



Interest Review – Feedback Statement  
Business and International Tax Division  
Department of Finance  
Government Buildings  
Upper Merrion Street  
Dublin 2  
D02 R583

19 December 2025

**Subject: Feedback Statement on Phase One of Reform of Ireland’s Taxation Regime for Interest**

Dear Sir/Madam,

We are writing in response to your invitation for submissions on Phase One of the Reform of Ireland’s Taxation Regime for Interest Strawman Proposal (“strawman proposal”), as published by the Department of Finance (“you”) on 21 November 2025.

First and foremost, we welcome the publication of the strawman proposal and the review undertaken to explore options for reforming and simplifying the interest regime, with the objective of safeguarding Ireland’s international competitiveness.

However, in our view, the proposed new interest deductibility approach set out in the strawman proposal does not enhance Ireland’s competitiveness relative to other international business locations. Furthermore, the proposal does not significantly change the existing framework governing the tax treatment of interest in Ireland and instead risks adding further complexity and creating new areas of uncertainty.

Although the Minister’s stated objective is to provide administrative simplification and greater certainty to Irish businesses, we believe this goal has not been met given how subjective and restrictive the proposed new interest deductibility language is. It does not deliver any tangible improvement on the current interest regime. In particular, the introduction of a “profit motive” test is not materially easier to satisfy than the

PricewaterhouseCoopers, One Spencer Dock, North Wall Quay, Dublin 1, D01 X9R7, Ireland  
T: +353 (0) 1 792 6000, F: +353 (0) 1 792 6200, [www.pwc.ie](http://www.pwc.ie)

Enda McDonagh (Managing Partner - PricewaterhouseCoopers Ireland)

Olwyn Alexander Andy Banks Amy Ball Keiran Barbalich Paul Barrie Brian Bergin Fidelma Boyce Donal Boyle Áine Brassill Colm Browne Paraic Burke Damian Byrne Robert Byrne John Casey Kim Clarke Mary Cleary Marie Coady Siobhán Collier Joe Conboy Mairead Connolly Robert Costello Thérèse Cregg Moira Cronin Danielle Cunniffe Ciaran Cunningham John Daly Kevin D’Arcy Richard Day Elizabeth Davis Liam Diamond John Dillon Darrelle Dolan Ronan Doyle Andrew Dunne John Dunne John Dwyer Colin Farrell Francis Farrell Ronan Finn Laura Flood Ronan Furlong Marie-Louise Gallagher Fiona Gaskin Laura Gilbride Mairead Harbron Aoife Harrison Harry Harrison Feilim Harvey Alisa Hayden Olivia Hayden Niamh Hussey Gareth Hynes Patricia Johnston Andrea Kelly Ciarán Kelly Colm Kelly Joanne P. Kelly Julie Kennedy Shane Kennedy Susan Kilty Fiona Kirwan Brian Lavery David Lee Brian Leonard Sinead Lew Kieran Little Gillian Lowth Aidan Lucey Ronan MacNicolais Pat Mahon Paul Martin Sean Martin Declan Maunsell Leonard McAuliffe Ally McCaffrey Kim McClenaghan Dervia McCormack Michael McDaid Enda McDonagh Declan McDonald Shane McDonald Gerard McDonough Ilona McElroy Mark McEnroe David McGee Deirdre McGrath Laura McKeown Ivan McLoughlin James McMenamin James McNally Rose-Marie McNamara Stephen Merriman David Moran Pat Moran Fionán Moriarty Paul Moroney David Morris Paul Morris Yvonne Mowlds Ronan Mulligan Declan Murphy John Murphy Emma Murray Eugene Nel Nick O’Brien Andy O’Callaghan Colm O’Callaghan Jonathan O’Connell Aoife O’Connor Paul O’Connor Paul M O’Connor Emma O’Dea Doone O’Doherty Kieran O’Dwyer Munro O’Dwyer John O’Leary John O’Loughlin Ger O’Mahoney Liam O’Mahony Darren O’Neill Shane O’Regan Clodagh O’Reilly Padraig Osborne Sinead Ovenden Keith Power Nicola Quinn Fiona Regan Pádraic Rehill Peter Reilly Susan Roche David Pickerill Mary Ruane Stephen Ruane Gavan Ryle Emma Scott Thomas Sheerin Colin Smith Ronan Somers Billy Sweetman Marie Taylor-Ghent Eoin Tippins Paul Tuite David Tynan Ken Tyrrell Stephen Walsh Barry Whelan Johnny Wickham

Located at Dublin, Belfast, Cork, Galway, Kilkenny, Limerick, Waterford, and Wexford

Chartered Accountants

PricewaterhouseCoopers is authorised by Chartered Accountants Ireland to carry on investment business.

existing “wholly and exclusively” test; the move to taxing non-trading interest under Case III/IV on an accruals basis fails to take account of other expenses and offers no practical simplification, while risking detrimental commercial outcomes; and the removal of the need for cash to pass in certain restrictive circumstances (as part of claiming relief under section 247) does not represent meaningful reform.

The proposal to extend Irish transfer pricing rules to small and medium-sized enterprises concurrently with the introduction of a new interest deductibility regime completely goes against the concept of making it easier for small private businesses to operate in Ireland. The proposal is overly burdensome, as it would impose significant additional administrative and compliance requirements on these businesses. Small and medium-sized enterprises should be supported in growing their activities in Ireland and abroad, rather than encumbered with increased compliance obligations.

Ireland's interest regime, including its administrative requirements, must be simplified to reinforce the message that Ireland is an attractive location for investment and for carrying on business activities. In our view, relevant ATAD provisions (including the anti-hybrid rules and the interest limitation rule) together with Pillar Two and transfer pricing now provide sufficient protection, making this an opportune time to simplify the regime.

In this regard, please find our substantive comments on the strawman proposal outlined in Appendices I and II. On balance, given the uncertainty that would likely result from implementing the majority of the measures set out in the strawman proposal, the status quo would likely be less harmful to Ireland's competitiveness than the measures proposed.

We would welcome the opportunity to discuss the matters outlined below at your convenience.

Yours faithfully

*Paraic Burke*

Paraic Burke

Head of Tax

## **Appendix I**

### **The need for simplification as a differentiator for Ireland's tax system**

The scope of the strawman proposal does not address aligning tax rates by removing the trading/non-trading interest distinction. Eliminating the dual tax rate for interest would significantly simplify the taxation of interest, make it more user-friendly, and enhance Ireland's appeal as a destination for inward investment. Aligning to a single rate of 12.5% would provide greater certainty and simplicity and would modernise Ireland's regime in line with international counterparts.

### **Need to deal with intra-group financing deductibility**

We have previously expressed the view that sections 247 and 249 should be transitioned out and replaced with a much simpler, principles-based and purpose-driven interest deduction provision. It is disappointing that the strawman proposal does not undertake a more comprehensive overhaul of sections 247 and 249 to effect the changes set out in the previous submission to you from PwC Ireland on 30 January 2025.

In the context of the current geopolitical and international tax landscape, the need to position Ireland as a business-friendly investment location is more important than ever. A radical overhaul of sections 247 and 249 would go a long way towards achieving this ambition and reaffirming Ireland's credentials as an attractive location for inward investment. While we welcome the practical changes removing common directors and the need for cash to pass in certain very restricted circumstances, we believe that retaining section 247, with only these minimal practical simplifications, overlooks the opportunity for meaningful reform. We also note that there has been no proposed change to section 249, notwithstanding that the recovery of capital provisions add significant complexity to the operation of section 247 relief.

If the new interest regime is to be introduced in its current form, it will be important to retain section 247 (as proposed in the strawman) to avoid unintended gaps in interest deductibility.

### **Anti-avoidance**

We note that, while it is proposed to retain section 817B, no reference is made to other anti-avoidance provisions, such as sections 812–815 inclusive, section 817C and section 840A. In our view, these provisions merit further consideration as part of this strawman.

## Appendix II

### 5.2 Outline of New Interest Deductibility Rule for Corporation Tax & 5.3 Further Detail on New Interest Deductibility Rule

The strawman proposal suggests removing the primacy of the “wholly and exclusively” test in favour of a new “profit motive” test in relation to interest. In our view, this new interest deductibility rule, including the introduction of a “profit motive” test, does not simplify the basis for claiming an interest deduction. We consider the interpretation of the “profit motive” test to be inherently subjective, with a minimal relevant bank of case law or experience to rely on. It is likely to add very significant and unnecessary complexity to the interest regime as taxpayers, advisers and the Revenue begin to understand and consider how the Courts will interpret this new test. In addition, the “profit motive” test is not a widely applied concept in other jurisdictions. As a result, there is limited experience or case law addressing how such a test should operate in practice, how it should be interpreted, or how it should be enforced. This absence of a developed body of precedent creates greater uncertainty for taxpayers.

The strawman proposal defines the parameters of the new interest deductibility rule, including references to “*directly*” generating profits or gains from the purpose for which the borrowings are used. In our view, anything other than a wide interpretation of “directly” would exclude common commercial arrangements.

The terms “*purpose*” and “*intention*” of directly realising profits or gains are used interchangeably throughout the strawman. However, a Court may well conclude that these concepts are distinct and have different implications for their application. Until a Court decides there will be considerable uncertainty in our view.

Furthermore, we understand the profit test would be applied to the borrowings in each accounting period in which the interest expense accrues. The interest deductible under the new interest deductibility rule would be allocated to a Schedule and Case based on where the income from the investment or activities funded by the borrowings is classified.

Having to test “*intention*” on an annual basis, in combination with having the additional need to provide evidence of “*purpose*”, seems onerous and introduces additional complexity when compared with the status quo. In the context of the stated goal of administrative simplification, this proposal, in our view, moves significantly in the opposite direction.

To illustrate the additional uncertainty and complexity arising from the proposed approach, consider the following simple examples: (i) a company has borrowed to acquire an asset that subsequently becomes worthless due to external factors; (ii) a company has borrowed to provide a capital contribution to fund a subsidiary in financial difficulty; and (iii) a company has borrowed to fund free product samples. In each case, how would the “*intention*” test be satisfied in each year / subsequent years?

The existing “wholly and exclusively” test is, as the strawman notes in section 5.3, a long-established principle underpinned by an extensive body of case law developed over many years. It has provided reasonable levels of certainty of treatment for taxpayers: where funds are borrowed for the purposes of the trade, a deduction is available. This is already subject to guardrails for example in terms of characterisation of interest as revenue versus capital. Moving away from a “wholly and exclusively” test to a purposive / intention test with periodic testing would, in our view, constitute a significant administrative burden for companies.

We assume some form of grandfathering and/or Case I transitional rules will be required. It will be necessary to consider when does the “wholly and exclusively” test end and the new regime begin? Will the

“wholly and exclusively” test and the new regime need to operate side by side for a significant period noting there are no relevant records to support the new test? This would introduce even greater complexity.

If this is the only alternative under consideration, our respectful recommendation would be to retain the existing interest regime, which at least is known and has a body of case law and precedent, albeit in the knowledge that it leaves Ireland at a competitive disadvantage.

#### **4.3 Alignment of Treatment between Trading and Passive Income & 5.7.3 Double Taxation**

The strawman includes a proposal for both trading and passive interest income to be taxed on an accruals basis for the purposes of computing both income tax and corporation tax. In our view, taxpayers are likely to encounter difficulties under this approach, as they would be required to account for tax before the actual receipt of cash. This issue is particularly significant in the context of preliminary corporation tax, which may need to be paid based on estimated accrued interest amounts that have not yet arisen or been received in cash. This difficulty is compounded by the absence of any proposal to align tax rates in the strawman, meaning taxpayers would face accruals basis taxation alongside the continued application of dual tax rates.

Investors in start-up or scaling companies often provide funding by way of loans (for commercial reasons such as security). In many cases, there is no realistic prospect of interest being paid for several years. It would seem unreasonable for these investors to be required to pay preliminary tax in year one on interest that may not be received, if at all, for five years.

Under an accruals basis of assessment, foreign source interest income may be assessed under Case III and chargeable to Irish tax in an earlier period than the period in which any foreign tax in respect of that income is paid. The strawman proposal outlines that, to address the timing difference between the period in which interest income is liable to tax in Ireland and in the foreign jurisdiction, relief for foreign tax on interest income (double tax relief) may be provided in the period in which the foreign interest income accrues, by allowing the tax return for that period to be amended once the foreign tax has ultimately been suffered.

This proposed approach would mean that taxpayers may have to regularly amend their corporation tax returns to avail of double tax relief where foreign tax is suffered in a different period from when the related income accrues/the accrual is booked. This would create an unnecessary ongoing administrative burden for companies. This seems at odds with the general objective of simplifying the taxation of interest.

As an alternative to the approach outlined above, it would be more helpful to confirm that a taxpayer is entitled to claim double tax relief in the same period that the interest income is accrued in instances where the foreign tax has been/is expected to be suffered. Such confirmation would help to reduce the compliance burden associated with tax credits and interest.

#### **5.4.1 Transfer Pricing**

The strawman proposes extending transfer pricing rules to small and medium-sized enterprises (“SMEs”) with effect from the same date as the application of the new interest deductibility rule. Currently, SMEs are excluded from the scope of the transfer pricing rules. We note that the relevant legislation has been in place since the transfer pricing reform was introduced in Finance Act 2019, but was subject to a commencement order by the Minister.

The proposed changes would bring small and medium-sized companies within the scope of the transfer pricing rules. The legislation provides simplified documentation requirements for medium-sized enterprises

and an exemption for small enterprises from providing transfer pricing documentation, in order to reduce the associated administrative burden. We also note that the Department of Finance has not previously indicated that it was considering initiating these rules via commencement order at any point during the approximately six years since their introduction.

We do not believe that the proposed new interest deductibility regime should serve as a catalyst for extending the transfer pricing rules to SMEs. Such an extension would impose a substantial administrative and compliance burden on these companies. It is important that SMEs are supported as they seek to expand in Ireland and overseas, rather than being overburdened with additional compliance requirements.

We further do not agree that SMEs present a material risk of corporate tax base erosion in light of the new interest deductibility regime. We believe this issue would be better addressed separately, rather than as part of the reform of the interest deductibility regime, to allow for an appropriately focused discussion on the potential impact on these companies, the areas where mitigation of increased requirements needs to be considered, and to give SMEs adequate time to prepare for any such change.

#### **5.4.2 Interest Limitation Rule (“ILR”)**

Under the current interest limitation rules, each Irish company can avail of the €3 million de minimis exemption when not part of an interest group. Where an interest group has been formed, the de minimis exemption of €3 million applies to the interest group as a whole and not to each individual Irish company.

The strawman indicates that the €3 million de minimis threshold for each company (which is not part of an interest group) may provide an opportunity for the “fragmentation” of group debt amongst member companies. In our experience we are not aware of the “fragmentation” of debt in order to avail of the €3 million de minimis exemption on a per entity basis and we, therefore, question whether these additional measures are necessary. It seems to us that the cost of fragmenting the group simply to secure an interest deduction of €3 million is very unlikely to meet any reasonable cost-benefit threshold, given the myriad of other considerations involved, including commercial implications as well as set-up and ongoing compliance costs.

We understand that the proposal set out in the strawman, intended to prevent any abuse of the de minimis relief, is to apply an additional €6 million de minimis threshold to the Irish group members of a worldwide group.

We believe this proposed new €6 million worldwide group threshold is potentially very restrictive for large groups with multiple Irish entities and would also increase the administrative burden of the ILR for groups especially where they have not elected into an “interest group”.

It should be clarified whether the de minimis exemption threshold for an ‘interest group’ (where elected into for ILR purposes) will be increased to €6 million (in line with the proposed worldwide group amendment above), or whether it will remain at the current €3 million threshold?

The proposal for the de minimis relief to be amended to allow for the first €3 million of exceeding borrowing costs to be excluded from the ILR is welcome and should be beneficial to some companies. Similarly, for interest groups and worldwide groups, will the first €6m of exceeding borrowing costs also be excluded from the ILR?

We were particularly pleased to see the proposal for the ILR to be amended to allow a company to form an interest group where an election is made within a period of 2 years after the end of the accounting period to which the election first relates. This is a very positive change to allow taxpayers more time to

assess if an election should be made by the group and is an approach that should be taken much more generally in the tax code where taxpayers are being asked to make elections. This is especially true in a Pillar Two world where there are very significant implications of local decisions on the wider group and yet the wider group picture is often unavailable when the tax code forces decisions and elections to be made.

### **5.6.1 Simplification Measure for Section 130 TCA 1997**

The proposed amendments to simplify section 130 TCA 1997 are welcome. However, clarification is required regarding the intended scope of these amendments.

It is noted at section 5.2 of the strawman, in the context of the introduction of a new default rule for interest deductibility that *“interest would be deductible where it is incurred in respect of borrowings used to fund activities or investments with the intention of directly generating profits”*. However, it is noted at section 5.6.1 that the amended Section 130(2)(d)(iv) would still apply to non-EU/treaty resident 75% related parties in receipt of interest *“not paid in the ordinary course of a trade”*.

Alignment of the terminology used in the amended Section 130(2)(d)(iv) with the proposed new regime would enhance the intended simplification associated with these amendments.

It would also be helpful to obtain clarity on the extent of the planned changes regarding sections 130(2)(d)(iv) and 452. For example:

- Are the proposed changes generally applicable (including in respect of interest deductible under section 247, for example), or are they only applicable to interest deductible under the proposed new default rule?
- Is it intended that section 130(2)(d)(iv) would no longer apply to any Case I interest paid to EU/treaty resident 75% related companies, meaning no section 452 election would be required in such cases?
- Is it intended that section 130(2)(d)(iv) would remain applicable to Case I interest paid to non-EU/treaty resident companies, where section 452 is not currently available?
- Would section 130(2)(d)(iv) remain applicable to non-Case I interest paid to non-EU/UK resident companies (with such interest paid to EU/UK resident companies remaining outside the scope of section 130(2)(d)(iv) by virtue of section 130(2B))?

It is noted that no other amendments are proposed to Section 130. We recommend that consideration be given to further amendments to address recharacterisation issues in commercial lending scenarios (for example, third-party convertible debt instruments recharacterised under section 130(2)(d)(ii)).

### **5.6.2 Repeal of Section 76E TCA 1997**

Section 76E has generally been regarded as unduly complex and difficult to operate in practice. We note its proposed removal in the event that the new interest measures are introduced. As mentioned above, we caution against the introduction of these measures as proposed for the reasons already outlined. However, if a decision is taken to retain the status quo in relation to interest deductibility, then the removal and improvement of Section 76E would likely resolve some of the significant issues that Ireland faces in relation to interest taxation and deductibility relative to other jurisdictions.

The transitional provisions provide for the treatment of accrued but unpaid interest that would have been eligible for relief on a paid basis under section 76E. It would in our view be preferable to permit a deduction for unpaid interest on an accruals basis from the outset, in line with the approach under the new interest regime. Where any amount for which a deduction was claimed is subsequently written off, the interest

deduction would in any event be clawed back in accordance with the inclusion of a section 87-type provision, as referenced.

To the extent that there are concerns about the overall level of accrued interest, any such amounts could be spread over a number of years, rather than requiring taxpayers to continue tracking payments under the legacy regime.

### **5.8 Taxation and Deduction of Interest Equivalents**

The proposed widening of the rule from a Case III perspective is to be welcomed, however it could be further enhanced by the introduction of a deduction for other operating costs associated with operating the company in question, subject to the well-established principles of section 81.

The strawman also indicates that amounts which are taxable or deductible under another provision of the Taxes Acts (e.g. lease payments) should not be included in interest equivalents. We agree with this approach, as it avoids disrupting existing regimes in relation to:

- the taxation of finance leases (under sections 76D and 299);
- the taxation of operating leases on both a trading basis; and,
- the taxation of operating leases on a non-trading basis.

### **Interaction of Functional Currency**

Consideration should be given to allowing taxpayers within the new interest regime to elect to compute their taxable profits utilising the relevant functional currency (eliminating differences arising on foreign exchange). This would align with overarching objective of simplification and should mirror the effect of the inclusion of interest equivalents within the interest deductibility rule.

---

All references to a section relate to TCA 1997