PwC's Budget 2026 Submission: Securing Ireland's Future

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Introduction

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There are significant headwinds facing Ireland at present. These headwinds, which include the impact of tariffs on global trade, ongoing geopolitical tensions and the risk of supply chain disruptions, need to be carefully considered when framing Budget 2026.

Despite being one of the fastest growing developed economies in the world, Ireland faces some pronounced challenges, particularly in areas such as trade, housing and energy security, which threaten to undermine the significant economic progress we have achieved since the global financial crisis, and which also potentially imperils our future prosperity. The global trade environment is extremely difficult and unpredictable, and for a small open economy like Ireland, this creates a number of significant uncertainties.

The pace of change in the global tax landscape shows no sign of slowing. In a world of increasing global instability, rising uncertainty and heightened international tax competition, the need to bolster Ireland's competitive offering has never been more apparent. Budget 2026 offers Ireland an opportunity to make changes that can help to direct the future course of our country.

Solving the housing puzzle

Nowhere is this need for action more evident than with respect to housing. The continuing chronic undersupply of housing is with each passing year making the objective of home ownership an increasingly distant goal for those locked out of the housing market. When a fundamental life aspiration remains out of reach for an increasingly large cohort of citizens, it's a clear indication that housing policy is not delivering results. Government housing policy requires an urgent reset, and tax incentives can play a critical role in alleviating this crisis. We have outlined a number of these throughout our submission.

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Leaving societal implications aside, the housing shortage also threatens to impinge on Ireland's future economic prospects. As is well-known, a significant component of Ireland's economic success is derived from the contribution of the foreign multinational sector. However, continuing deficits in housing and critical infrastructure will slowly erode our competitive offering over time and our subsequent ability to attract internationally mobile foreign-owned businesses and labour. When businesses cannot attract or retain talented workers to live in cities, towns or villages due to a lack of housing stock, our entire economic model risks being undermined.

The recent OECD Economic Survey of Ireland 2025 highlights that housing supply has not kept pace with population growth, leading to increased housing costs and a shortage of affordable housing options. To effectively resolve the housing crisis, a comprehensive and whole-of-Government approach is required. However, Government funding alone will not be sufficient to resolve the housing crisis and for this reason, our submission calls for the introduction of tax incentives to attract greater private investment into the housing market.

A path to tax simplification

Ireland's ability to provide tax certainty and consistency to both domestic and multinational enterprises would be considerably enhanced by taking steps towards simplifying the tax code and decreasing the complexity of tax compliance. Take the Corporation Tax Return (Form CT1) as an example – this form has been extended year on year to facilitate the increased complexity of corporate tax laws over time. In 2010, the Form CT1 was just 22 pages long and by 2024 it had almost tripled in length at 62 pages. The administrative burden of compliance has increased significantly in the last decade and change is now urgently needed to alleviate this burden and make it easier for firms to do business in Ireland. Our submission explores a number of ways in which this can be achieved, including the publication by Government of a new Tax Simplification Roadmap, and in particular the necessary amendments to the participation exemption for foreign dividends and simplification of complex interest provisions.

Remaining agile in the face of global minimum tax renegotiations

The global landscape is undergoing considerable changes with the new US Administration acting as a significant disruptor. The prioritisation of domestic growth in the US has resulted in a marked movement away from recent trends of globalisation. With respect to international tax, the new US Administration issued an Executive Order on its first day in office rejecting the OECD Global Tax Deal. This announcement has triggered a major shift from the multilateralism we have witnessed in international tax over the past decade.

"With the increasing geopolitical risks and uncertainties at present, Ireland must take action to control our own controllables."

Furthermore, in May 2025, the One, Big, Beautiful Bill was introduced, proposing certain "unfair foreign taxes" to be extraterritorial over American income and subject to retaliatory measures including new withholding taxes and modified Base Erosion and Anti-Abuse Tax (BEAT) rules. Unfair foreign taxes are proposed to include digital services taxes, diverted profit taxes, and the Undertaxed Profits Rule (UTPR) of the Global Minimum Tax. Given that a significant amount of countries have implemented the UTPR, including Ireland, this has cast significant uncertainty about the future of this rule. The impact of this uncertainty is most starkly felt in the European Union where EU Member States have been required to implement the overall Global Minimum Tax by virtue of a Directive.

What is concerning for the OECD and EU is that the US' change in attitude to the Global Minimum Tax potentially jeopardises the entire project. The US' viewpoint certainly cannot be ignored, as the application of retaliatory measures against countries with deemed "unfair foreign taxes" would likely see the attractiveness of these countries as a holding or financing location eroded due to the direct impact the measures would have on payments from the US to Ireland.

There is much being reported in the media about the future of Pillar Two, many outcomes of which could leave both the EU and Ireland, in an uncompetitive position. The difficulty is that Ireland does not have the domestic flexibility to change course unilaterally due to the imposition of the **EU Global Minimum Tax Directive**, whereas non-EU Pillar Two implementing jurisdictions may roll back their Pillar Two legislation to acquiesce to US threats.

Whilst much of Pillar Two's fate lies in the hands of the OECD, the European Union and the US, it is imperative that Ireland continues to advocate for solutions that maximise Ireland and the EU's competitiveness. While we await to see the outcomes and impact of US tax reform on the international tax framework, it is critical that the OECD, EU and Ireland remain nimble in the face of uncertainties and changing tides.

With the increasing geopolitical risks and uncertainties at present, Ireland must take action to control our own controllables. Whilst there are constraints on Ireland's ability to influence what is happening at international levels, at the domestic level, Ireland has full control to determine its destiny on key domestic issues such as housing, decarbonisation and energy security.

"As a leading provider of tax, audit and advisory services to a wide range of clients, PwC Ireland has leveraged its extensive experience and expertise in the Irish market to develop several key insights and proposals for Budget 2026."

Sustaining competitiveness in challenging circumstances

Today, Ireland finds itself at a critical juncture. The economy is strong – and undoubtedly, there has been much progress to celebrate. However, potentially adverse developments in the global tax landscape and the increasingly intensifying battle among countries to attract inward investment pose significant threats to our economic model which has served us so well heretofore. We also need to address the question of how best to access and channel domestic investment, including providing an attractive tax environment for entrepreneurs, start-ups and scale-ups.

Ireland must stand resolute to advocate for the policies that will position both us and the EU to compete on the global stage, whilst addressing the key issues domestically needed to bolster our competitive offering as a jurisdiction of choice in which to do business. With strong public finances in our favour, Budget 2026 represents the opportune time to build on the progress we have achieved to date and to secure our economic prosperity for future generations to come.

As a leading provider of tax, audit and advisory services to a wide range of clients, PwC Ireland has leveraged its extensive experience and expertise in the Irish market to develop several key insights and proposals for Budget 2026. These recommendations are designed to meet the needs and expectations of various sectors and stakeholders, including private enterprises, family businesses, corporate taxpayers and individuals. They also align with PwC's guiding vision of building trust in society and solving important problems such as home ownership, encouraging enterprise and stimulating sustainable, fair and broad-based economic growth.

Our key recommendations for Budget 2026

Below are some of the key measures PwC Ireland would like to see implemented in Budget 2026.

1

Housing

Tax policy can play a vital role in addressing the housing crisis and we have outlined a number of relevant measures in our submission.

The most pressing issue to be addressed is implementation of reforms to the Residential Zoned Land Tax (RZLT). While RZLT was introduced as a land activation measure, there are specific amendments that would make the regime better aligned to the operational delivery of residential developments.

Given the increasing popularity of the forward fund model, particularly with Approved Housing Bodies and other public sector bodies, one significant improvement would be for such forward fund transactions to be exempt from clawback provisions.

Furthermore, our submission calls for a temporary reduction of VAT on the supply of new residential properties to first time buyers, an extension and enhancement of the Stamp Duty Residential Rebate scheme which would account for delays, and better accommodate social or sustainability objectives, BIK reliefs for employee-rented company properties, in between objectives, and a reduction of the CGT rate on the disposal of investment properties.

Tax policy can play a vital role in addressing the housing crisis, helping to contribute to the long-term supply of housing. 'Soft costs' of construction – including taxes – may be easier to change quickly than 'hard costs', such as labour and materials. We have outlined a number of relevant measures in our submission.

2

Private Business

Private businesses are the backbone of the Irish economy, employing most of the workforce and driving economic activity. However, they face numerous challenges, including securing new investment, attracting and retaining key talent, decarbonising their business and managing rising costs.

Our submission calls for the reduction in the Capital Gains Tax (CGT) rate, which is one of the highest in Europe, from 33% to 20%. In addition, as in previous submissions we call for the removal of cash as a non-qualifying asset for Capital Acquisitions Tax (CAT) Business Relief purposes given that it is essential for businesses to keep surplus cash in reserve to deal with an increasingly uncertain world.

It is becoming increasingly difficult for companies to secure investment and raise funds, thus, we call for tax reforms to encourage the handover of businesses to the Irish business leaders of tomorrow. Treating shareholder exits as CGT events, rather than being subject to income tax is vital in achieving this.

We call for the simplification of Form CT1, a reduction in onerous Enhanced Reporting Requirements, and a review of key reliefs to guarantee their practicality. These measures would significantly reduce the unnecessary complexity and administrative burden on companies.

3

Financial Services

The financial services sector plays a vital role in Ireland's economy, contributing significantly to employment and tax revenues. The upcoming Budget 2026 is a key opportunity to introduce targeted tax measures to enhance Ireland's position as a global financial services hub, such as introducing tax incentives for sustainable finance, fostering innovation in aviation and fintech, encouraging retail investment and streamlining compliance to enhance Ireland's attractiveness in the financial services sectors.

Of particular importance for financial services sectors such as banking and insurance, would be the introduction of a branch exemption regime alongside the participation exemption regime for dividends. Furthermore, amendments to simplify the dividend participation regime are critical to enhance Ireland's attractiveness as a leading financial services jurisdiction.

4

Foreign Direct Investment

Attracting foreign direct investment (FDI) remains a key priority for Ireland, especially in the context of global tax reforms and increasing competition for investment. While the technology and pharmaceutical industries continue to play a significant role in Ireland's economy, we should seek to attract new industries, most notably, one of the fastest growing industries - artificial intelligence (AI).

PwC's submission emphasises the importance of pro-growth initiatives that attract investment and encourage employment. Resolving practical issues with the participation exemption for dividends, enhancing Ireland's R&D regime, remaining nimble and engaged at the OECD and EU level with respect to Pillar Two, and simplifying the tax code are all crucial to maintaining Ireland's competitiveness. Ensuring a stable and predictable tax regime is essential to attract and retain FDI.

5

Simplification

Our submission emphasises several key actions to achieve the much-needed Tax Code simplification, and advocates for the introduction of a 'Tax Simplification Roadmap" to provide a clear, long-term plan for tax simplification. We call for urgent efforts to reduce the complexity of Ireland's interest regime. Although a welcome step towards simplification, the participation exemption for dividends remains largely unworkable at present.

Further details are included in the Appendix in which we have made practical and pragmatic suggestions of how the participation exemption regime could be made more effective for Ireland.

6

Energy Transition

Ireland has committed to achieving climate neutrality by 2050, with a 51% reduction in greenhouse gas emissions by 2030. The energy transition presents both risks and opportunities for the country. PwC's submission underscores the urgent need to accelerate Ireland's energy transition and decarbonisation by boosting investment in renewable infrastructure, grid capacity and strengthening green supply chains. To support this transition, we advocate for tax incentives that offset the higher upfront costs of low-carbon materials, alongside initiatives to develop green skills and enable the advancement of key sectors such as offshore winds. Enhancing the accelerated capital allowances regime and introducing tax reliefs for food donations would further drive energy efficiency and promote a circular economy – key steps toward meeting Ireland's climate goals while safeguarding economic competitiveness and a just transition for all.

1

Housing

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Housing

It is essential that the Government can provide stability and certainty to incentivise the investment and large-scale development required to meet Ireland's housing demands. In this vein, maintaining certainty of tax policy 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 of particular concern due to the exceptionally low levels of activity in the Irish real estate market during 2024, particularly with respect to much-needed apartment construction.

Further to this, Dublin's attractiveness as a city in Europe for real estate investment has fallen to 17th for 2025 from 3rd in 2019, according to the PwC and Urban Land Institute (ULI) Emerging Trends in Real Estate reports for 2019 and 2025. 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.

High construction and financing costs affect 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.

Please see our key recommendations in this regard outlined below.

"Taxation policy has a key role to play in contributing to the long-term supply of housing."

Residential Zoned Land Tax (RZLT)

The Residential Zoned Land Tax imposes a charge on land which has the potential to provide residential housing, but is not being used for this purpose. While it is intended for RZLT to bring down the cost of land (by encouraging stock being brought to market) and to encourage the development of housing, there are several issues with its implementation which should be addressed as a matter of urgency:

Forward fund transactions and RZLT

A forward fund transaction involves a developer selling land to a purchaser and entering into a building agreement with the same developer to develop the land. These transactions by their nature involve a transfer of ownership of land by the developer to the purchaser before the development of the residential property is completed.

The forward fund transaction model is popular with Approved Housing Bodies and the Land Development Agency in particular, as well as other purchasers of residential property.
The model is preferred by these purchasers for commercial and risk management purposes.

However, where there is a change in ownership of the land before the land is fully developed, the following RZLT deferrals are to be clawed back (with interest applying):

- The 12-month planning permission deferral (Section 653AGA(3)(b) of the Taxes Consolidation Act 1997 (TCA));
- The deferral where there is a "relevant appeal" by a third party against the granting of planning permission (Section 653AF(4)(c) TCA); and
- The deferral which applies once a commencement notice has been lodged in respect of residential development (Section 653AH(3)(b) TCA).

Since legal and beneficial ownership over the land transfers to the purchaser on the date on which the contract for a forward fund transaction is signed (rather than on the date the development is completed by the developer), upon entering into a forward fund transaction the existing RZLT legislation imposes a clawback of RZLT (plus interest) which has been deferred by the purchaser.

We would strongly recommend that the above clawback conditions do not apply where the land is being sold by a developer and the same developer is being engaged by the purchaser to develop the property.

"We would strongly recommend that the above clawback conditions do not apply where the land is being sold by a developer and the same developer is being engaged by the purchaser to develop the property."

Other recommendations in relation to RZLT

- Extend the definition of "residential property" in Section 653A TCA to include land used to provide services to residential property, such that land which is not capable of being developed into residential properties is not within the charge of RZLT. Alternatively, an exemption could be introduced for land which meets the relevant criteria and is included on the relevant maps, but for which a specific function or other barrier to development can be demonstrated which prevents the land from being developed into residential property.
- Introduce an exemption from RZLT for relevant sites which do not currently have planning permission and for which a planning permission application is awaiting a decision, or which has been refused or sent back to the liable person within 12 months of the liability date. To ensure that this exemption is available only where landowners are genuinely pursuing a planning permission application, a bona fide test with a self-assessment to be completed by the landowner could be included as a condition of the exemption.
- Extend the 12-month deferral period set out in Section 653AGA TCA from the date of the grant of planning permission to provide at least a 12-month deferral to landowners from the date of a decision to rescind planning permission following an appeal or judicial review brought by a third party. This could work similarly to the extension of the deferral to those who win a relevant petition or relevant appeal under Section 653AGA(2) TCA.
- Provide an exemption of RZLT to landowners who appeal a determination of a judicial review which was brought by a third party which has rescinded their planning permission. The exemption should be available for as long as the appeal lasts.

Stamp Duty

The Stamp Duty Residential Rebate scheme is due to end on 31 December 2025. We recommend an extension to the scheme along with the following legislative amendments to make it fit for purpose;

- An extension of the provisions outlined within Section 83D(5)(a) of the Stamp Duties Consolidated Act 1999 (SDCA) which provide for instances whereby the 30-month requirement to commence construction operations does not apply.
- The extension to the requirement to complete construction operations from 30 months to 48 months from the date of the commencement of construction operations.
  - A reduction in the 75% tests to 65% to allow for roads, footpaths and public open spaces in housing developments, or
  - An amendment of the 75% tests in the legislation to exclude any surface area of the housing development covered by roads, footpaths and public open spaces.
- Extend the definition of "land" to include land acquired by way of a long lease.
- Amend the definition of "apartment block" in Section 31E SDCA to provide further clarity to ensure units in buildings which have been assessed and built in accordance with design principles for apartments are included;
- Reduce the rate of stamp duty on the acquisition of houses which either meet the requisite BER (A-rated or B-rated) or an ability to claim back the stamp duty for reinvestment in retrofit.
- Exclusion of houses with social housing leases in place from the definition of "relevant residential unit", such that bulk purchases of houses subject to long-term social housing leases are not liable to the 15% stamp duty rate.
- The legislation enacted in 2024 which introduced the 6% rate of stamp duty gave rise to significant market uncertainty due to its drafting. While Revenue's interpretation of the legislation (which is understood to reflect the intended operation of the new provisions) was subsequently clarified in guidance, we would recommend that the drafting of this legislation is revisited in order to place this interpretation on a legislative footing and mitigate potential technical uncertainty.

Capital Gains Tax (CGT)

We recommend a reduction in the CGT rate on the disposal of investment properties which have been retrofitted to increase the attractiveness of retrofitting old property stock which would contribute towards Ireland meeting its sustainability targets.

"We recommend an extension to the scheme along with the following legislative amendments to make it fit for purpose."

"As noted in the Funds Sector 2030 Final Report, the REIT regime does not currently meet the objectives on which it was established, and, as a result, only one of the four REITs launched is still in operation as a REIT today."

Real Estate Investment Trusts (REITs)

The Irish REIT regime was introduced in 2013 in order to address certain structural issues in the Irish property market, namely: to remove the double layer of taxation for indirect investors, to provide a suitable avenue for collective investment in property (particularly for smaller investors), and - of particular importance in the current supply-constrained environment - to attract capital into the Irish property market.

However, as noted in the Funds Sector 2030 Final Report, the REIT regime does not currently meet the objectives on which it was established, and, as a result, only one of the four REITs launched is still in operation as a REIT today.

While the inability of the REIT regime to satisfy these objectives is of course complex, it can be partially attributed to certain issues or insufficiencies in REIT taxation which inhibit the overall regime. We would therefore recommend that the following amendments are made to the relevant legislation in order to improve the effectiveness of the REIT regime and to enhance its ability to attract the foreign and domestic capital required to meet Ireland's housing demands:

- An Irish REIT is required to distribute 85% of its net rental income annually. Several jurisdictions, including the United Kingdom, allow a REIT to satisfy this requirement by issuing further share capital to shareholders in lieu of cash dividends. Adopting a similar approach in Irish legislation would facilitate the retention of cash, thereby allowing the REIT to fund further projects.
- Proceeds from the disposal of a property are required to be reinvested or distributed within 24 months following the disposal (or a deemed period 12 months preceding the disposal). Otherwise, a retroactive tax charge may arise. This condition is overly restrictive and can make it difficult to return capital to shareholders at appropriate times in the property cycle. Ideally this condition would be removed as it imposes unnecessary timing restrictions on REIT finances. However, in the absence of removal, we would recommend that this condition is extended to 48 months.

Irish Real Estate Funds (IREFs)

The IREF regime has been subject to significant amendments, from both a tax and regulatory perspective, however in previous years, a number of these amendments were not well-signalled to investors. Repeated amendments to the regime have damaged investors' confidence in the IREF as an investment regime and reduced its effectiveness in attracting capital to Ireland's property sector.

It is therefore highly important, in order to promote and demonstrate the stability of the IREF as an investment structure, that no further amendments are made to the regime without transparency to the industry and significant stakeholder consultation.

VAT

We recommend the introduction of 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.

For comparison, in the United Kingdom, the construction and sale of new residential buildings is zero-rated with input credit, and there is a reduced rate of 5% VAT for certain conversion/renovation works carried out on dwellings. The average cost of delivering a 3-bed semi-detached house in the Greater Dublin Area is €408,000 (excluding margin). The VAT cost stands at €48,478 of the total cost (at the current 13.5% rate). The VAT costs are passed to the ultimate consumers via property price/rent. A temporary VAT reduction would therefore be an effective measure to enable viability and increase affordability of newly developed residential property.

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Private Business

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Private Business

Securing investment in, and raising funds for, private businesses

CGT rate

In previous pre-budget submissions, we have highlighted that the 33% CGT rate in Ireland continues to be among the highest in Europe. In our experience, this is deterring taxpayers from undertaking capital transactions, crystallising gains and reinvesting funds in the Irish economy. We continue to call for a reduction in the rate of CGT, narrowing the gap between us and our peers. Not only would a lower rate of CGT increase capital transactions, but it would also stimulate and promote the transfer of businesses to the next generation of Irish business leaders. It would boost Ireland's attractiveness as an investment location, as entrepreneurs consider future exit strategies when considering where to invest.

Facilitating the handover of businesses to the Irish business leaders of tomorrow

Many Irish business owners face challenges in securing a smooth exit when they finally decide to fully divest from the business. One such barrier is the exit of a shareholder to facilitate the incumbent shareholder(s) fully taking over the reins and driving future growth in the business. We are seeing instances where fully exiting shareholders are subject to taxation at marginal income tax rates, which can have the unintended consequence of making many bona fide transactions, such as management buy-outs, unviable. In some cases, we have seen Irish businesses opting to sell to external and often non-Irish third parties (e.g. private equity funds) to secure a tax efficient exit, as opposed to passing it on to emerging Irish business leaders often working within the business being sold.

> "We are of the view that a complete and total exit of a shareholder from a business should be considered a CGT event in the vast majority of cases. Therefore, we are calling for an update to Revenue guidance in this area."

Whilst we acknowledge that CGT treatment can apply to existing shareholders in certain share buyback situations (as legislated for in Sections 173 to 186 TCA), we have observed many practical difficulties in the application of these provisions, particularly in relation to the application of the "trade benefit test" which is very much subjective in its nature. While the currently available Revenue guidance provides some foundation guidance around the trade benefit test, it is largely outdated and, in many cases, fails to account for the modern business landscape which has considerably evolved since Revenue guidance on the matter was first published in February 1997.

We are of the view that a complete and total exit of a shareholder from a business should be considered a CGT event in the vast majority of cases. Therefore, we are calling for an update to Revenue guidance in this area (in consultation with relevant stakeholders) with a view to broadening CGT share buyback relief to encompass all bona fide share buybacks where a shareholder fully divests from a business. We believe that the Revenue guidance should provide more clarity and cite more practical examples of circumstances where the trade benefit test is satisfied.

Another difficulty encountered by many businesses is the application of Section 135(3A) TCA, particularly in the cases of bona fide commercial transactions. As with the trade benefit test, we are of the view that Revenue guidance should provide more clarity and examples in respect of Section 135(3A) TCA.

Surplus cash

As outlined in previous pre-budget submissions, surplus cash is considered a non-qualifying asset in a trading business for CAT Business Relief purposes. Recent experience has shown that it is essential that businesses keep surplus cash in reserve to deal with unexpected events in the market. Thus, the penalising of these businesses for keeping such cash balances when it comes to CAT Business Relief is contrary to the key objective of CAT Business Relief, which is to cultivate conditions that promote business continuity and succession thereby supporting long-term business viability. We continue to call for a review of the application of CAT Business Relief in respect of surplus cash held in businesses where such cash is generated from trading activities.

Incentivising, retaining and attracting key talent

Attracting and retaining key talent

A persistent lack of suitable accommodation continues to be a challenge for Irish businesses in their efforts to attract and retain key talent, particularly in large urban areas. We called for a number of measures in our Budget 2025 submission to incentivise the provision of accommodation by Irish businesses to their employees.

At present, where a business rents property that it holds to its employees, the company would be subject to corporation tax at 25% and a potential close company surcharge on any undistributed amounts. This is in addition to potential benefit-in-kind (BIK) liabilities for the employees where rent is at less than market rates.

As called for previously, we continue to propose that where a company undertakes to rent a property to an employee (not including directors):

- The rental income will be subject to the standard corporation tax rate of 12.5%.
- The rental income received will not be considered surchargeable income for the close company surcharge.
- If the company chooses to rent the property to an employee at below market rent, relief from BIK will apply to a portion of the "underpaid rent".
- These properties are regarded as qualifying assets for Capital Acquisitions Tax (CAT) Business Property Relief, provided they continue to be rented to employees.

Share-based remuneration

We note and welcome the July 2024 Indecon report in relation to the Review of the Taxation of Share-Based Remuneration.

The report reviewed Ireland's share-based regime as well as international counterparts. The report also considered submissions from across the Irish business landscape, including entrepreneurs in the start-up phase. Indecon's report cited six key recommendations, which we broadly support. Building on these recommendations, we propose the following as part of our pre-budget submission:

1. **Employer PRSI exemption:** Whilst the Indecon report proposes an outright cap on the level of employer PRSI exemption in relation to share-based remuneration, we would express caution on such a measure as it will disincentive businesses from utilising share awards and will add a further layer of complexity to an already complex landscape. A further public consultation should be entered into prior to any change in this regard.
2. **Key Employee Engagement Programme (KEEP):** We note and welcome recent changes to the KEEP scheme, however, we feel that there is more that can be done to encourage small Irish businesses to avail of this scheme. It remains complex and onerous in its obligations.
3. **Taxation of Restricted Stock Units (RSUs):** Align taxation of RSUs for internationally mobile employees with international sourcing methods and Ireland's stock options approach. We would welcome such a change to bring us in line with other territories.
4. **Simplify reporting:** We would welcome the continued simplification of share-based remuneration reporting to reduce administrative costs and enhance SME attractiveness, with efficient data collection.

5. **Reduce BIK rates on loans offered to employees for the funding of shares:** Lower the BIK rate on employee loans for share purchases to align with market rates and improve SME participation. The BIK rate in Ireland is considerably higher than that of the UK, for example. We believe this is a relatively simple change which would significantly assist employers in facilitating employees with the acquisition of shares in their employer companies and bring Ireland into line with other jurisdictions.
6. **Employee Ownership Trusts (EOTs):** Reform of the taxation of employee ownership trusts. Consideration could be given to matching treatment of such EOTs in the UK. Currently the Irish tax legislation would significantly penalise any business owner that sought to set up such a structure due to various anti avoidance provisions and Discretionary Trust Tax (DTT) provisions. Facilitating the use of an EOT structure in Ireland for business owners that wish to transition their business to its employees is a fantastic opportunity for Ireland to keep Irish business onshore, retain job and wealth in Ireland and offer business owners a genuine alternative succession option which has already proven to be hugely successful in many other countries.

KEEP

At present, a KEEP1 must be filed on or before 31 March in the year following a year in which options were granted, or where an option was exercised, transferred or released. Failure to do so would appear to result in an outright denial of the KEEP scheme applying. This treatment is disproportionately unfair and seems to be particularly penal for SMEs that may have genuinely missed a deadline for various reasons. In addition, the burden of the incremental taxation is usually passed on the employees and not to the company who failed to make the appropriate returns in time.

As an alternative to this position, we would propose that a fixed automatic penalty regime be introduced such that there is a negative consequence for the company in failing to comply but that the scheme is not denied completely and therefore the employees are not penalised for a position which is outside of their control.

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Business and succession

CAT thresholds

We welcome the increases in the CAT lifetime thresholds announced in Budget 2025. However, these thresholds remain out of kilter with inflation, and we believe that future Budgets should build on this with a view to aligning the CAT thresholds with the current economic landscape.

CAT small gift exemption and CGT annual exemption

Both the CAT small gift exemption (€3,000) and the CGT annual exemption (€1,270) have remained static for several decades. Again, neither exemption has been brought in line with inflation, and we propose that both exemptions are increased in Budget 2026.

Small benefit exemption

Employers can reward employees with up to five small benefits each year, up to a combined value of €1,500, on a tax-free basis. However, if more than five benefits are provided, only the first qualifies for the exemption and the rest fall out of scope of relief. We propose that the restriction of five benefits be removed and that the limit be increased to €2,500. This would enable employers to reward staff in a meaningful way without needing to track a certain limit. Rewarding staff through team building activities, such as team lunches or staff events, boosts team morale and encourages presence in the office environment and should be supported.

Close company surcharge

Our Budget 2025 submission outlined the challenges associated with the current close company surcharge regime. This regime imposes a 20% surcharge on undistributed passive income (estate and investment income) for close companies. In addition, close companies providing "professional services" (a term not defined for the purposes of this surcharge) face a professional services surcharge at a rate of 15% on 50% of undistributed trading income, on top of the 20% surcharge on passive income.

These surcharges originate from legislation in the 1970s, a period with a vastly different business environment. As a result, Irish-owned businesses face these surcharges, unlike their non-Irish counterparts, putting them at a competitive disadvantage.

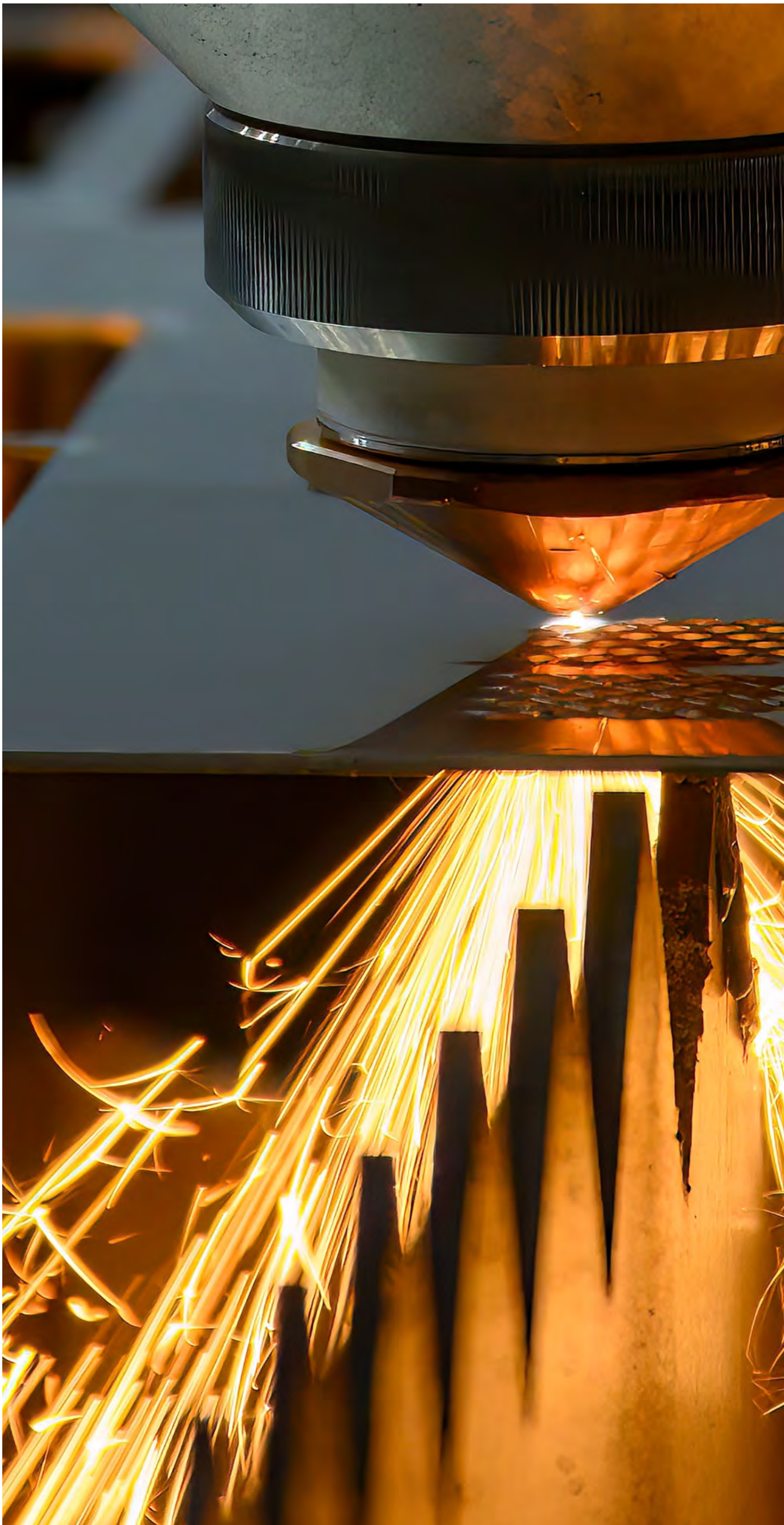
Many Irish businesses are facing increased levels of risk in their day-to-day trading operations making it critical for them to invest and diversify their business assets in order to secure their long-term future. The returns on these investments are often considered passive income and thus subject to the close company surcharge. This regime effectively penalises businesses who take steps to diversify their asset profile.

We propose that where surplus cash in the business is used to acquire investments for the purposes of diversifying an asset portfolio with a view to safeguarding / futureproofing the business, any passive income derived from such assets should be ringfenced and not factored into close company surcharge calculations. In addition, we reiterate our call for a wholesale review of the close company surcharge regime in our Budget 2025 submission with a particular focus on the antiquated and ill-defined professional services surcharge.

Revenue time limits where full details of a transaction are provided in a tax return

Under current rules, Revenue typically has a four-year window of review to raise queries in relation to or to challenge a position adopted in a taxpayer's self-assessed return. This is a long period of time and is out of step with jurisdictions such as the UK where the window of review is typically one year. This brings a level of uncertainty to taxpayers.

We would propose an elective regime wherein a taxpayer, if they so wish, can give details of a material transaction entered into during the year (e.g. the exit of a shareholder, or the disposal of an investment to which Section 626B TCA applies) as part of the Form CT1 tax return or the Form 11 individual self-assessment return. Where full details are disclosed, Revenue would have a one-year window to review and raise queries in respect of that transaction. Where no queries are raised before the expiry of this window, Revenue would not be able to review the transaction, save for instances of fraud or negligence. We believe such a regime would be a welcome introduction to the Irish tax regime as it would give taxpayers certainty relatively soon after a transaction has completed, whilst simultaneously not placing an undue burden on Revenue as would arise in the provision of pre-transaction clearances.



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Financial Services

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Financial Services

Ireland is a key global financial services location. It offers a robust regulatory regime, a stable and codified tax environment, and acts as gateway to Europe for global financial services players.

The industry, which spans asset and wealth management, banking, insurance, FinTech, and aircraft financing continues to make substantial contributions to the national economy in terms of employment and tax revenue.

Supported by a robust regulatory environment, the Irish tax regime has been, and continues to be, one of the key growth drivers of this flourishing industry in Ireland. This is supported by the approach from Irish policymakers to provide certainty and transparency through continued and robust stakeholder engagement. That said, globally, the financial services sector continues to evolve, fuelled by increasing regulatory requirements, technological disruption, volatility in international markets and, more recently, a change in US Administration.

In addition, the sector has not been immune to the global tax reform mandates of both the OECD and EU institutions.

Given the multitude of challenges facing financial services players in an evolving global economy, the importance of a jurisdiction with a tax regime which provides certainty and agility has never been greater. It is therefore welcome that the Government recently reiterated, in the **Programme for Government**, its goal to implement the Ireland for Finance – Financial Services Strategy, which indeed recognises that the Irish financial services industry is at a "pivotal moment".

At this critical juncture, it is imperative that Ireland's financial services industry remains competitive with peer jurisdictions and that Ireland retains its global reputation as a centre of excellence given the mobile nature of the sector.

Budget 2026 therefore presents an important opportunity for the Government to cement this reputation by introducing a range of tax measures to both enhance and simplify Ireland's current financial services offering.

Set out below are sectoral specific observations. While measures vary across the sectors, the overarching theme common to all sub-sectors is one of simplification. This aligns with the stated objectives of the new European Commission under proposals that will cut red tape and simplify EU rules for citizens and business. Specifically, it was noted that, to regain competitiveness and foster growth, the EU needs to foster a favourable business environment and ensure that companies can thrive. This message is equally important in the domestic financial services market and should strongly influence the policy decisions made by the Irish Government for Budget 2026, particularly in light of the significant international economic headwinds.

> "While measures vary across the sectors the overarching theme common to all sub-sectors is one of simplification."

Asset and Wealth Management

Ireland needs to act to keep pace with the ever-changing dynamics of the global asset management sector to preserve our position as a leading jurisdiction in an increasingly competitive environment. It is crucial that Ireland evolves its capabilities to remain relevant to global asset managers as they diversify their focus to be relevant to the investors of the future – specific proposals in this regard are outlined below.

While enhancements to the regulated Irish limited partnership structure and reform of the Irish holding company regime through the introduction of a participation exemption have been positive for the sector, more action is required. It is crucial that simplification measures are taken to enhance the current regime and ensure the availability of a full and fit for purpose asset management product suite.

Given the specifics of the Section 110 securitisation regime, qualifying companies are typically unable to utilise foreign tax credits as other companies are. It would be positive if, in recognition of this and in line with the stated policy intention of tax-neutrality underlying the Section 110 regime, such companies were permitted to deduct foreign withholding tax suffered where no credit is available.

In terms of retail participation, while Ireland is a leading domicile for a number of investment fund products, rates of direct retail participation in Ireland remain low. This is particularly striking given Ireland is home to nearly 75% of European Exchange Trade Funds (ETF) assets, an asset class which is typically attractive to retail investors given its liquidity and relatively low barriers to entry. We therefore welcome the recommendations contained in the **Funds 2030 Final Review** to reform the taxation of Irish funds to encourage retail investor participation. In this regard, the proposals to amend the deemed disposal rules and to align the rates of Life Assurance Exit Tax and Investment Undertakings Tax with the CGT rate are particularly welcome. We would strongly advocate for a formal consultation process to be undertaken in respect of these recommendations with a view to introducing the required legislative amendments as soon as is practicable, ideally in Finance Bill 2025.

Ireland is well positioned to be a leading innovator in the digitalisation of the global asset management industry by harnessing its position as both a leading fund domicile and the European hub of some of the largest technology companies in the world. The intersection of these two sectors at a time of unprecedented digital transformation and innovation offers a unique opportunity for Ireland. There is an increasing focus from the sector on digital distribution capabilities and separately an investor appetite to gain exposure to more diverse asset classes including digital assets. The development of a pathway for the adoption of fund tokenisation was a key recommendation of the Funds 2030 Final Report. We would welcome further engagement from the Department of Finance regarding any legislative changes required to facilitate the tokenisation of investment funds in Ireland.

Sustainable Finance

Budget 2026 also presents an opportunity for Ireland to take advantage of some of the provisions introduced in the Clean Industrial Deal (CID) which was announced as part of the Omnibus Package. The CID is centred on a commitment to raise funds and drive innovation within Europe in order to accelerate decarbonisation and foster a circular economy. Going forward, it will be important for Ireland to access its fair share of the funding opportunities and to implement tax measures proposed at EU level. This should help to further position Ireland as a leading centre for sustainable finance and to encourage investment in both the Irish and wider European clean transition.

> "Ireland is well positioned to be a leading innovator in the digitalisation of the global asset management industry."

- The Government should introduce tax incentives for Irish investors who invest in Irish Funds that prioritise investments in projects or companies with significant positive environmental impacts. This includes the enhancement of the Irish holding company regime for structures that prioritise such investments.
- We would also recommend the introduction of a tax credit for asset managers that manage Article 9 Funds (Funds that pursue sustainable investment as their investment objective in accordance with Sustainable Finance Disclosure Regulation) in order to encourage both the management of these funds in Ireland and to encourage asset managers focused on sustainable and green investments to locate in Ireland.
- The linking of the above tax incentives and subsidies could (where relevant) be linked to Greenhouse Gases (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.

Aviation Finance

One of the primary areas of focus to meet the aviation industry's net zero targets – a goal which the industry pledged to achieve by 2050 through the International Air Transport Association is the development and production of sustainable aviation fuel (SAF). We endorse the establishment of the Government task force to develop a national SAF policy roadmap. Ireland has a significant global economic opportunity in this area, provided we act quickly. There are a number of key tax policy changes that would help mobilise private investment in this area and position Ireland as a critical enabler of SAF:

- Introduce a tax credit for investment into companies developing new SAF technology. This would be consistent with proposals in the CID which has a focus on the development of clean technologies.
- Introduce a tax credit for Irish distributors and manufacturers of SAF.
- Expand the participation exemption regime under Section 626B to cover the pre-trading phase for SAF development projects.
- Simplify and fast-track access to grant funding for developing SAF technologies and manufacturing/ production facilities.
- Expand the accelerated capital allowances regime under Section 285A TCA 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.

Outside of the focus on enhancing the investment environment for net-zero targets, the aviation industry has advocated for the simplification of the Irish tax regime through various consultations, most recently the public consultation on the tax treatment of interest in Ireland. Within PwC's submission on that consultation, a number of areas of change were suggested to simplify the regime and in turn increase likely investment into Ireland, and the aviation industry here. Policy changes taken to deal with the areas noted (across alignment of tax rates, simplification of deductions, and Section 840A TCA) would be welcomed in the upcoming Budget and legislative process.

> "There are a number of key tax policy changes that would help mobilise private investment in this area and position Ireland as a critical enabler of SAF."

"In order to align these rules with today's high-frequency trading environment, we would recommend that the bond-washing provisions are amended."

Banking

The Irish banking sector continues to face challenges, as evidenced by recent market departures, including increased regulatory requirements, technological disruption, and rising cost pressures. Attracting new entrants into both retail and non-retail banking in Ireland is essential to enhance competitiveness and consumer choice in the banking market.

While Ireland continues to have a strong offering, we believe there is still scope for improvement, particularly in simplifying the administrative burden on Irish banks in certain areas and in the introduction of a branch participation exemption as discussed elsewhere in this submission and below.

Irish banks are currently subject to a number of similar and, in some cases, duplicative reporting requirements. For example, there is significant overlap in domestic and international interest reporting obligations, and banks are required to report the opening of foreign banking accounts via multiple avenues. We would recommend that these obligations are reviewed and, in the context of the now well-established FATCA/CRS and DAC6 reporting requirements, that a material simplification process is undertaken to reduce the overlap of reporting required.

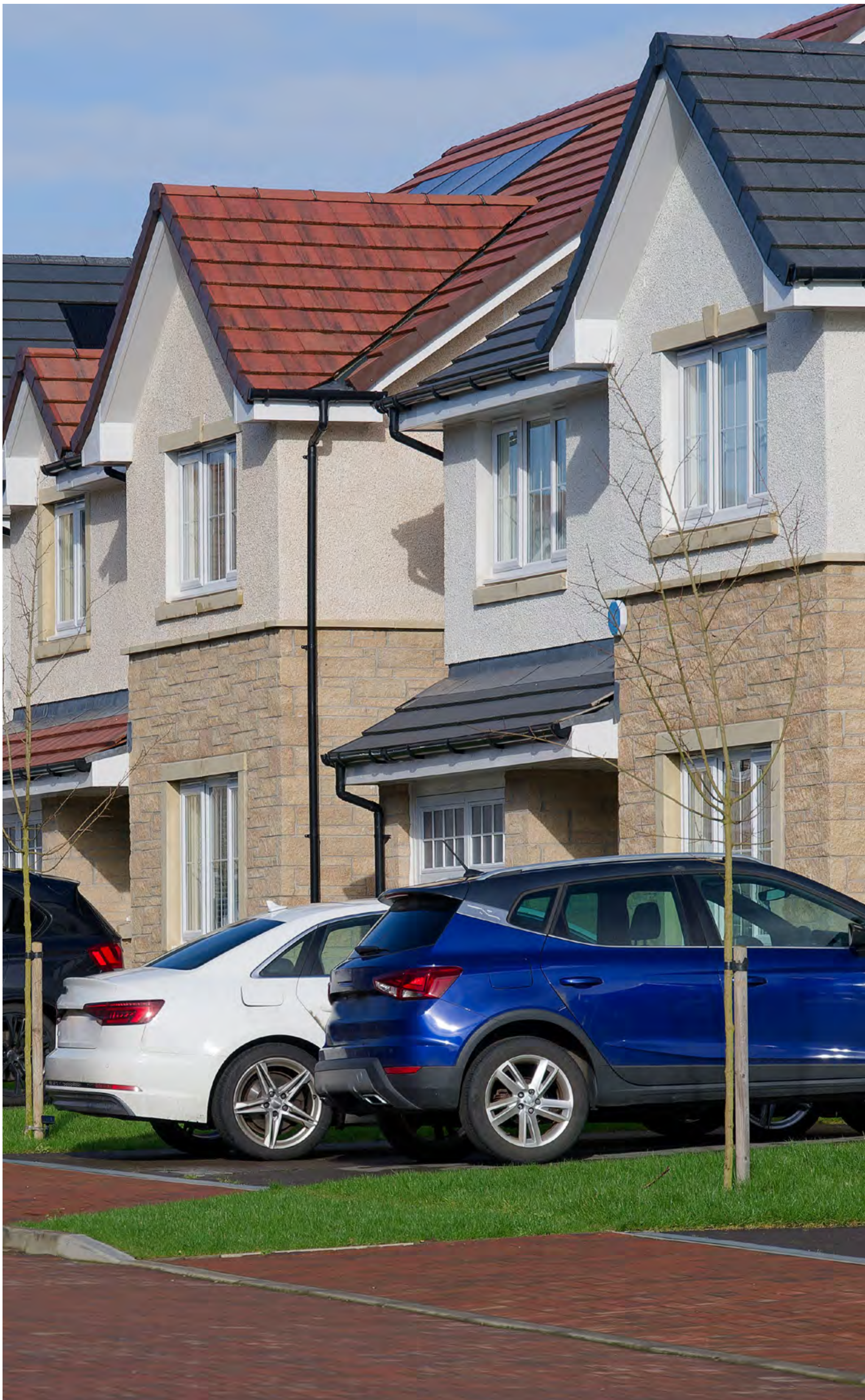
Another simplification measure which should be considered is the modernisation of the existing "bond washing" provisions. These provisions do not reflect or cater to how modern financial traders operate commercially, and create a significant administrative burden for taxpayers as a result. In order to align these rules with today's high-frequency trading environment, we would recommend that the bond-washing provisions are amended to be disapplied where transactions are undertaken by a Case I trader for bona fide commercial reasons.

"It is important that industry stakeholders are appropriately consulted to ensure no inadvertent consequences arise for either insurance companies or policyholders as a result."

Insurance

The introduction of a participation exemption for branches is of great importance for the insurance sector, who welcomed the Minister's commitment in the last Budget statement to explore this area. Many insurance companies in Ireland operate a branch structure throughout Europe. However, the current credit system creates a number of practical difficulties and is a deterrent to groups considering Ireland as a potential location to establish operations. In addition, the recent introduction of the Pillar Two rules, which contain a branch exemption, means in practice that Irish insurance companies are having to operate a participation exemption system in respect of their overseas branches in any case. The alignment of domestic provisions with these rules would reduce complexity and administrative burden for these businesses.

It was also announced in the Funds 2030 Final Review that it is intended to wind down the life assurance "old basis" business. It is important that industry stakeholders are appropriately consulted to ensure no inadvertent consequences arise for either insurance companies or policyholders as a result. It is also recommended that sufficient lead time is given to any transition in order to allow insurance companies to prepare appropriately, including the update of internal systems to allow for changes in relation to charging and reporting of tax relating to policyholders.



Fintech

The Ireland for Finance Progress Report 2023, published in March 2024, stated that *"The development of our fintech ecosystem remains a priority area of focus under the Ireland for Finance strategy, and significant progress continues to be made to enhance Ireland's offering as a premier location."* The Update to Ireland for Finance Action Plan, also published in March 2024, specified the following Action Measures:

- **Action Measure 4:** Enhanced supports for ambitious early stage fintech innovators expanding into their first international market.
  - This Action Measure could be supported by enhancement of the Employment Investment Incentive Scheme (EIIS) to increase its uptake, as well as enhancing relief for angel investment in innovative enterprises and enhancing CGT entrepreneur relief.
- **Action Measure 7:** Continue funding towards internationalisation and scaling of Irish fintechs.
  - The above enhancements would also support this Action Measure.
- **Action Measure 8:** Irish fintech and financial services companies achieving competitive advantage through innovation and digitisation.
  - This Action Measure could be supported by enhancing the R&D regime to widen the categories of research and development eligible for the credit to include emerging technologies in the financial services space. This would support additional investment and growth opportunities for fintech businesses established in Ireland.

Some of the simplification measures for banks outlined above would also be beneficial to reduce the tax compliance burden applicable to certain types of fintech established in Ireland.

Dividend and Branch Participation Exemption

While practical issues, and proposed amendments, arising in respect of the newly introduced dividend participation exemption are discussed elsewhere in this submission, we would like to emphasise again the importance of a simple and straightforward dividend participation regime for Ireland's financial services industry. It is critical that the regime is at least as attractive as Ireland's competitor jurisdictions, and an important part of this attractiveness is the ability of taxpayers to navigate the relevant provisions with ease so that they may avail of the regime with confidence and certainty.

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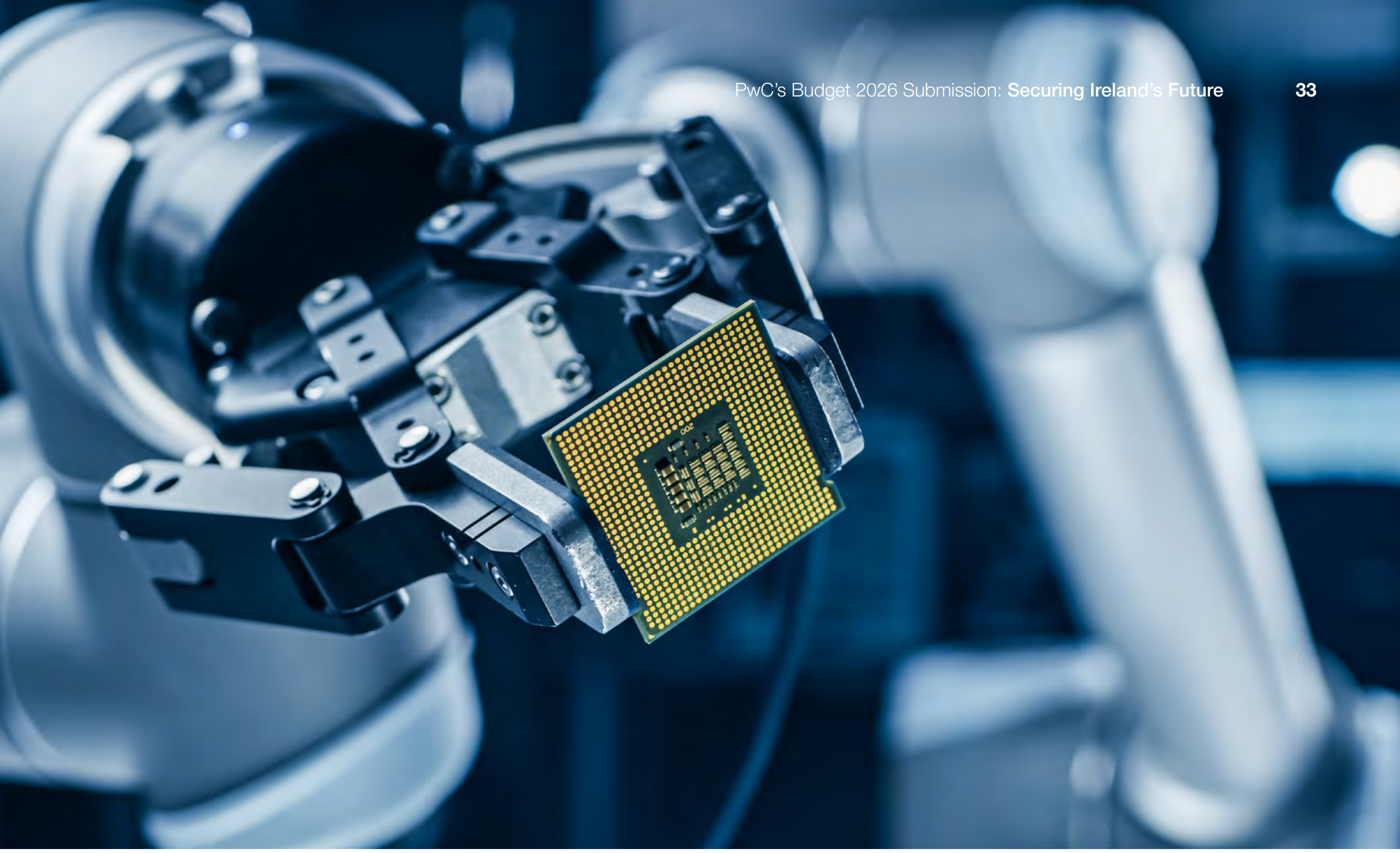
Foreign Direct Investment



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Foreign Direct Investment

Ireland's success rate in attracting and retaining foreign direct investment (FDI) is well known and has been well publicised over a number of years.

The exponential increase in the corporation tax take has been a particularly clear example of this, significantly contributing to Ireland's budget surplus. As has been well flagged in the media, this increase is mainly driven by a handful of the world's largest multinationals. Apart from the corporation tax receipts generated by these companies, they contribute greatly to society through being some of the largest employers in the State and the associated benefits such employment provides to the Exchequer and the local communities in which the companies are located.

Against the backdrop of a looming global trade war, it is critical that the Government focuses on both retaining current FDI investment but also attracting new investment into the country. We implore the Government to make every effort to reinvest those recent years' bumper corporation tax receipts to help FDI in Ireland weather the coming storm, but also to look to the future and put plans in place to attract the next generation of MNEs. Efforts in this regard should be concentrated in enhancing Ireland's reputation as an attractive location to do business, and tax policy should be central to this strategy. As companies continue to acclimatise to the new 15% minimum tax rate introduced as part of the OECD's Two Pillar solution and the EU's Minimum Corporate Taxation Directive, which now sits alongside Ireland's 12.5% trading rate, we are recommending that the Government focus on introducing both

new provisions and enhancing existing provisions in Irish tax legislation. This is especially critical given recent international developments amid an already increased competitive landscape for international investment.

We have highlighted below several key areas of focus which the Government should seek to implement as part of the upcoming budget. However, we do wish to reiterate that non-tax factors also remain critical in the ongoing effort to attract foreign direct investment into Ireland.

Foreign Dividend Participation Exemption

The introduction of a participation exemption for foreign dividends in Finance Act 2024 was welcome. However, there are practical issues arising which must be resolved if the measure is to achieve the Department of Finance's stated policy objective of being a broad, simple and straightforward regime to operate, which is critical to Ireland's appeal as a holding company jurisdiction. We have identified a number of issues that have the potential to damage Ireland's attractiveness as a holding company jurisdiction given the uncertainties and administrative burdens to which they unnecessarily give rise. The clarifications and amendments sought in relation to the issues identified below (with retrospective effect to 1 January 2025, where necessary) are important if Ireland intends to continue to be an attractive jurisdiction from which to make and hold investments.

A number of critical technical points which mainly flow from the breadth of the five-year look back requirement. For instance, at present this requirement potentially excludes a subsidiary from the definition of "relevant subsidiary" as a result of it simply acquiring shareholdings. These technical shortcomings are posing significant issues and are rendering the exemption largely unworkable at present. These issues are critical issues for Ireland's competitiveness and must be addressed quickly. We have included more detailed comments of the issues concerned in the Appendix.

We call on the Department of Finance to engage with stakeholders on these issues in order to improve the exemption and continue to increase Ireland's attractiveness as a holding company jurisdiction.

Enhance Ireland's Research and Development (R&D) regime

We welcome the recently announced **public consultation** as part of the cyclical three-year review of the R&D tax credit. As the global landscape advances, it is crucial that our tax policies reflect a commitment to supporting groundbreaking research and the development of novel solutions across various industries. By doing so, we can attract a wider array of foreign investments and strengthen our standing as a dynamic hub for innovation. The changes introduced to the R&D tax credit in Finance Acts 2022 – 2024 have been greatly welcomed by companies engaging in R&D as they were necessary to preserve the value of the R&D tax credit given international tax developments such as Pillar Two. However, there is now a greater need

"It is crucial that our tax policies reflect a commitment to supporting groundbreaking research and the development of novel solutions across various industries."

to enhance the value of the credit to ensure that Ireland can maintain and grow investment in R&D. This is particularly important given the cost competitiveness challenges faced by companies, including rising costs in energy, property, and labour, as well as the current geopolitical landscape. Additionally, competition has intensified as other countries introduce and improve their R&D incentive regimes.

An increase in the rate of the credit from 30% to 35% would certainly help keep Ireland at the forefront of locations in attracting R&D investment. In addition to this, an increased rate on incremental R&D expenditure incurred in a current year over the prior year or an average of the past 2 or 3 years would be a good economic driver for additional R&D activities and expenditure. The introduction of such a provision should seek to encourage entities to continually focus on growing their R&D presence in Ireland. We have detailed these and other potential considerations (increase in cost categories and activities that can qualify for the R&D tax credit and increase in outsourcing caps) to improve the R&D tax credit and help make it a more powerful tool in maintaining and growing R&D investment in Ireland in our Public Consultation response on the R&D tax credit.

These proposals should help to achieve the stated aim of former Finance Minister Donohoe to *"ensure Ireland has the global best in class incentive to encourage innovation by domestic and international companies."*

Attracting new industries into Ireland

Historically, Ireland's FDI presence has been concentrated in both the technology and pharmaceutical industries. While these industries will undoubtedly continue to play a significant role in Ireland's economy, we need to look to the future and seek to attract new industries into the country. One of the fastest growing industries in the world is artificial intelligence (AI). The global AI market is expected to exceed $400 billion by the end of 2027. The US remains the market leader in the AI space, followed by China and the United Kingdom. Ireland has clearly been extremely successful in attracting US investment historically and we are beginning to see AI companies begin to locate in Ireland.

However, in order to accelerate this investment, there are tax levers which the government can use are as outlined below. This approach will position Ireland as a favourable destination for AI investments, aligning with the global shift towards digital transformation.

- AI companies often require substantial upfront investment in equipment and technology. We are recommending that qualifying companies in the AI sector should be allowed to avail of a 100% rate of capital allowances in the initial year of investment. By allowing these companies to write off significant capital expenditures against their taxable income in the initial years, Ireland can reduce the financial hurdles associated with entering the market.
- AI companies also require highly skilled employees such as programmers, computer scientists, data analysts, software engineers in order to develop AI products. It is therefore vital that Ireland is seen as an attractive place to work for employees of these companies. 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. We are recommending that this relief should be extended to 2030 at least. In addition, the relief should be made more attractive by either increasing the rate (currently at 30%) at which employees get relief or decreasing the lower limit of income that remains unrelieved (currently at €100,000).

"We are recommending that qualifying companies in the AI sector should be allowed to avail of a 100% rate of capital allowances in the initial year of investment."

"We recommend an extension to the scheme along with the following legislative amendments to make it fit for purpose."

Incentivise Brand Intangibles and IP Creation

There are certain industries (mainly within the consumer brands sector) which due to various reasons are unable to access the R&D tax credit. In order to address this issue, we are recommending that the Government consider a structured incentive program aimed at promoting and supporting the creation of brand intangibles and intellectual property (IP). Enhancing the environment for IP creation can attract knowledge-based companies seeking to protect their innovations. Offering incentives for developing and safeguarding intangible assets ensures Ireland remains a frontrunner in global innovation and creativity, outside of the traditional R&D areas of pharmaceuticals and technology.

Our proposal would be to introduce a new qualified refundable tax credit focused on company's expenditures in the areas of brand marketing, creation and protection. The benefits of introducing such a credit would be to attract companies to both hold and locate their brand intellectual property in Ireland. Consequently, this should naturally serve to incentivise companies to increase employment in these entities so has to have the requisite skilled workforce working on strengthening a company's brand intangibles.

Exit tax and Section 626B TCA

Section 626B TCA 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 treat this as a deemed disposal by the migrating company of all of its chargeable assets. Such gains are taxable at the 12.5% rate of Irish tax.

However, where a company is within the provisions of Section 627 TCA the Section 626B exemption does not apply to any deemed disposal of shares. Other competitor jurisdictions (such as the UK) with similar exit tax provisions allow for an exemption to apply, assuming the relevant 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 Section 626B exemption not applying for a deemed disposal arising under the Exit Tax provisions should be reconsidered.

"We encourage the Government to engage at both an OECD and EU level, with respect to any Pillar Two discussions and to react quickly and introduce any proposed changes to ensure that Ireland is not competitively disadvantaged when it comes to any Pillar Two changes."

Pillar Two

Pillar Two has represented the most fundamental change to the tax landscape in many years. We have welcomed the opportunity to liaise with the Department of Finance and Irish Revenue on a number of Pillar Two topics during 2024 and early 2025 and expect such dialogue to continue as all stakeholders continue to become familiar with this new method of taxation and its various nuances. There are several issues which we have raised through the TALC BEPS forum, and we will continue to engage with the TALC BEPS forum in this context.

On a more general point regarding Pillar Two, there has been increased discussion around the future of the Pillar Two framework, particularly in respect to whether certain countries will adopt Pillar Two into local legislation and the application of the UTPR safe harbours. In this respect, we encourage the Government to engage at both an OECD and EU level, with respect to any Pillar Two discussions and to react quickly and introduce any proposed changes to ensure that Ireland is not competitively disadvantaged when it comes to any Pillar Two changes and ensure that Ireland is not competitively disadvantaged when it comes to any Pillar Two changes.

Legally opaque but fiscally transparent entities such as LLCs

Legally opaque but fiscally transparent entities such as US Limited Liability Companies (LLCs) are one of the most prevalent forms of corporate entity used for investment and trade purposes by groups. Certain issues arise for Irish tax purposes in circumstances where such entities are treated as fiscally transparent in the United States. The issue in relation to the residence status of such LLCs for the purpose of tax is now significantly more pronounced as a result of recent legal cases. To remedy this significant issue, consideration should be given to deeming such entities as being resident for the purposes of tax in a treaty territory in circumstances where all the members of the entity are themselves treaty resident. If such a position is not legislated for, the position as it currently stands is likely to give rise to significant issues for international groups and negatively impact Ireland as a holding company jurisdiction and a location for investment. An amendment in this respect is time critical to provide businesses certainty in relation to past and future investment decisions.

Tax Simplification

While highlighted previously in this submission, simplifying the tax code should be a key objective of the Government to increase attractiveness for foreign direct investment. We also encourage the Government to introduce the participation exemption for branch profits in Budget 2026 as indicated by Minister Jack Chambers in his **Budget 2025 speech**. Similar to the dividend participation exemption, consultation with stakeholders on the branch exemption should commence as soon as possible in advance of Budget 2026 to allow stakeholders a voice in designing a best-in-class branch exemption. Furthermore, we encourage Government to increase the pace at which reform of Ireland's interest provisions, following the recent **public consultation**, will be enacted.

The Government should also continue to work closely with the EU Commission as the Commission evaluates the effectiveness of the Anti-Tax Avoidance Directive (ATAD) with a view to publish a report on ways to simplify the ATAD Directives. The Government again should act swiftly and decisively to enact any changes proposed by the Commission especially with respect to the simplification of the ATAD provisions.

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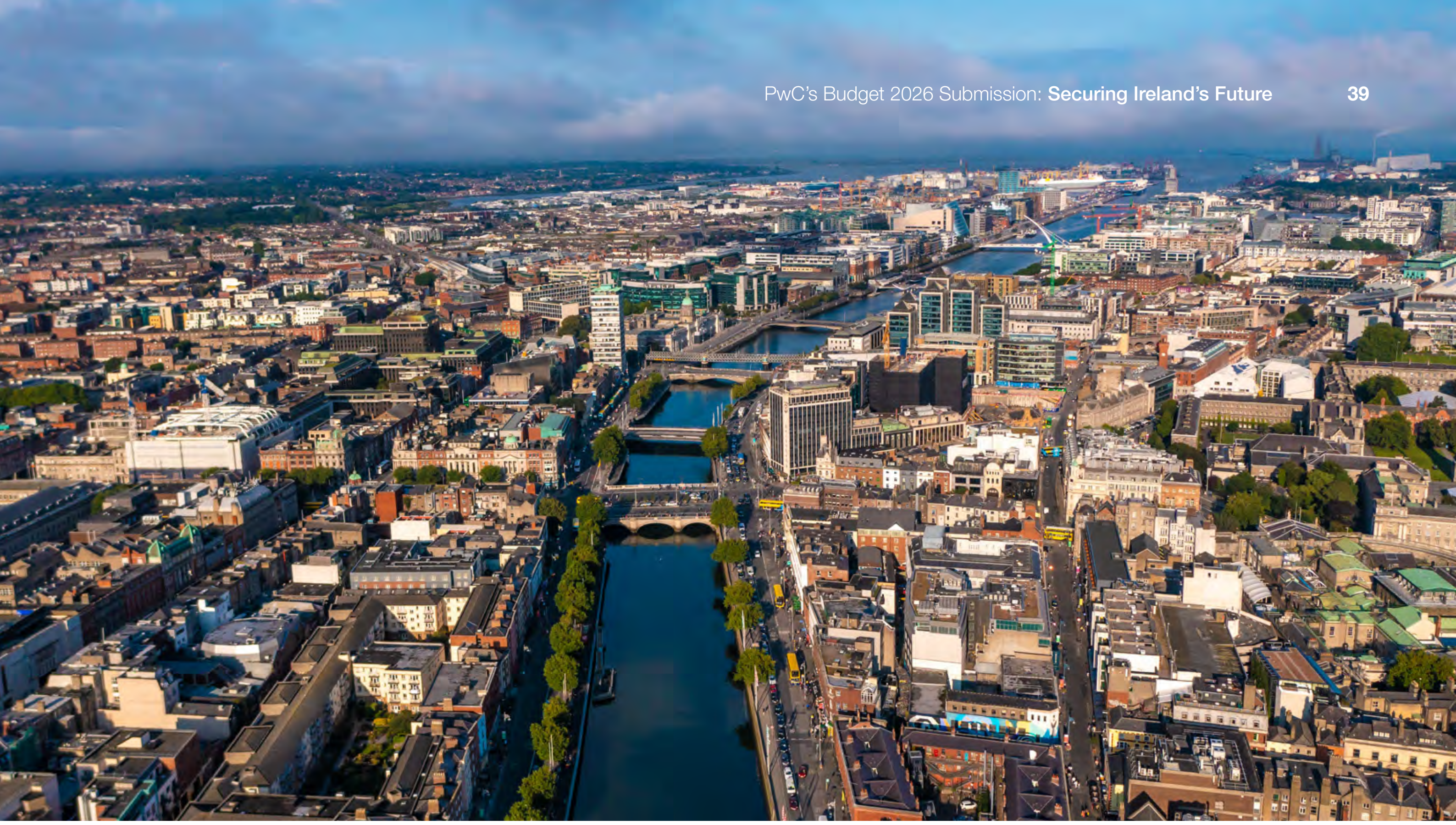
Simplification



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Simplification

The commitment in Budget 2025 by then Minister for Finance, Jack Chambers, to continue efforts to simplify Ireland's tax code was welcome. The drive towards simplification aligns with broader EU and OECD trends, where policymakers are focused on decluttering and simplifying international tax frameworks.

The European Commission has already begun making inroads in this area with the recent publication of its Omnibus Simplification Package. The package introduces key changes to major sustainability frameworks. The European Commission will also take action later this year to address the compliance burdens associated with the ATAD and the Directive on Administrative Co-Operation (DAC). These measures, along with the already agreed standardisation of Pillar Two reporting in the EU and the move to a more digitalised and streamlined VAT registration and invoicing system reflect the overarching aim to simplify tax measures, increase the competitiveness of Europe's economy and boost investment in the EU.

With a long-established track record as an attractive business destination, Ireland is in a strong position to be a leader in this area. Focusing on tax simplification and reducing compliance complexity would significantly enhance the country's long-renowned ability to provide tax certainty and consistency for domestic and multinational entities and boost our competitive offering.

Given the uncertain trading environment and investment landscape (variables outside Ireland's control), there is an even greater imperative for Ireland to focus on what it can influence. Now is the time to take decisive action and make meaningful progress in simplifying Ireland's tax code, ensuring that what remains within Ireland's control is managed as effectively as possible.

"A similar mapping out of the simplification journey would provide clarity to businesses and underscore Ireland's long-heralded reputation for tax certainty and stability."

Introduce a 'Tax Simplification Roadmap'

We urge the new Government to introduce a 'Tax Simplification Roadmap', which clearly sets out a plan over a number of years as to how Ireland will achieve the tax simplification required to remain competitive on the international stage.

The business community acknowledges that it will take time to achieve the necessary simplification. However, if the process is to deliver tangible improvements, it should be an 'all-hands' on deck approach with buy-in from Revenue, the Department of Finance, and key stakeholders. The publication of Ireland's Corporation Tax Roadmap in 2018 provided businesses with certainty and a clear understanding of the journey that faced them on the road towards major reforms in the international tax sphere. A similar mapping out of the simplification journey would provide clarity to businesses and underscore Ireland's long-heralded reputation for tax certainty and stability.

SMEs/indigenous business - simplify key tax reliefs

Ireland has an array of pro-enterprise tax reliefs that bolster our competitive offering on the international stage. However, the complexity of the tax code means that the full potential of these key reliefs is not being realised. Approximately 1.2 million people are employed by SMEs in Ireland and their importance to the Irish economy cannot be overlooked. Initiatives such as the R&D tax credit and EIIS are valuable tax reliefs that reaffirm Ireland's commitment to encouraging enterprise and promoting the SME sector.

However, the complexity and administrative burden involved in claiming both reliefs continues to be a significant barrier for small and micro businesses. Business owners have flagged that the burden involved in claiming the EIIS is extraordinarily onerous and time-consuming. A simplified process that uses non-mandatory template forms would make the process far easier for SMEs who are increasingly reliant on equity financing in the current higher 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 claiming 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 start-ups 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, disproportionate to the quantum of relief being claimed. Taking the EIIS 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 EIIS 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 entrepreneurs 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 avail of these important tax reliefs.

Finally, any tax simplification roadmap should include a thorough review of existing legislation. There are many examples in the legislation of wording which prevents a relief or exemption from operating in the manner as originally intended. One such example is Revised Entrepreneur Relief, which offers a reduced rate of CGT of 10% in certain circumstances. This relief was introduced to incentivise entrepreneurial activity. However, the conditions required to be met to avail of relief are impractical for many businesses. For instance, relief is not available where there is a dormant company in a group or where one of the subsidiaries is not a trading company. Such conditions do not consider the commercial realities of businesses in the current economy. We recommend a review is undertaken of key reliefs in existing legislation to consider functionality in today's commercial environment. Where there are practical issues arising, the legislation should be updated in order to allow reliefs and exemptions to operate in a manner that fulfils their original purpose.

Enhanced Reporting Requirements (ERR)

The expansion of real-time reporting to bring three categories of non-taxable benefits and expenses into scope (remote working allowance, small benefits exemption, and travel and subsistence) has created an onerous compliance obligation for employers. Over 1.4 million submissions with respect to a total of €1.872 billion was reported between the three categories in 2024.

In our view, the administrative burden placed on employers to ensure compliance with these real-time reporting requirements is far too arduous in practice. For example, many employers reimburse expenses on a weekly basis, or pay daily allowances to employees, forcing them to make a return of information to Revenue before the date of payment to employees, a highly cumbersome requirement. PwC Ireland calls for the ERR obligation to be reduced to an annual reporting requirement, which would significantly reduce the compliance burden on employers and provide the same level of detail to Revenue without creating such a large and ongoing compliance burden on employers.

In addition to the above, we advocate for no further expansions to the ERR to include additional items not yet in scope.

Tax reporting obligations

Given the administrative burden of tax compliance for smaller businesses, consideration should be given to introducing a shorter, simpler version of the Form CT1 for companies which meet a certain criteria, for example where a company is not actively trading, or has transactions below a certain amount. Providing a simplified Form CT1 with fewer pages and reduced reporting requirements for qualifying small companies would help to reduce unnecessary complexity and administrative obstacles, thus enabling Irish businesses to focus more time on more important matters such as growth and sustainability.

"PwC Ireland calls for the ERR obligation to be reduced to an annual reporting requirement, which would significantly reduce the compliance burden on employers."

"Having a participation exemption for both foreign dividends and branch profits would serve as an enhancement to Ireland's competitive offering in the ever-intensifying battle to attract foreign direct investment."

Participation Exemption for Foreign Distributions

The introduction of a participation exemption for foreign dividends in Finance Act 2024 via Section 831B TCA was welcome. However, practical issues are arising which must be resolved if the measure is to achieve the Department of Finance's stated policy objective of being a broad, simple and straightforward regime to operate.

Many of the difficulties emanating from the new legislation would be resolved by extending the geographic scope beyond only dividends received from companies that are resident for tax purposes in the EU / EEA or jurisdictions with which Ireland has a double tax treaty (DTA). This restriction in scope renders the Irish participation exemption for foreign dividends out of step with other major competitor jurisdictions and undermines Ireland's competitiveness as a destination for investment. Furthermore, this restriction in geographic scope unnecessarily discriminates against non-EU/EEA jurisdictions with which Ireland does not yet have a double tax agreement with.

Participation Exemption for Branch Profits

Although the introduction of a participation exemption for foreign dividends with effect from 1 January 2025 was a positive step for Ireland, the fact that a participation exemption in respect of foreign branch profits was not concurrently introduced was an opportunity missed.

There can often be significant differences in the timing and measure of taxable income for Irish companies between the head office and branches. These differences create tax uncertainty and add to complexity. The adoption of an optional branch exemption would significantly alleviate the administrative burden for Irish companies with foreign branches and would align with Ireland's continued efforts to promote a business environment characterised by certainty and clarity. The introduction of a participation exemption for branch profits would boost Ireland's competitive offering in the banking and insurance sectors in particular, and this is further outlined in the Financial Services section of this submission.

Ireland remains an outlier among OECD member states in having a worldwide taxation system and, therefore, it would be preferable to remedy this position at the earliest possible opportunity. Having a participation exemption for both foreign dividends and branch profits would serve as an enhancement to Ireland's competitive offering in the ever-intensifying battle to attract foreign direct investment. If Ireland fails to keep up with international competition, it risks losing future investment to other jurisdictions.

"A significant overhaul is required considering the now many layers of complexity which corporate taxpayers are required to adhere to in order to achieve a tax deduction for interest in bona fide commercial situations."

Simplifying the taxation and deductibility of interest

The recent Department of Finance **public consultation** on the tax treatment of interest in Ireland is a step in the right direction towards simplification of the tax code. However, it is imperative that this momentum towards simplification continues and the key concerns raised by stakeholders in the consultation are actioned.

In recent years, Ireland has introduced substantial additional layers of complexity (through, for example, the interest limitation rules under ATAD) to domestic tax legislation. When layered onto the already complex provisions for interest deductibility, this has made interest deductibility in Ireland extremely challenging in bona fide commercial intra-group scenarios, such as third-party acquisitions or bona fide intra-group reorganisations.

Nowhere is this clearer than in applying Sections 247 and 249 TCA in practical situations. The reality is that the conditions attached to Section 247 relief render the relief totally ineffective in many instances, and thus the optimal course of action would be to repeal and replace Section 247 and 249 TCA with a more effective tax relief.

As outlined in greater detail in our **submission** to the Department of Finance consultation in the treatment of interest, we are of the firm view that the current rules should be replaced with a much simpler principles based and purpose-driven interest deduction provision. The removal of these sections would be best conducted by way of a transitional period phasing out the current rules (side by side with a long-stop date) and the retention of the requirement that the interest relief is available only in bona fide commercial scenarios.

Although we recognise this will be a multi-year process, it is imperative that the outcome of this public consultation does not merely result in incremental or piecemeal adjustments to existing overly complex rules. A significant overhaul is required considering the now many layers of complexity which corporate taxpayers are required to adhere to in order to achieve a tax deduction for interest in bona fide commercial situations. It is our view that a new, streamlined framework for interest deductibility is now essential.

"In an era of strengthened transfer pricing rules globally, the rationale for maintaining dual rates of taxing interest income is increasingly without merit."

Review of multiple tax rates for interest

The removal of the dual tax rate based on the trading/non-trading interest distinction would be a positive step towards simplification, making the operation of the interest deductibility regime significantly simpler, more user-friendly, and thus enhance Ireland's attractiveness as a location for inward investment. Global tax rates have generally reduced in recent years, such that the 25% rate for non-trading interest income is now at the higher end of the OECD corporate tax rate spectrum. Recent rate reductions, including that in the US, have resulted in the average OECD corporate tax rate reducing to 21.1%, which is lower than the 25% "passive rate" in operation in Ireland. Removing the dual rates for passive and trading interest income, and moving to one fixed corporate rate, would not diminish the need for groups to continue to make substance-based investment in Ireland in order to benefit from the 12.5% corporate rate. The alignment to a single "branded" headline rate of 12.5% for interest would lead to greater certainty, simplicity and security for stakeholders and modernise Ireland's regime to be in keeping with international counterparts.

In an era of strengthened transfer pricing rules globally, the rationale for maintaining dual rates of taxing interest income is increasingly without merit. With the appropriate combination of the EU ATAD Interest Limitation Rules, anti-avoidance rules, and simplified purpose-based interest treatment rules, Ireland has the opportunity to improve its competitive offering to enhance its reputation as a place to do business and safeguard our long-term economic prospects.

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Energy Transition

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Energy Transition

Accelerate real action today to deliver a clean transition for Ireland.

The new Programme for Government acknowledges the current Government's commitment to taking decisive action to radically reduce our reliance on fossil fuels and to achieve our legally binding climate targets. Key themes include future proofing Ireland's built environment, leading a revolution in renewable energy, supporting economic growth and empowering communities in renewable energy, supporting industry to decarbonise, accelerating decarbonisation in transport, supporting a sustainable transition in agriculture and promoting a circular economy.

While these commitments are welcomed, immediate action is needed to prioritise and accelerate investment in our energy transition, in decarbonisation measures and the promotion of the circular economy.

This is driven, not only by our ambitious climate targets, but for all the following reasons:

- To sustain economic growth, Ireland needs to adopt a strategy that **drives innovation and competitiveness** while also positioning Ireland as a leader on a global scale.
- There will be a significant **financial cost** to Ireland if we fail to meet our EU climate commitments. The Irish Fiscal Advisory Council (IFAC) in its most recent report called **"a colossal missed opportunity"**, estimated that Ireland may have to pay out anywhere in the region of between €8 billion to €26 billion to its EU partners if it does not meet those commitments. This is money that we could be using to invest in our future and deliver on our climate targets.

- We are continuing to experience **the physical impact of climate change**. This comes with significant financial costs for businesses, households, communities, governments and insurance companies.
- According to the IMD World Competitiveness Ranking 2024, **energy costs** are one of the key challenges facing Irish competitiveness. Tackling energy costs is important to ensure that Irish businesses will not continue to be at a disadvantage compared with its competitors.

The Clean Industrial Deal (CID) was introduced as part of the European Commission package of proposals (Omnibus Package). The CID proposals focus on a commitment to raise funds and drive innovation within Europe to accelerate decarbonisation and foster a circular economy. Ireland must access its fair share of the funding opportunities and consider implementing the tax measures proposed to encourage investment in Ireland's clean transition and ensure we retain our reputation as an attractive location to do business. This is even more important in an era of geo-political uncertainty.

Key challenges to innovation and investment

While the most recent update to the Climate Action Plan was published on 15th April 2025 (CAP25), and we understand that some progress is being made, much more needs to be done. Some of the key challenges we are facing include:

- **Scale of investment required and timeframe.**
- 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.
- Lack of **skills** to meet the supply chain and wider green infrastructure demand.
- Accelerating the uptake of renewable energy while at the same time **reducing energy costs** for households and businesses.
- Addressing, in the short-term, the **higher upfront cost** of switching to more energy efficient and sustainable products and services.
- Investment in and build out of our **electricity transmission and distribution system.**
- 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 green energy industrial parks at scale** to continue to secure foreign direct investment, including data centre investment.

Tax policy as a lever 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. In addition to the suggestions made in last year's **pre-budget submission** (many of which align with the proposals in the Clean Industrial Deal (CID) and aspects of the new Programme for Government), we are also suggesting the following additional key tax policy changes:

- Introduce a tax deduction to fully or partially offset the higher upfront cost of using low carbon materials (such as low carbon steel and concrete) for key public infrastructure projects. Traditional materials used in the construction of these projects tend to be less costly, making them more attractive from a financial standpoint for appraisers, but at the expense of a higher carbon footprint. Successful bids for public infrastructure projects tend to be awarded to the lowest cost bidder. Equally in the renewable sector, as part of the current auction process for Renewable Electricity Support Scheme (RESS) and Offshore Renewable Electricity Support Scheme (ORESS), the lowest price bids tend to be successful. While there are proposals to incorporate sustainability measures as part of the non-price criteria within the auction rules, this can become more challenging if a contract is awarded to provide a higher subsidy for a lower carbon project on the basis that this higher cost is ultimately passed on to electricity consumers through the Public Service Obligation (PSO) levy. One suggestion to deal with this financial barrier is to introduce a tax incentive to reduce the cost of, for example, low carbon steel versus regular steel, leading to a more level playing field and making it easier, financially, to reward the more sustainable and low carbon projects. The tax incentive could be linked to the voluntary carbon intensity label proposed by the Industrial Decarbonisation Accelerator Act as part of the CID proposals and could also be extended beyond public infrastructure projects as an aid to accelerate decarbonisation measures in the wider Irish market.
- Introduce an additional corporate tax deduction for payroll and training costs incurred by supply chain companies hiring and upskilling employees to service the offshore wind sector and the retrofit market. There is increasing global competition for this supply chain as countries accelerate decarbonisation measures. From an Irish perspective, we need to ensure that we attract and retain the requisite supply chain and provide the training that is needed to upskill in this sector.
- Introduce tax relief for seafarers that incur capital expenditure to repurpose fishing vessels to service the offshore wind sector, along with an additional tax deduction for retraining associated workers who wish to diversify and work in the sector on a full or part-time basis. This would be helpful in supporting collaboration between, and co-existence of, the fishing and offshore wind sectors in Ireland.
- Introduce tax relief for wind farm / solar farm decommissioning costs at the time a specific provision is created for these costs in the financial statements. Decommissioning costs relate to the dismantling of a wind or solar farm, disconnection from the electricity transmission network and restoring the site to its original condition. Any specific provision related to the dismantling and removal of the turbines should qualify for relief.
- In relation to VAT, 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.

> "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."

Achieving our climate goals

As the world shifts from fossil fuels, people and businesses must adapt to a new economy. Tax policy can facilitate this transition by ensuring stakeholder support. In addition to the measures noted above, the following specific measures could also be considered:

- Extension of the accelerated capital allowances (ACAs) regime for energy efficient equipment (EEE) beyond 31 December 2025. The current uncertainty surrounding the expiration of this scheme needs to be clarified to ensure businesses continue to make investments in energy-efficient plant and machinery. Given the significant time involved in procurement, the scheme as currently drafted may deter business from incurring this capital expenditure due to uncertainty over whether plant will be "in use" at the expiration of the scheme. We also recommend expansion of the ACAs regime for investment in energy efficient equipment and simplification of the existing provisions to encourage a greater uptake. A report published by the Society of Chartered Surveyors Ireland (SCSI) on the real cost of retrofitting in respect of seven commercial office properties concluded that in four of the seven cases it was not financially viable to retrofit the property to improve their energy efficiency. An enhancement to the ACAs regime could make retrofits more financially viable to businesses and ultimately incentivise businesses to help Ireland meet its decarbonisation targets. Additionally, we recommend reviewing the policy goal for ACAs 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 the expense meets the conditions that currently apply. For example, the following measures could be considered to amend the ACA regime:
  - The addition of new product categories for other EEE and water-saving technologies such as water efficient toilets, water efficient taps, rainwater harvesting equipment and greywater recovery equipment.
  - Remove the condition for products to be registered with SEAI and instead base the eligibility of products meeting specified performance criteria for their particular category. As mentioned above, building owners installing EEE are reliant on the manufacturer registering the product with SEAI. The performance criteria would be amended each year to consider advances in technology to ensure only the most energy efficient products are eligible for the relief.

> "Extension of the accelerated capital allowances (ACAs) regime for energy efficient equipment (EEE) beyond 31 December 2025."

  - Introduce a tax credit for companies that are loss-making for the element of their loss generated by the ACAs claim. This would incentivise loss-making companies to invest in EEE that otherwise would not. A precedent for a similar mechanism has already been set through the R&D tax credit scheme.
  - Remove the condition that the equipment must not be leased, let or hired, which precludes landlords and lessors from availing of this relief. The removal of this condition would incentivise landlords, who are a major investor in real estate in Ireland, to invest in EEE.
- To promote the circular economy in the food / agricultural sector, introduce a specific corporate tax deduction for the cost of food donated to food banks that are registered charities. This should include any transport and employee costs associated with the transport of donated food. The introduction of tax incentives targeted at waste minimisation will have significant societal benefits while also contributing to the achievement of our climate targets.
- Where food and drinks are donated free of charge to a charity or similar organisation, a VAT cost arises for the business donor in the form of a claw-back of input VAT reclaimed (i.e. where the gift rule is not satisfied – the current threshold is €20). This creates a barrier to food donation and a disincentive for reducing food waste. To alleviate the VAT cost associated with food donation and promote the reduction of food waste, the VAT rules could be adapted by way of a legislative amendment which could include inter alia a change to the taxable amount provisions in line with the EU VAT Committee guidelines agreed in December 2012 on donated food.

Conclusion

While Ireland has, and continues to pursue tax policy which incentivises the carbon transition, it must be recognised that Ireland still has considerable progress to make on its decarbonisation journey. More targeted tax policy incentives which provide upfront relief and a more attractive business case for investment are required to facilitate this transition.

"To promote the circular economy in the food / agricultural sector, introduce a specific corporate tax deduction for the cost of food donated to food banks that are registered charities."

Appendix I – Participation Exemption

The introduction of the participation exemption for dividends was a much anticipated and desired addition to Irish tax policy, yet it remains largely unworkable at present due to a number of key issues.

This exemption is a key factor in maintaining Ireland's position as an attractive holding company jurisdiction. We call on the Department of Finance to engage with stakeholders on these issues in order to resolve these issues. Further details are outlined below.

Five-year look back rule

The five-year look back rule is extremely onerous. In particular, the potential that the acquisition of shares by a subsidiary could render it incapable of qualifying as 'relevant subsidiary' means that the exemption is not available for many taxpayers. As a result, uncertainty arises even though the system was introduced to reduce complexity.

As currently drafted, the definition of 'relevant subsidiary' in section 831B(1) TCA 1997 includes a requirement in sub-part (b) that the company did not at any time during the reference period, acquire "(i) another business or part of another business, or (ii) the whole or greater part of the assets used for the purposes of another business" previously carried on by another company that was not resident in a 'relevant territory'. Similarly, sub-part (c) of the definition contains a requirement that the subsidiary was not formed through a merger where any party to that merger was another company that was not resident in a 'relevant territory' from the start of the reference period.

In our view, some of the perceived 'mischief' at which sub-part (b) and (c) of the definition of 'relevant subsidiary' is aimed might better be placed elsewhere in section 831B so that the requirements are considered in the context of distributions and the source of such distributions. This would avoid the 'tainting' of an otherwise qualifying 'relevant subsidiary' by matters that have not impacted the distribution, effectively disqualifying the subsidiary entirely for a five-year period.

We would highlight that separate to the above issue, the general requirement to apply the five-year look back period is extremely onerous and the level of administrative work required in many cases is likely to be so significant that the taxpayers concerned would not wish to claim the participation exemption, which would be a regrettable outcome. Consideration needs to be given to revisiting the need and rationale for the five-year look back period more generally.

For example, the assessment of the conditions contained in sub-parts (b) and (c) require the parent company to have knowledge of the residence status of the company involved in the acquisition or merger event with the foreign subsidiary at the time of the acquisition or merger and also its residence history in the period up to five years before the date of the distribution. The parent company may not be in possession of this information, particularly in circumstances where the other company is a third party. It might also not know whether the assets being acquired represent the business or part of the business of the seller or the greater part of the assets used for the purposes of the business of the seller. Such tests are impractical and unnecessarily onerous.

The legislation, as currently drafted, has sufficient protections built in in terms of only allowing the exemption to apply to participations in EU or DTA jurisdictions. By ensuring that distributions can only flow from such jurisdictions Ireland cannot be accused of allowing our regime to be open to being used for double non-taxation. Adding extra layers of complexity which force taxpayers to look at the assets acquired and indeed whether those assets were at any point owned by a non-DTA/EU jurisdiction is unnecessary, overly complex and out of line with any other such regime.

Exclusion of Ireland as a 'relevant territory'

The exclusion of Ireland from the definition of 'relevant territory' means that any transfers of a business, part of a business, or the assets of a business from an Irish company to a subsidiary or its involvement in a cross-border merger with the subsidiary can result in the conditions for a relevant subsidiary not being met. However, similar transfers between other EU Member States do not have the same result. We believe there is no clear policy rationale for this distinction.

We consider that the legislation, as currently drafted, could be viewed as contrary to the freedom of establishment under the Treaty on the Functioning of the European Union (TFEU). Article 49 TFEU prohibits restrictions on the freedom of establishment of 'nationals' of a Member State in the territory of another Member State. This freedom of establishment applies to both individuals and to legal persons such as companies. In addition, Article 55 TFEU states that Member States shall accord nationals of the other Member States the same treatment as their own nationals as regards participation in the capital of companies or firms within the meaning of Article 54.

We strongly urge that the definition of 'relevant subsidiary' in section 831B(1) TCA 1997 is amended, with effect from 1 January 2025, to address the fact that the definition of 'relevant territory' excludes the State.

Offshore funds

The interaction of the legislation for offshore funds and the participation exemption is overly complex and, in many situations, will mean that it risks distributions on shareholdings of between 5% & 50% not qualifying for the exemption.

It would be important that legislative clarification is provided to ensure that shareholders of such percentages have certainty of being capable of availing of the participation exemption where all other conditions are met.

Thank you

We would greatly appreciate the opportunity to discuss the concepts outlined in this submission with you as soon as possible. Additionally, we are more than willing to offer any additional information, insights or support that may be helpful.

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