttering of the tax code will be important for future investment decisions.

We would very much welcome the opportunity to discuss the contents of this submission with you at the earliest opportunity. We are also very happy to provide you with any further information, perspectives or assistance that you may require.





An aerial photograph of a solar farm with rows of photovoltaic panels stretching across a landscape. A large, semi-transparent pink rectangular box is positioned in the lower right quadrant of the image. To the left of this box, there are several small, solid-colored squares in shades of orange and yellow, some of which are partially overlapping the solar panels. The number '1' is displayed in a large, bold, yellow font within the pink box.

1

Delivering against
our energy transition
objectives

Our greatest challenge also presents great opportunities.

The reality of climate change is here.

A new report by the World Meteorological Organisation (issued in March 2024) confirms 2023 as the hottest year on record by a clear margin. Records were also broken for ocean heat, sea level rise, Antarctic sea ice loss and glacier retreat. In Ireland, Met Eireann confirmed that 2023 was the second consecutive warmest year on record, 0.35 °C warmer than 2022 (the previous warmest year).

Warmer temperatures lead to more severe flooding and storms and this comes at a financial cost for households, communities, governments, businesses and insurance companies. The Irish Fiscal Advisory Council (IFAC) has estimated that the additional costs to the State to respond to more frequent and adverse extreme weather events could amount to €0.5 billion. This is acknowledged in Ireland's Climate Action Plan 2024 which sets the roadmap to deliver on Ireland's climate ambition.

Ireland has committed to achieving climate neutrality no later than 2050, with a 51% reduction in GHG emissions by 2030. These are ambitious climate goals that will require investment, coordination and deployment at a rate never before achieved. Due to the scale and amount of investment required, this will require collaboration between the public and private sector.

The energy transition presents both risks and opportunities for Ireland. This is recognised by the private sector in Ireland. The 2024 PwC Ireland CEO survey highlights that 74% of Irish CEOs reported that their organisation will be exposed to climate risks to some extent in the year ahead. Many are seeing the climate transition as an industry disruptor containing distinct opportunities as well as risks. Sustainability and ESG issues are increasingly on the agenda of every C-suite and become a central theme for businesses.

Ireland is well positioned to take advantage of the opportunities that the energy transition presents, both on a domestic and on a global scale. This includes areas such as renewable energy, energy storage, carbon capture technologies, RD&I, supply chain infrastructure, creation of integrated energy parks and a leading centre for sustainable finance. By putting the right policy frameworks in place now (including tax policy supports), this will create new green jobs in Ireland, improve our energy security and independence and establish Ireland

as an attractive hub for foreign direct investment and sustainable finance.

Key challenges to innovation and investment

While we are making progress towards our climate targets, any reduction to date is falling far short of the level of reductions required to meet our legally binding commitments. The National Competitiveness Councils Annual Challenges Report (September 2023) acknowledged that the current level of progress could be detrimental to Ireland's competitiveness in the long run and improving our performance in areas such as renewables, sustainability and GHG emission reductions will be a key determinant of our future competitiveness.

Some of the key challenges we are facing include:

- Scale of investment required. Significant private investment will be needed alongside public investment in order to meet our targets;
- Ability to attract and build the requisite supply chain to meet demand across a number of areas including renewable energy development, construction of ports, grid capacity, residential and commercial retrofit market and EV charging infrastructure;
- Accelerate GHG emission reduction through the transformation of energy demand;
- Provision of some down-side protection to address barriers to private investment in sustainable RD&I across all sectors, alongside the ability to commercialise and scale new climate technologies at speed;
- The ability to deliver integrated energy parks at scale in order to continue to secure foreign direct investment;
- Complexity of the existing regulatory environment. According to the PwC Ireland 2024 CEO survey, 71% of Irish CEOs cite regulatory complexity as the greatest barrier to decarbonising their business model. Other barriers include lower economic returns for climate friendly investments (63%) and a lack of climate-friendly technologies (62%);

- Lack of skills. Rapid upskilling is needed to meet the supply chain and wider green infrastructure demand;
- The high upfront cost of switching to more energy efficient and sustainable products and services.

Using tax policy to promote innovation and investment

Tax policy is a critical lever available to the Irish Government to address the risks of climate change, influence behavioural change, mobilise private investment and to capitalise on the many opportunities the net-zero transformation presents. However, time is of the essence and Ireland must act now if we want to be successful in tapping into the significant economic opportunity that our energy transition presents.

A number of key tax policy changes could be considered to promote innovation and investment in the energy transition, including:

For business

- Expand tax reliefs for investment into companies carrying on qualifying renewable energy activities and the supporting supply chain. By offering tax deductions or credits for investments in this sector, the government can encourage more private capital to flow into sustainable projects;
- Introduce tax reliefs for corporates investing into companies setting up innovation hubs focused on the development of new green, clean technologies (including heat pump technology, floating offshore wind and other ocean technologies, renewable hydrogen production, energy storage and sustainable aviation fuel);
- Introduce tax incentives and reliefs for companies setting up in new green energy industrial parks. This could include a suite of measures including accelerated capital allowances, double rent deductions, discounts for business rates etc.;
- Introduce enhanced tax depreciation to encourage investment in our port infrastructure and tax reliefs to encourage renewable energy developers and the supply chain to make a contribution to the capital investment required;
- Expand the current CGT participation exemption to cover the pre-trading phase for qualifying renewable energy projects. This should encourage investment by multiple investors over the earlier and riskier years during the project lifecycle;
- Introduce capital gains tax relief for ports selling surplus land provided the proceeds are ring-fenced and reinvested in ports infrastructure to support the build out and servicing of our offshore wind sector;

- Introduce tax incentives or grants to encourage SMEs to calculate their carbon footprint and to reward GHG emission reductions either through demand reduction measures or investment in renewable energy sources or carbon capture technologies. Tax incentives could be linked to GHG emission reductions with higher incentives for higher impact projects;
- Simplify and fast track access to grant funding, in particular for the SME sector;
- In relation to VAT, some countries have introduced exemptions for retrofitted battery energy storage systems (reducing VAT from 20% to nil by exemption). Energy saving measures could be further considered from a VAT perspective as was the case in relation to VAT zero-rating for the supply and installation of solar panels on private dwellings and recognised schools;
- The experience in other countries is that investments in energy projects and energy transition will likely lead to significant costs that will generate VAT claims. Priority should be given to processing of such claims.

For the Irish funds sector

- Introduce tax incentives for Irish investors investing into Irish Funds that prioritise investments in projects or companies with significant positive environmental impacts. Linking tax incentives to actual GHG emission reductions achieved by companies within investment portfolios could be an innovative approach. Funds that successfully drive emissions reductions beyond a certain threshold could be eligible for higher tax benefits;
- Introduce tax breaks or reduced tax rates for funds that focus on high-impact sustainable projects, such as renewable energy, clean technologies, or sustainable agriculture to encourage capital flows into sectors that contribute directly to GHG emission reductions.

The tax incentives and subsidies could (where relevant and as noted above) be linked to GHG emissions saved, with higher credits for higher-impact projects. There could also be a social benefit if linked to the creation of new skilled 'green' job opportunities in Ireland and / or located in areas where there is a requirement to generate new employment opportunities as part of the Just Transition.



Achieving our climate goals

The above suggestions provide a broad overview of tax measures that could support investment and innovation in this area. In addition to the measures noted above, the following specific measures could also be considered:

For business

- Expansion of the accelerated capital allowances regime for investment in energy efficient equipment and simplification of the existing provisions to encourage a greater uptake. Additionally, we recommend reviewing the policy goal for accelerated capital allowances on energy-efficient materials and equipment to put more of a focus on the energy or emissions impact of the overall investment as opposed to whether or not the expense meets the associated conditions. For example, rather than each component of a building being assessed as to whether it would individually qualify for accelerated capital allowances, the overall efficiency of the building should be the determining factor regarding accessing accelerated allowances;
- More State backed loans to facilitate investment in green energy investment by corporates, particularly SMEs;
- Expansion of grant regime to include used as well as new electric vehicles and the installation of additional / replacement charge points, in addition to, the replacement of batteries;
- More streamlined processes for the administration of Relevant Contracts Tax (RCT) to make processes more efficient for renewable energy developers and contractors;
- Expand the time period for utilisation of pre-trading losses in the Irish offshore wind sector to reflect the project lifecycle of a renewable energy asset;
- Introduction of an additional corporate tax deduction for staff costs where the employees in question have been hired to support the business's energy transition or where selected employees are completing an upskilling programme that is contributory to the Green economy;
- Introduction of tax incentives to encourage farmers to use renewable energy in innovative ways to cut costs and reduce their carbon footprint. This could include the use of solar panels, geothermal energy and carbon sinks;
- Introduce tax incentives for individuals and corporations investing in green bonds. For example, the introduction of tax-exempt interest income or deductions for investments in green bonds could encourage funding from a wider pool of investors towards more sustainable environmentally friendly projects.

Promotion of modern building methods

Modular homes can play a major role in alleviating Ireland's housing crisis (by increasing stock) and also help in meeting the State's climate objectives given that the methodology typically produces homes more quickly and more sustainably than traditional construction. Tax measures to support modular construction would include introducing a capital allowances regime similar to that of energy efficient equipment under s.285A TCA, i.e. a 100% upfront deduction for modular equipment and machinery to reduce the tax burden for companies investing in these technologies. Tying the eligibility of the equipment to its carbon efficiency is key. Another measure would be to provide funding for offsite construction-related skills. Reducing stamp duty on new homes built to certain energy efficient standards / built using modular construction would also incentivise quicker and more sustainable forms of construction (this has also been suggested in the UK).

The role of households in meeting our climate goals

In our view all of the above policies would deliver sustainable growth and investment in the energy transition. However, additional provisions should be considered to incentivise individual households to play their part on the energy transition. In February 2024, the Irish Climate Change Advisory Council issued a statement that "Households and communities must be supported and enabled to make changes now, however incremental, and be empowered through targeted information to plan for future purchases".

There are various additional tax reliefs which could be introduced to incentivise households to carry out home retrofitting activities to either offset tax or give rise to tax refunds. Similar measures could apply to corporations with regard to their commercial properties. The more simple the measures, the more effective they would be. Examples include:

- A refund of stamp duty where residential property purchasers carry out a retrofit to improve the energy efficiency of older stock and offer cash-flow support to buyers struggling with high construction costs;
- Ability for households to get mortgage or home improvement loan interest relief on loans taken out for retrofitting activities;

- From a funding perspective, the recent Home Energy Upgrade Loan Scheme is welcomed. However, we recommend that the uptake and scope of the scheme is monitored on an ongoing basis to ensure that it is easy to access, fit for purpose and that the supports are widely available (in particular it is important that low cost loans are not precluded unnecessarily for older homeowners, ensuring we are meeting our obligations around a just transition);
- A more flexible mechanism for claiming tax back on travel costs to reflect the new hybrid worker should encourage use of public transport over personal vehicles;
- Introduce tax relief incentives for the installation of home charging points;
- One of the key issues with the roll out of electric vehicles is the availability of charging infrastructure. Tax relief for the installation of charge points across the country or more favourable VAT rates on costs associated with the installation would accelerate this roll out.

Funding tax policy changes

Significant public and private investment will be required to fund our energy transition. It is acknowledged that any tax policy measures introduced to support and enable our energy transition will need to be financed. We also need to ensure a just transition to a carbon neutral society. There are various sources of public funding earmarked for the energy transition (both in Ireland and at EU level) and we will need to access funding from a variety of sources to make the changes that are needed. Some examples include the Project Ireland 2040 fund, allocations from the Infrastructure, Climate and Nature Fund and EU funding options, for example the Green Transition Fund and the Strategic Technologies for Europe Platform (STEP).





2

Supporting private business

The backbone of the Irish economy.

Although tax revenues from the multinational sector attract much attention from economists, the media and the business community, it is private business that continues to employ the majority of workers in this country and which acts as the backbone of economic activity. In an ever-changing world, private businesses are continually facing new challenges which threaten their ability to remain successful and, in some cases, viable. Some of these challenges include:

- Securing investment in and raising funds for private businesses;
- Incentivising, retaining and attracting key talent; and
- Rising costs and outdated tax measures.

In this submission, we have proposed tax measures to be introduced in Budget 2025 and beyond to help overcome these challenges while also ensuring that existing tax measures remain fit for purpose.

1. Securing investment in, and raising funds for, private businesses

1.1 Angel investor loans

Private businesses will continue to require funding and support from both the Government and the private sector in order to future-proof their business and continue to create the employment opportunities that are crucial to our economy.

Finance Bill 2024 introduced a very welcome amendment to the conditions of Revised Entrepreneur Relief to effectively include 'angel investors' as qualifying investors for the purposes of this relief. Whilst this is a very positive step in the right direction, the fact remains that more measures are needed to incentivise investment into private businesses, particularly those in the early start-up phase which is deemed to be high risk by any potential investor.

We therefore propose an amendment to existing legislation to allow for interest earned on loans to private businesses by angel investor corporate entities to be taxed at the 12.5% corporate tax rate (as opposed to the existing 25% rate) whilst also not being subject to the close company surcharge. The loans would need to be made to qualifying businesses and be used for qualifying business purposes. Such a measure would increase the return on investment on such 'riskier' loans which we believe would make them a more attractive

prospect to angel investors. A lifetime limit of €1m could apply to interest taxed at 12.5% on such loans, with any deductible interest exceeding €1m being taxed at the current 25% rate.

1.2 Revised Entrepreneur Relief

We propose an increase in the lifetime limit for Revised Entrepreneur Relief to €5m (from the present €1m). We believe that increasing the limit to €5m would be more in line with the level of investment that many private businesses need to develop and grow in today's environment of relentless rising costs.

1.3 Surplus cash

We propose the removal of cash as a non-qualifying asset in trading businesses for CAT Business Relief purposes until and unless the cash is invested in non-qualifying assets. The pandemic has shown that those businesses without the benefit of a 'buffer' of cash reserves suffered the most, mainly via the high lending costs associated with raising the finance needed to keep their doors open.

Separately, many businesses use surplus cash to ultimately invest in qualifying business assets and such investments can take some time to execute. Situations can arise where CAT Business Relief is diluted as a result of surplus cash held by a business where such funds are ultimately used to reinvest in the business. Such a scenario is counter-intuitive to the key objective of CAT Business Relief.

2. Incentivising, retaining and attracting key talent

2.1 Incentivising small businesses to utilise property investment

As has been well documented, the lack of suitable residential accommodation across Ireland and in particular in large urban areas is presenting many Irish businesses with significant challenges in terms of attracting and keeping key talent.

There are opportunities for employers within the private business sector to ease the burden of the housing crisis by creating incentives for Irish businesses to let properties to staff, either on a short term or longer-term basis. The renting of properties by corporates is subject to corporation tax at 25% plus close company surcharge.



In addition, where properties are let at less than market rent to employees of a company, a charge to income tax arises for the employee as a benefit-in-kind (BIK).

Therefore, we propose that where a company undertakes to rent a property to an employee (and not including directors):

- The rental income would be taxable at the standard corporation tax rate of 12.5%;
- The rental income received would not be surchargeable income for the purposes of the close company surcharge;
- Where the company opts to rent the property to the employee at less than market rent, relief from BIK would apply on an element of the “underpaid rent”; and
- Such properties are considered to be qualifying assets for CAT Business Property Relief where they continue to be rented to employees.

2.2 Share schemes/KEEP

Share schemes are an extremely important tool for SMEs as this gives them a cost effective mechanism for incentivising, retaining and recruiting staff in a manner which has been proven time and time again in numerous studies to increase productivity of companies and its employees. SMEs need to be able to compete against the

larger corporations in Ireland as well as those overseas, and therefore it is essential to have a framework of share plans which can be offered to their employees.

2.2.1 Key Employee Engagement Programme (KEEP)

There has been some increase in the uptake of KEEP on foot of the changes in recent years but there are still some key areas which require attention in order for the scheme to be attractive and accessible to SMEs generally. We propose the following changes:

i) Group structures - the scheme should facilitate trading groups with a variety of structures which have grown organically without those groups needing to undertake a restructure in order to access the relief. The test should focus on the group as a whole being “trading” rather than excluding groups which have a trading parent company, which is currently the position.

ii) Valuations - there should be guidance on the preparation of a valuation and timeframe within which a valuation is valid. In addition, we recommend that the relief is not lost where a valuation is inadvertently incorrect - this could be managed by charging income tax on the amount which was below the market value on grant, at the time of the ultimate share sale.

iii) Share buybacks - currently a KEEP participant has to exercise their options and hold the shares for 5 years to be able to avail of the provisions which allow for the

buyback of KEEP shares. To avoid the need for any cash outlay to purchase the shares by the employee it would be preferable for the 5 year clock to run from the grant of the option instead of exercise. Facilitating share buybacks is essential for private companies that are not anticipating a sale, to be able to incentivise staff through equity.

iv) Reorganisations - we recommend that the provisions are updated to allow a KEEP option to be “rolled” in a situation where a company reorganisation occurs.

2.2.2 Non-KEEP share plans

There are a number of measures which are essential in assisting companies implement share plans where KEEP is not suitable:

1. Deferral of up front tax charge - an income tax/ USC/PRSI charge arises where free shares are given to an employee. In a private company this will trigger either a cost for the employee or employer as there is no market in which to sell the shares to fund any costs. If the employee/employer were able to defer this charge until a liquidity event/sale this would be an extremely useful mechanism to help with cash-flow difficulties for SMEs.

2. Reduce the benefit-in-kind (“BIK”) on preferential loans to a commercial rate - currently if an employer lends funds to an employee to buy shares there is a BIK charge of 13.5%. If this were reduced to a commercial rate in line with bank lending rates this would allow employers to consider this mechanism for funding the initial cost of making share awards to employees. The current rate is out of line with other jurisdictions internationally.

3. Employee Ownership Trusts (EOTs) - we would encourage the government to introduce EOTs in Ireland as a mechanism for companies to become employee owned. These vehicles have been successful in the UK and provide retiring owners of SMEs an alternative exit route which will help retain businesses and their jobs within Ireland, particularly in rural communities.

2.2.3 SARP

The Special Assignee Relief Programme (SARP) is a relief applicable to certain qualifying individuals arriving in Ireland to take up employment at the request of their employer. The relief is currently available to new arrivals to Ireland up to 31 December 2025 who satisfy all of the relevant eligibility criteria. We believe that extending the relief to 2030 would be of benefit in terms of providing certainty to employers around its continued availability and would also help in ensuring that Ireland can continue to compete for global talent.



3. Rising costs and out-dated tax measures

3.1 Inflation

Exceptionally high rates of inflation in recent years have had a significant impact on real incomes and costs for both businesses and individuals. We recommend that a full review of all tax thresholds, reliefs and bands is carried out to take account of this exceptional period of high inflation. Such a review should include the adjustment of income tax bands and thresholds, USC and PRSI thresholds, pension thresholds, CGT annual exemption, CAT group thresholds, CAT annual small gift exemption and VAT registration thresholds.

We propose a rebate of up to 50% of employers' PRSI for employees earning up to €26,000, for an initial 12-month period, so that businesses can partially offset the cost of increasing salaries and supporting employees as they transition to the Living Wage.

3.2 Close company surcharge and professional services surcharge

Irish tax law currently provides for a surcharge at a rate of 20% on undistributed passive income (estate and investment income) where a company is a close company. In addition, where a close company provides "professional services", the income derived from those services is subject to a further surcharge, known as the professional services surcharge. The professional services surcharge is levied at a rate of 15% on 50% of undistributed trading income of companies that provide certain types of services, in addition to the 20% on undistributed passive income.

The current provisions can find their roots in legislation dating back to the 1970s, a time when the business landscape both globally and in Ireland was dramatically different to the landscape before us today. The result is that the surcharges potentially apply to a range of Irish owned businesses who are competing against non-Irish owned businesses operating in Ireland who are not subject to those same surcharges, rendering domestic businesses at a competitive disadvantage.

In the case of the close company surcharge on passive income, the punitive 20% rate is becoming an impediment for many businesses who have liquidity issues having grappled with a pandemic, an inflationary environment and global geopolitical events over the last number of years. We therefore propose the abolition of the close company surcharge on passive income to avoid the need for close companies to have to distribute such income out of the business.

In the case of the professional services surcharge, the current legislative provisions do not define what a "profession" is, and instead reliance is placed on an ever-evolving body of case law and Revenue guidance. The surcharge is a common area of appeal by taxpayers at the Tax Appeals Commission (TAC) and recent judgements illustrate the practical difficulties encountered in seeking

to apply the professional services surcharge to today's more complex business models. We are calling for the Department of Finance to undertake a public consultation on the professional services surcharge with a view to updating current published guidance to provide more clarity on what a "profession" is.

3.3 Capital Gains Tax (CGT)

At 33%, the CGT rate in Ireland is the third highest in Europe. We believe that this rate is an inhibitor to the realisation of capital transactions which is having a direct knock on effect on the yield to the Exchequer in respect of CGT. We believe that a reduced CGT rate would stimulate a considerable increase in yield whilst also facilitating the transition of business ownership without the prospect of incurring significant and unviable capital taxes.

3.4 Small benefit exemption

- The current wording of the Small Benefit Extension (SBE) (S.112B, TCA) is very restrictive and not in line with the policy intentions that drove the most recent amendments made in 2022. The legislation currently provides for two qualifying incentives up to €1,000 to be provided by an employer on a tax free basis, subject to being delivered in the form of max two vouchers/gifts cumulatively of a value not exceeding €1,000. Where more than two incentives are provided, it is the first two that automatically qualify for relief.
- The policy intention behind the expansion of the relief in 2022, in light of cost of living pressures, was to allow employers to provide a gift or incentive to employees without tax arising, up to €1,000. Most employers would typically look to utilise the SBE at Christmas which is an expensive time for many employees.
- In this context, the requirement that the qualifying incentive is ring fenced against the first two vouchers/gifts delivered to the employee during the tax year creates challenges with maximising the value of the relief. For example if employers provided a minor gift to employees on Valentines Day and then again at Easter where the cumulative value of both gifts is €40, this would mean the employer would not then be in a position to utilise the SBE against a more substantial gift such as a Christmas voucher delivered later in the year.
- We believe the requirement that the exemption must be applied to the first and second incentive should be removed in order to allow employers the flexibility to maximise the value of the exemption and also make its application much easier to administer.





3

Simplified tax code

Making it easier to do business in Ireland.

The announcement by Minister for Finance Michael McGrath T.D. in his Budget 2024 speech that he plans to simplify the tax system was a welcome development. Ireland's ability to provide tax certainty and consistency to both domestic and multinational enterprises will be considerably enhanced by a strong focus on tax simplification and decreasing compliance complexity. Such initiatives will also serve as an enhancement to Ireland's competitive offering in the intensifying battle to attract foreign direct investment. We note that "decluttering" of the international tax system is one of the future objectives of the OECD and the EU, demonstrating further the need for global streamlining and simplification of tax systems. Indeed, many international reports now indicate that the simplicity of operating efficiently within the realm of business taxes will be a differentiator for countries in the future.

The Commission on Taxation and Welfare has recommended that a review and consolidation of the Taxes Consolidation Act 1997 be carried out periodically. It is now 27 years since the last consolidation. The current legislation is unnecessarily lengthy, complex, with a patchwork of EU ATAD provisions now rendering their related Irish provisions superfluous to requirements. It is therefore a timely juncture for the simplification and modernisation of the tax code to pave the way for ease of doing business in Ireland in the future.

Interest limitation rules

In his most recent Budget speech the Minister acknowledged that Ireland's current regime for interest deductibility is a complex area, and committed to reviewing this issue and engaging with stakeholders in the year ahead. This is a positive development and will be particularly relevant for many large corporations operating in Ireland.

The Finance Act 2021, which introduced the ATAD Interest Limitation Rules (i.e. 30% of EBITDA ratio rule), was merely appended to the already extensive interest deductibility provisions. These provisions make it difficult and costly for businesses to operate in Ireland and comply with their tax obligations. It has also resulted in Ireland having one of the most complicated interest deductibility regimes within the EU. We firmly believe that a full review is necessary to ensure the rules governing interest deductibility are less complicated and compare more favourably to other jurisdictions.

In a recent development, the Finance (No.2) Act 2023 introduced a new measure (section 76E) providing for interest deductibility for a "qualifying financing company" (being a company that obtains third-party finance and advances this finance to a qualifying subsidiary for the purposes of its trade) once certain criteria are satisfied. Although limited in scope, this interim provision aimed to simplify Ireland's rules on interest deductibility and more measures of this ilk will be needed in future Finance Acts going forward.

TALC sub-group and other alternatives

A specific TALC subgroup has been established to identify opportunities to simplify and modernise the administration of business supports, with a specific focus on smaller businesses. The first meeting of this TALC subgroup was held in January 2024 and key areas of focus of the subgroup to date have included exploring simplification measures related to the R&D tax credit, Revised Entrepreneur Relief and the transfer of a business to a company.

It is positive to see that there has been a particular focus in early meetings to simplification with respect to smaller businesses by reference to the phases in their typical business life cycle, i.e. start-up, group and expansion and possible divestiture or succession. Supporting Irish-owned companies on their journey to achieving greater scale provides a platform for strong economic growth, whilst creating and sustaining jobs in communities around the country. Promoting this development through tax incentives that are not overly difficult to avail of is to be encouraged.

A review of burdensome or unnecessary conditions (that frequently fail to recognise modern business or risk management strategies) which prevent taxpayers accessing common reliefs should be undertaken. Neither the TALC subgroup referred to above, nor the Commission on Taxation include such a review within their respective remits, or their objectives. We recommend that a separate body or working group be established whose terms of reference includes the identification of obstacles to accessing tax reliefs as well as unnecessary anti-avoidance provisions. The terms of reference should allow an analysis of the full tax code, including direct and indirect taxes, with stakeholder engagement built into the process to maximise the outcomes for businesses and investors. The recommendations of this body should include policy matters where appropriate.



Review of multiple tax rates in light of Pillar Two

Given the move to a global minimum effective tax rate under Pillar Two, now is an opportune time for Ireland to review and re-organise its existing schedular system and to widely repeal the higher 25% tax rate for non-trading income (save, potentially, for certain transactions). The historical rationale for multiple rates was to protect the integrity of the 12.5% rate of tax, which only applied in respect of trading arrangements. However, with the introduction of the Pillar Two minimum tax, there is now no need for such a dual system in respect of companies that are within the scope of Pillar Two. Particular consideration should also be given to reviewing the applicability of the 33% CGT to gains derived from business assets, which is one of the highest in Europe and is seen as a disincentive to companies for situating certain assets in Ireland which attract jobs, functions and wider investments. This rate has remained unchanged since it was increased during the global financial crisis. Applying the headline corporate tax rate to such gains would encourage more mobility in business ownership resulting in increased innovation.

SMEs/indigenous business

Key initiatives such as the R&D tax credit and EIS can play a vital role in stimulating the indigenous SME sector which has lagged behind the spectacular growth achieved by the FDI sector in recent years. Family and privately-owned Irish businesses employ more than a

million people in over 170,000 businesses across the country and their success is crucial to the functioning of the Irish economy. A strong indigenous sector would also provide diversification benefits to an economy which has become heavily reliant on the multinational sector with respect to jobs and corporation tax receipts. However, the administrative burden involved in availing of both schemes continues to be a significant barrier for small and micro businesses. Business owners have flagged that the burden involved in utilising the EIS is extraordinarily onerous and time consuming. A simplified process that uses non-mandatory template forms could make the process far easier for SMEs who are increasingly reliant on equity financing in the current high interest rate environment.

The present method of applying the R&D Tax Credit uniformly, without considering the size of the claimant companies, is also proving ineffective and serves as a barrier to benefiting from this important tax relief. Smaller companies lack both the expertise and the resources to maintain records of their expenses and procedures to the level that larger corporations in highly regulated industries, such as life sciences and financial services, can achieve. Nevertheless, they are subject to the same financial scrutiny. Therefore, if the documentation demands were less onerous and resource-intensive for startups and SMEs there would likely be a higher rate of adoption of the R&D Tax Credit by them.

Non-compliance can also have significantly adverse consequences for small businesses. Taking the EIS as an

example, even minor administrative mistakes or reporting delays can result in a full clawback of relief benefits for the company that has raised funds. Such punitive measures are often excessive and can render the EIS inaccessible for small businesses due to the risks and costs. Overall, the intricate nature of managing SME initiatives reflects a clear disconnect with the realities and challenges that business founders encounter while launching and maintaining their ventures. These businesses are already grappling with the increasingly high cost of doing business and do not have the resources to navigate excessively complex administrative procedures necessary to invoke these important tax reliefs.

Schedule 24

As Ireland embarks on the journey of introducing a participation exemption for foreign dividends in 2025, now is an opportune time for Schedule 24 to be reviewed and rewritten. This Schedule has been historically far too complex. Currently, Ireland applies a “worldwide” method of double tax relief. This means that Irish-resident companies are subject to tax on their worldwide income and foreign tax paid on foreign income will typically qualify for a credit against Irish tax payable on that income (or a deduction in certain cases).

The primary difficulty with this approach is that its practical application is often too complex. The provisions that provide for the calculation of foreign tax credits are a product of many years of evolution, both in response to changes in Irish tax policy as well as to accommodate

principles established in European case law. Applying the tax credit rules often involves performing a complex set of calculations, including a requirement to recompute these dividends on an Irish basis. This only creates uncertainty and places a compliance burden both on taxpayers and Revenue.

Aside from complexity, other practical difficulties may arise. Companies that are resident in Ireland and that have foreign branch profits often face situations in which there are significant differences in the timing of taxable income between their head offices and their branches. This occurs because, for example, some countries have different rules for the timing of tax deductions for insurance reserves and expenses.

In addition, when international groups are considering where to locate certain operations that need to operate via a branch structure, Ireland’s current credit regime is a deterrent for those groups to consider Ireland as a location to establish operations. The administrative burden of detailed double taxation relief calculations on an on-going basis is seen as complex and costly, especially given Irish tax is not expected to arise on branch profits where the foreign rate of tax is higher than 12.5%.

The strawman proposal released in April 2024 details the building blocks of the foreign dividend participation exemption. This is a much needed first step to simplify Ireland’s tax system, thereby enhancing Ireland’s attractiveness as a destination for inward and outward





investment. The rules governing the participation exemption should be clear and simple with limited exceptions. This would ensure the participation exemption can achieve its objective of simplifying the Irish corporation tax code and enhancing Ireland's attractiveness as a place to do business.

In a Pillar Two context, we would expect that most foreign dividends will effectively qualify for the excluded dividend status participation exemption when Pillar Two is introduced. While foreign branch profits (exempt in the hands of the head office) may be subject to a minimum effective tax rate in any event at the local branch level it is expected that future guidance to be issued by the OECD will deal with tax allocations to branches and should ensure branches in high-tax countries do not suffer additional tax under Pillar Two. Consequently, the adoption of a participation exemption for foreign dividends and an exemption in respect of foreign and branch profits is congruent with Pillar Two, and would avoid unnecessary double taxation and reduce unwarranted complexity.

Enhanced Reporting Requirements ("ERR")

The expansion of real-time reporting to bring non-taxable benefits and expenses into scope (Enhanced Reporting Requirements) has created a significant compliance burden on employers. We believe that the administrative burden placed on employers, particularly with regard to ensuring compliance with the real-time reporting requirements, relative to the value of the additional information being provided to Revenue is completely disproportionate. For example many employers reimburse

expenses on a weekly basis and are now faced with having to make a return of information to Revenue on a weekly basis under the current real-time reporting requirements. Should an annual reporting requirement have been implemented this would provide Revenue with the same information without creating such a large and ongoing compliance burden on employers.

In addition to the above proposed changes regarding the real-time reporting related requirements, we recommend that there is a halt on the expansion of ERR to include any further items not currently in scope.

Conclusion

In summary, Ireland's ability to provide tax certainty and consistency to both domestic and multinational enterprises will be considerably enhanced by a strong focus on tax simplification and decreasing compliance complexity. With corporation tax receipts remaining volatile, the need for Ireland to maintain its global competitiveness as a business-friendly jurisdiction is becoming increasingly important. As major long-awaited global tax reforms start to come into effect, this need will only intensify. The simplification initiatives outlined above would serve as an enhancement to Ireland's offerings in the increasingly competitive environment for global investment.





4

Financial
Services



Supporting the financial services sector.

Tax policy is a crucial tool available to the Irish Government to support the country's financial services sector. The Government has expressed its desire to enhance the environment for financial services firms in Ireland and improve its competitiveness as a location for innovation and international business. This goal is supported by the updated Ireland for Finance Strategy published in March 2024 and the ongoing Funds Sector 2030 review.

Budget 2025 presents an excellent opportunity for the Government to introduce a range of tax measures to support these objectives and further strengthen Ireland's financial services sector. Continuous evolution is necessary to meet the needs of an ever-changing market and maintain Ireland's position as a leading financial services jurisdiction of choice.

Ireland as a hub for sustainable finance

The updated Ireland for Finance Strategy emphasises the importance of sustainable finance and the opportunities for Ireland's financial services sector to play a leading role globally in relation to climate transition. The field of sustainable finance is continuously evolving to meet the needs and expectations of a diverse group of stakeholders, including investors, policymakers, regulators, civil society and the financial services ecosystem. Private markets exist to mobilise private finance for long-term infrastructure projects related to climate change and are expected to be a crucial funding mechanism for such investments.

Ireland has established itself as a world leader in sustainable finance by developing the talent, knowledge and product suite required to seize this market opportunity. It is acknowledged that voluntary carbon markets are expected to be important tools for financing global GHG emission reductions. Ireland should ensure that its tax and regulatory environment is well positioned to promote Ireland as a leading hub for a robust and credible voluntary carbon market. On the tax side, one example could be to consider expanding Section 81C (Emission Allowances) to cover carbon offsets in the voluntary market, in line with the definition of carbon offsets in Section 110 TCA 1997. The deduction could be linked to requiring reporting of GHG emissions and prescribing pre-defined reductions over the transition period.

In asset management, the ESG agenda presents a unique opportunity for asset managers in structuring new products. Investors now expect asset managers to incorporate ESG principles into their investment strategies. This affects the product and domicile chosen to house these strategies. The updates to the Investment Limited Partnership regime, along with the recent confirmation that the Central Bank of Ireland will now authorise European long-term investment funds under the existing suite of regulated fund products, significantly enhances Ireland's product suite for private fund managers at a time when an onshore regulated jurisdiction is of increased importance. Further enhancements to the Irish holding company regime will also be crucial in this context (more on this in below).

Aviation

The aviation industry has pledged to achieve net zero carbon emissions by 2050 through the International Air Transport Association (IATA). Aviation is a challenging industry to decrease emissions as the solutions required to reach net zero goals will come from technologies not yet commercially available. Therefore, the transition to carbon neutrality is critically dependent on actions taken today, even though the results of those actions will not be immediately apparent.

One of the primary areas of focus to meet aviation's net zero targets is sustainable aviation fuel (SAF), and we endorse the positive move to establish a Government task force to develop a national SAF policy roadmap. Ireland has a significant global economic opportunity in this area, provided we act quickly - particularly when linked to our offshore wind ambitions. Here are some essential tax policy changes that can help mobilise private investment in this area and position Ireland as a critical enabler of SAF:

- Reintroduce Section 486B TCA to provide tax reliefs for investments in companies developing new SAF technologies and SAF manufacturing/production projects. By offering tax deductions for investments in this sector, the Government can encourage more private capital to flow into sustainable projects.
- Introduce a tax credit for Irish distributors/manufacturers of SAF, linked to predefined targets (such as GHG intensity reductions), with a higher credit for higher emissions reductions. This should



help bridge the gap between the cost of traditional fossil jet fuels and SAF (by, for example, linking the credit to a requirement to share the benefit of the credit with SAF end-users). It could be scaled back once SAF reaches the required economies of scale.

- Expand the current participation exemption regime under S626B TCA to cover the pre-trading phase for qualifying SAF development projects. This should encourage multiple investors to invest in earlier and riskier years during the project lifecycle.
- Expand the accelerated capital allowances regime under Section 285A TCA 1997 to include:
 - EU taxonomy-aligned aircraft;
 - EU taxonomy-aligned aircraft assets placed on lease to third parties;
 - Plant and machinery required to enable the supply of SAF to aircraft; and
 - Plant and machinery used in the manufacture of SAF, including plant and machinery leased to SAF manufacturers for this purpose.

Including energy-efficient aircraft within the accelerated capital allowances regime would be an opportunity to reward aircraft lessors and airlines alike for focusing on developing a more energy-efficient fleet.

- Simplify and fast-track access to grant funding for developing SAF technologies and manufacturing/production facilities.

Enhancements to the Irish holding company

The Department of Finance has announced that a participation exemption for foreign dividends will be introduced for Ireland as part of Finance Bill 2024. This development is welcome news for the Irish financial services industry. The Department of Finance has also committed to reviewing Ireland's interest deductibility rules, a positive step for financial services and other industries. More details regarding this review are available below.

Implementing a foreign branch exemption is equally important for the financial services industry. It is concerning that the feedback statement released in April 2024, which introduced a participation exemption for foreign dividends, did not reference progress on the branch exemption. Many Irish-regulated financial services entities authorised by the Central Bank of Ireland conduct business in other EEA countries through foreign branches. The current credit system is time-consuming and administratively complex. Also, it does not result in additional tax being paid in Ireland on foreign branch profits, as branches are generally established in countries with higher corporate tax rates. Therefore, we strongly

recommend introducing a branch and dividend exemption without delay.

In an asset management context, any enhancements to the holding company regime must reflect the specific nuances of a collective investment structure. These nuances should be taken into account while framing the legislative change. Continued stakeholder engagement will be crucial during the legislation's development, and PwC appreciates the continued opportunities for consultation and engagement with the Department of Finance.

Leading hub for asset management

The Department of Finance is conducting a review called Funds Sector 2030 to ensure that Ireland remains a leader in asset management and fund servicing. Ireland has an excellent reputation as a hub for investment funds, and it attracts international asset management firms to set up operations and domicile their funds. However, the funds industry in Ireland is being shaped by various factors, such as shifting investor demands, changes in regulation, the ESG agenda and the outcome of the Funds Sector 2030 review. The Irish tax regime has been a critical factor in the growth of the funds industry in Ireland.

However, a 'one size fits all' approach to structuring investment products will be unsustainable into the future. Consequently, it is crucial to have a full product suite of investment fund structures available to enable the adoption of a tailored approach so the continued focus on this area via the Funds 2030 review is welcomed and we look forward to the output of this review. The Government and regulatory agendas must align to ensure that Ireland capitalises on the growth of alternative asset classes, such as private equity and infrastructure.

The recent enhancements to the holding company regime will be helpful. However, there are still challenges and complexities in repatriating income from holding companies to partnership structures, which are frequently used to pool investor capital. These complexities are a significant obstacle to inward investment in Ireland.

Dividends paid to a "collective investment undertaking" are not subject to dividend withholding tax. However, regulated partnerships do not qualify for this exclusion, even though other collective undertakings such as Irish Collective Asset-management Vehicles (ICAVs), Unit Trusts, PLC funds and Common Contractual Funds CCFs do. There is no policy reason for excluding Irish-regulated partnerships from this exemption for collective investment undertakings.

We recommend expanding the definition of a "collective investment undertaking" as defined in Section 172A TCA 1997 to include Irish-regulated partnership structures. This way, relevant distributions can be made without withholding tax at the holding company level, provided the necessary conditions are met. This would put partnership structures on the same footing as other regulated fund structures.

We also suggest that Ireland reviews the operation of its corporation tax exemption for capital gains on disposals of substantial shareholdings to provide a fit-for-purpose asset-holding company structure. This relief for gains should align with the excluded equity gains provision under Pillar Two and with recent proposals in the feedback statement concerning the introduction of a participation exemption for foreign dividends and is very important from both a private equity and sustainable asset perspective.

Private investment and retail market participation

According to the interim Funds Sector 2030 progress report update, taxation of investment products, especially Exchange Traded Funds (ETFs), is a significant hindrance to increasing retail investor participation in Ireland. The report also highlighted a mismatch between Ireland's position as a global hub for the funds industry and the low levels of domestic household investment in investment funds.

The report recommends targeted tax measures to encourage more retail investment, including simplifying the current investment undertaking tax regime for Irish investors. For instance, the report suggests that aligning the rate of investment undertaking tax and rate of income tax applicable to material interests in "good" offshore funds with the rate of DIRT would be beneficial. This would mean reducing the rate of investment undertaking tax to 33%.

Other sector-specific measures

Property / Real Estate

It is essential that the Government can provide stability and certainty to allow investment and large-scale development to continue - particularly in light of the Funds 2030 review. Maintaining certainty of regime and preventing further escalation of construction costs is key. If Ireland does not maintain tax policy certainty and stability, we are at risk of international capital being deployed to other competing jurisdictions and markets resulting in further constraints on the property market. This is especially prevalent considering the exceptionally low levels of activity in the Irish real estate market during 2023.

Further to this, Dublin's attractiveness as a city in Europe for real estate investment has fallen to 13th for 2024 from 3rd in 2019, according to the Urban Land Institute (ULI) Emerging Trends in Real Estate, 2019 and 2024. At a time when the Government is actively focused on setting significantly increased targets for new housing output it is critical that the policy environment for institutional capital is reviewed and enhanced if we are to attract the level of funding which will be required to support these new targets.

Very high construction and financing costs impact affordability and viability. 'Soft costs' of construction – including taxes – may be easier to change quickly than 'hard costs', such as labour and materials. This is where taxation policy has a key role to play in contributing to the long term supply of housing.

Our key recommendations are:

- We welcome the consultation that has been afforded to stakeholders by the Government throughout the course of the Funds 2030 Review. The REIT and Irish Real Estate Fund (IREF) regimes, as currently designed, have facilitated a large number of residential developments. Given the importance of maintaining stability and certainty to allow investment and large-scale development to continue, we would recommend that these regimes be retained and simplified;
- Extension of the Help to Buy Scheme beyond 31 December 2025;
- Convey certainty with regard to the 1%/2% residential stamp duty rate;
- Amend the definition of "apartment block" in Section 31E SDCA 1999 to provide further clarity to ensure units in buildings which have been assessed and built in accordance with design principles for apartments are included;
- The Stamp Duty Residential Rebate scheme is due to end on 31 December 2025. We recommend extension to the scheme along with certain legislative amendments to make it fit for purpose;
- A temporary reduction in the VAT rate applicable to the supply of immovable goods used for residential purposes specifically targeted at new, affordable houses and apartments for first time buyers would be welcome;
- A derogation in the legislation to provide for a deferral of RZLT where there are ongoing appeals for planning permission or where there is an ongoing judicial review and
- Extension of the Temporary Development Contribution Waiver Scheme.

Banking

The Irish banking sector faces challenges now some large banks have left the market. The remaining banks face increased regulatory challenges and technological disruptions. However, attracting new entrants into the sector is essential to enhance competitiveness. Simplifying the domestic reporting requirements for banks operating in Ireland could help avoid repetition between other domestic provisions or international requirements such as the Common Reporting Standard (CRS).

Sections 891 and 891B require banks to submit an annual return to Revenue of interest paid to customers. Section 891 requires reporting only where a payment has been made without deduction of DIRT and which has not been

included in Section 891B. Therefore, Section 891 applies only in very limited circumstances.

Most sections were created before FATCA and CRS reporting requirements, and there can be overlap with the Irish domestic requirements. Section 895 obliges financial institutions carrying on a banking business in the State and their intermediaries who either open a foreign bank account or assist with opening a foreign bank account for a resident to make a return. This information would already be available under CRS requirements for countries with obligations under CRS. These sections should be reconsidered to avoid duplication where possible.

Insurance

Life assurance companies in Ireland invest in Irish real estate as part of their investment strategy for the life assurance and pension products they provide to retail investors. These investments are typically held within Irish unit-linked funds or ICAVs and are mixed funds, meaning there are both pension scheme and non-pension scheme investors in these funds.

Under Irish law, stamp duty does not apply to the transfer of property if the property is held by or for the benefit of a pension scheme and continues to be held by the scheme after the transfer. This exemption applies to unit-linked funds or ICAVs in which a pension scheme invests, as the property held by these funds is considered to be held for the pension scheme's benefit. However, the critical requirement for this relief to apply is that the pension scheme holds the economic benefits of the property before and after the transfer.

Mixed funds have become more common since the original stamp duty exemption was introduced in 2012. While mixed funds facilitate larger transactions and reduce transaction costs for investors, they also mean that the stamp duty exemption may not apply despite a portion of the property being held by or for the benefit of a pension scheme.

To address this issue, we propose amending the exemption to allow for a proportionate exemption from Irish stamp duty in line with the proportion of the real estate or other property held for the benefit of a pension scheme. This will bring the legislation in line with current market practice and ensure that transaction costs are not incurred to the extent assets are held for the benefit of pension schemes, which helps to address the existing pension gap.



The background is a close-up, high-contrast photograph of an industrial machine, likely a laser cutter or punch press. It features a series of sharp, pointed metal components and a perforated metal sheet. Overlaid on this is a large, semi-transparent pink rectangle containing the number '5' in a large yellow font and the text 'Foreign direct investment (FDI)' in a white serif font. Several small yellow and orange squares are scattered around the pink rectangle.

5

Foreign direct investment (FDI)

The battle for global investment continues

Continuing to attract foreign direct investment from a broad range of international companies must remain a key priority of the Government. This need is further highlighted by recent analysis¹ from the Government which highlights Ireland's disproportionate reliance from a corporate tax perspective on the financial performance of a very small number of companies. We know that the reliance for tax revenues extends beyond corporate tax to related labour taxes and indirect taxes also. The 12.5% corporate tax rate applicable to trading activities, which was historically compelling to multinationals, now exists alongside the 15% minimum tax as part of Pillar Two of OECD's Two Pillar solution and the EU Minimum Corporate Taxation Directive. As a consequence of the introduction of Pillar Two, there is increased focus on some specific existing areas of the Irish legislation which can be viewed by investors as disproportionality complex or as a barrier to investment in comparison to other jurisdictions. Additionally, the extent to which Ireland can offer an environment focused on delivering against climate goals will also impact our ability to compete for FDI as investors increasingly look at non-financial metrics for investment.

We have highlighted some areas of the legislation that we believe require immediate attention from a competitiveness perspective. Now that we are in the Pillar Two era, there must be a clear strategy for enhancing Ireland's reputation as an attractive location to do business, and tax policy should be central to this strategy. Simplifying the legislation and improving the tax regime is a must. However, the government should also focus on the non-tax factors to ensure that Ireland is on the front foot in the intensifying battle for global investment.

Participation exemption regime in respect of foreign dividends and foreign branch profits received by Irish tax resident entities

You will note our comments above in respect to the simplification that participation exemptions for foreign dividends and branch profits would deliver (especially if coupled with a simplification of Schedule 24). We also want to reiterate the investment opportunities that would flow from the introduction of a comprehensive and flexible

territorial regime which incorporates a broad participation exemption for all dividends and foreign branch profits.

The vast majority of other OECD and EU countries already operate a territorial system of double tax relief, and removing this clear competitive disadvantage would be in Ireland's best interests at this critical time in the evolving global tax landscape. In this regard, Ireland is the only EU jurisdiction (and one of only five of 34 OECD jurisdictions) that does not already operate such a territorial system.

We welcome the recent publication of the territorial roadmap and the building blocks of the foreign dividends participation exemption. This is a "good news story" from the perspective of investors who have sought an exemption regime (instead of the current tax and credit regime) for many years. The clarification that the exemption will apply from 1 January 2025 gives certainty to investors that the regime will better align with the Pillar Two rules and that they can be comfortable in choosing Ireland as a holding location for their investments. We welcome further engagement with you and the Revenue Commissioners in the continued development of the building blocks over the coming months.

We will also continue to engage in respect of a participation exemption for foreign branch profits which is equally important for many businesses and industries.

Exit tax and Section 626B TCA 1997

Section 626B TCA 1997 provides for an exemption for any chargeable gains arising on the disposal of shares (assuming key conditions are met) from Irish capital gains tax. Equally, where a company migrates its tax residence outside of Ireland and becomes resident elsewhere, the provisions of Section 627 TCA 1997 treat this as a deemed disposal by the migrating company of all of its chargeable assets. Such gains are taxable at the 33% rate of Irish capital gains tax.

However, where a company is within the provisions of Section 627 TCA 1997 (which subjects companies exiting Ireland by migration of tax residence to Irish capital gains tax where conditions are satisfied) the participation exemption does not apply to any deemed disposal of shares. Other competitor jurisdictions (such as the UK) with similar exit tax provisions allow for a participation

¹ Report by the Parliamentary Budgetary Office at the Houses of the Oireachtas.

exemption to apply, assuming the relevant participation exemption conditions are met.

In this context and in the interests of keeping Ireland competitive with other jurisdictions, and in conjunction with the implementation of a territorial system, the policy decision for the participation exemption not applying for a deemed disposal arising under the Exit Tax provisions should be revisited.

Pillar Two

Pillar Two represents a fundamental change in how large businesses pay tax. It is the largest pivot in international tax policy in decades. We have welcomed the opportunity to engage with the Department of Finance on this important issue via the public consultation processes and through the continued stakeholder engagement opportunities throughout 2023 and into this year.

However, there continues to be uncertainty in respect of the operation of the rules, as well as a number of unintended consequences being identified as a result of the implementation of the rules. Consequently, we would encourage the Department of Finance to continue to engage with stakeholders with respect to the operation of the rules and ask them to provide clarity with respect to the operation of the rules where possible. Furthermore, it will also be vital to Ireland's ability to compete for foreign direct investment that we see the Irish corporate tax system adapt to align with the outcome of the Pillar Two rules. We have set out some areas for consideration in this regard. These areas are chosen based on the frequency with which they occur for businesses and the level of uncertainty they give rise to. There are a number of issues which we have raised separately through the TALC BEPS forum, many of which you have addressed, but some of which remain unclear. We will continue to engage with the TALC BEPS forum in this context.

Foreign exchange gains and losses

The taxation of foreign exchange gains and losses arising to Irish tax resident companies that are not regarded as carrying on a trade in Ireland may in certain circumstances produce unintended consequences in the calculation of potential top-up tax liabilities where the Irish company prepares its statutory accounts using a euro functional currency. This is because such companies may reflect untaxed foreign exchange gains or losses in their income statement (arising from matters such as unrealised gains or losses, exempt gains on asset disposals, or gains or losses on settlement of liabilities) that are included in the computation of GloBE income or loss as part of the Pillar Two calculation.

Before the introduction of Pillar Two, such gains would not be taxable until the point of realisation. As a result, certain provisions in the legislation (such as Section 79B, TCA 1997, which enables a company with a foreign currency asset to match the asset for tax purposes with redeemable share capital denominated in the same currency) are effectively redundant for companies within the scope of Pillar Two and whose Irish effective rate of

tax is below the minimum rate of 15%. It is important to note that as well as taxpayers, the above also poses significant uncertainty for Irish Revenue as this can also result in foreign exchange losses.

We would propose that Ireland introduces a designated currency election which mirrors the UK, i.e. for companies where a significant proportion of its assets and liabilities are in the designated currency chosen. In this way, companies can effectively elect into the asymmetric foreign currency rules for GloBE purposes and manage their tax exposures arising from foreign exchange exposures in a more efficient way. Such an election, which is a feature in countries with extensive foreign exchange tax rules, would put affected Irish companies in the same position as before the introduction of Pillar Two in Ireland and should not expose either the affected companies or the State to volatility in tax receipts arising simply from foreign exchange movements which are not taxable from a corporation tax perspective.

This is particularly important given that companies within the scope of the Pillar two rules can effectively no longer avail of the relieving provisions of Section 79B, TCA 1997 to manage foreign exchange fluctuations.

Interaction with losses

s111X(8) TCA 1997 Pillar Two Rules state that deferred tax assets on historical loss DTAs can be uplifted from 12.5% to the 15% rate where the loss is equivalent to a GloBE loss. In certain scenarios where a company has a DTA on a loss, a portion of that DTA will be recast to 15% while a portion will not and remain at 12.5%. From an Irish corporation tax perspective, the losses are fungible and form a single pool for domestic tax purposes such that when the losses are used from a domestic corporation tax perspective the local tax return will not stipulate which losses have been used. In circumstances where a taxpayer has losses which have been recast to 15% and losses which have not been recast, we believe that the taxpayer should be afforded the flexibility to elect which loss is used for GloBE purposes.

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