What does Finance Act 2025 mean for you and your business?

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What Finance Act 2025 means for you and your business

Finance Act 2025 ("the Act") sets out the legislative changes required to implement the Budget Day announcements of 7 October last, and includes targeted refinements to the participation exemption for certain foreign distributions, further enhancements to the R&D tax credit regime, extensions and improvements to incentives for Ireland's visual and digital industries and a suite of measures for large corporates, private businesses and individuals.

Other measures include the implementation of additional Pillar Two measures aligned with the 2025 OECD Administrative Guidance, alongside DAC9 reporting rules, and a reduction in the tax rate applied to payments/gains from Irish regulated funds, their offshore equivalents and foreign life assurance products to 38%. The Act also introduces housing supports through a corporation tax exemption for cost-rental profits, an enhanced deduction for apartment construction costs, expansions to the Living City Initiative, and extended reliefs for landlord retrofit works and rent tax credits, among other measures.

Finance Bill 2025, which was first published on Thursday 16 October 2025, has been amended in a number of respects prior to its enactment on 23 December 2025.

Relevant amendment to the Bill as initiated as well as other broader developments are highlighted throughout this document.

Participation Exemption for Foreign Distributions

Finance Act 2024 introduced the Participation Exemption for Foreign Distributions, applicable to relevant distributions made on or after 1 January 2025. A number of practical issues arose from the approach taken to the design of the Participation Exemption mechanics last year. In a welcome development, this year's Act has introduced some modest changes to deal with a number of these issues.

The amendments include an expansion of the geographic scope to capture distributions from entities resident in a territory in which foreign tax is charged and paid directly on the distribution made by that entity at a rate greater than 0%, and a shortening of the "lookback period" from five years to three years, with effect from 1 January 2026.

While the changes improve the status quo and give some companies greater confidence in meeting the qualifying criteria, there remains significant scope to improve the regime for it to meet the stated policy objective of being a broad, simple and straightforward regime to operate.

Research and Development Tax Credit

The Act has brought key enhancements to the R&D tax credit, boosting the rate from 30% to 35% for accounting periods commencing on or after 1 January 2026. The first-year minimum payment threshold will also increase from €75,000 to €87,500. The Act also provides for an administrative simplification measure by allowing 100% of an R&D employee's emoluments to be considered as qualifying costs where at least 95% of their time is spent on R&D qualifying activities.

A forthcoming R&D Compass publication is expected to be published in the coming weeks. It is hoped that this compass will seek to further enhance aspects of the R&D regime to align with industry practice and set the pathway for the development of broader innovation supports.

Intellectual Property Capital Allowances

The Act has introduced several amendments in relation to capital allowances claimed under Section 291A. Section 291A provides for capital allowances for companies that incur capital expenditure on the provision of certain intangible assets for the purpose of a trade.

The Act provides for amendments to how balancing allowances, which arise on certain events such as the disposal or transfer of the asset, can be used. The Act clarifies that the 80% cap will also apply to any balancing allowances arising under Section 288. The amendment applies to any event that triggers a balancing allowance and which occurs on or after 8 October 2025.

Visual effects and digital games

The Digital Games Tax Credit, first introduced in Finance Act 2021, is being extended by six years to 31 December 2031. The credit is also being enhanced to allow for claims in respect of post-release content work, subject to certain conditions. The extension is subject to a ministerial commencement order. These enhancements not only broaden the scope of the relief but also meaningfully advance Ireland's ambition to establish itself as a leading hub for digital game development.

The Act enhances Ireland's Section 481 Film Tax Credit regime to allow for a specific Visual Effect (VFX) measure. Productions with a minimum of €1 million in eligible expenditure on relevant visual works in the state will now benefit from an enhanced Section 481 tax credit of 40%. The 40% rate will apply to eligible expenditure up to a maximum of €10 million per visual effects project.

Pillar Two

The Act advances Ireland's implementation of the OECD Pillar Two framework and the European Union's related measures.

It transposes the EU's 9th Directive in the area of administrative cooperation in the field of taxation - DAC 9. It also recognises the OECD Pillar Two Multilateral Competent Authority Agreement on the Exchange of GloBE Information. As anticipated, it legislates for the OECD's January 2025 Administrative Guidance and also introduces a number of technical updates to the Pillar Two rules.

Irish Investment Undertakings and Certain Equivalent Offshore Funds

The Act introduced a reduction in the income tax rate on income and gains arising on Irish regulated funds, their offshore equivalents and foreign life assurance products from 41% to 38%. The reduction applies from 1 January 2026.

Interest Anti- Avoidance Amendments

The anti-avoidance provision contained in Section 840A has been amended to allow an interest deduction for connected party borrowings used to purchase assets from a connected company subject to certain conditions. The intra-group sale must be carried out for bona fide commercial purposes, the seller must have been entitled to a deduction for interest payable on a loan used to acquire the relevant asset immediately prior to the intra-group sale and the lender must be in either Ireland, the EU or a jurisdiction with which Ireland has a tax treaty. The Act allows for an interest deduction for the acquirer of the asset calculated by reference to the principal outstanding on the relevant borrowings of the seller prior to the intra-group sale, (or where there was a similar previous asset transfer by reference to the principal outstanding in the first seller). There has also been an expansion of the existing exemption for group lenders whose sole business is the on-lending money from unconnected parties to the buyer. The Act expands this relief to situations where the lender holds shares in the borrower or multiple borrowers.

The new rules apply to transfers of assets within the scope of Section 840A that occur on or after 1 January 2024, thereby allowing potential self-corrections retrospectively for transfers made in 2024. These changes add complexity at a time when a broader consultation is expected to simplify the interest regime. Further detail is given in the Financial Services section.

DAC8 Implementation Measures

The Act gives domestic effect to DAC 8 by adopting the OECD Crypto-Asset Reporting Framework (CARF) into Irish law, requiring Reporting Crypto-Asset Service Providers (RCASPs) to register with Revenue by 31 December 2026, to conduct CARF due-diligence on customers, and to submit transaction-level reports, with first CARF returns due by 31 May 2027 covering the 2026 period.

The OECD's CARF establishes an automatic exchange framework for tax-relevant information on crypto-assets, addressing transparency gaps as activity moves beyond traditional intermediaries. The EU's DAC 8 implements this within the Union by adopting CARF, and Ireland has legislated DAC 8 via the Act. CARF mandates transaction-level reporting and prescribes due-diligence obligations for RCASPs. Entities and individuals should assess RCASP status now and upgrade systems and processes to meet these obligations.

Private Business and Individuals

The Act introduced an increase in the Entrepreneur Relief lifetime threshold from €1 million to €1.5 million. The increase in the lifetime threshold will come into effect on 1 January 2026 and the increased threshold will apply to qualifying disposals from 1 January 2026 onwards.

The Act also extended and refined several reliefs: the Special Assignee Relief Programme (SARP) has been renewed for a further five years, with an increase to the minimum income threshold to €125,000 from 2026. There is also some welcome administrative simplifications.

KEEP is extended to 31 December 2028, subject to European Commission approval and commencement by Ministerial Order. The Foreign Earnings Deduction is extended to 31 December 2030 with the annual cap rising from €35,000 to €50,000 from 1 January 2026.

Finally, the Act provides for an extension of accelerated allowances for energy efficient equipment to 31 December 2030 and for slurry storage to 31 December 2029.

Employment and Individual Taxes

The Act did not feature broad 'across-the-board' income tax cuts. The 2% USC rate ceiling was increased by €1,318 to €28,700 in line with the increase in the minimum wage. The USC concession for individuals with a full medical card and income of less than €60,000 has been extended to 2027.

PRSI increases already took effect as of 1 October 2025, with further increases legislated through 2028. From an employee perspective, the increased PRSI rates will negate the marginal increase to USC bands, resulting in a net reduction in net take home pay in most cases.

The renter's tax credit of €1,000 for individuals and €2,000 for couples has been extended for three years to 2028. Mortgage interest tax relief has been extended for two further years until 31 December 2026. Homeowners with an outstanding mortgage balance between €80,000 and €500,000 as of 31 December 2022 will be eligible. The maximum relief available for 2025 is €1,250. However, the relief is set to be tapered for the final year (2026), with the maximum relief available being €625.

For the purposes of calculating BIK liability, the current €10,000 company vehicle Open Market Value (OMV) deduction previously introduced as a temporary cost of living measure has been extended by one year into 2026. It will then reduce to €5,000 in 2027 and €2,500 in 2028, being abolished from 2029.

Climate/Energy Transition Measures

The Act includes a small set of tax measures aimed at incentivising investment in the green transition. It is disappointing that more targeted policy interventions were not brought forward – this is discussed in further detail in the Climate section. The measures in the Act include an extension of the accelerated capital allowances scheme for energy-efficient equipment, as well as for gas- and hydrogen-powered vehicles and refueling equipment, until 31 December 2030. In addition, the exemption from income tax for certain profits arising from the microgeneration of electricity is extended for a further three years, to 31 December 2028.

Housing

A number of measures introduced in the Act impact the real estate sector, including the introduction of a corporation tax exemption in respect of rental profits derived from properties in scope of the Cost Rental Scheme, as well as an enhanced corporation tax deduction for qualifying apartment construction costs, allowing additional deductions of up to €50,000 per apartment unit.

The Act further reduces the VAT rate on the sale of completed apartments from 13.5% to 9%, with effect from 8 October 2025. In addition, the Residential Development Stamp Duty Refund Scheme is being extended until 31 December 2030.

The income tax relief for retrofitting by landlords, as well as the rent tax credit, are both also being extended until December 2028. For the former, relief may now be claimed for the tax year in which the expenditure is incurred, and the cap on qualifying properties increases from two to three. The Act also provides for several amendments to the Residential Zoned Land Tax (RZLT), including additional exemptions and deferrals.

The Living City Initiative has been extended to 31 December 2030 and also expanded to raise the qualifying building age threshold and introduce a new tax relief for the conversion costs of commercial properties into residential use.

Stamp Duty

The Act contains a number of changes to the Stamp Duty regime in Ireland, including an exemption from Stamp Duty for transfers of shares in publicly traded Irish SMEs with market capitalisations below €1 billion, effective until 31 December 2030. In turn, the existing exemption for shares traded in Euronext Growth will be abolished. This may have a negative impact on the trading of shares in companies with market capitlisations over €1 billion that are listed on Euronext Growth.

The Act also extended the Residential Development Refund Scheme and brought in a number of enhancements in relation to the scheme. While the changes are positive, an extension of the time limits to 48 months for all multi-unit developments would have been welcomed. In addition, there was no change to the 75% coverage test, which is very difficult to satisfy for low density/housing estate developments.

The Act has extended the bank levy for another year until 31 December 2026. It will be calculated at a rate of 0.1025% of relevant deposits held by these banks on 31 December 2024.

Further measures introduced are discussed in the Stamp Duty section. Collectively, these changes deliver very welcome extensions and enhancements, together with a new exemption, that further modernises and improves the Stamp Duty regime.

Pensions

The Act introduces amendments to the tax treatment of the Auto-Enrolment Retirement Savings Scheme, covering the treatment of savings on a participant's death, employer contributions and investments within the Scheme.

VAT

The VAT measures in the Act include reductions from 13.5% to 9% for hairdressing services, and restaurant and catering services, effectively from 1 July 2026. The Act also extends the current 9% rate for the supply of electricity and gas to 31 December 2030 and provides for a phased rollout of domestic e-invoicing for business-to-business supplies. Further measures introduced are discussed in the VAT section.

Trade and Customs

The Act introduces an excise duty increase on tobacco products, effective from 8 October 2025. The excise duty, inclusive of VAT, on a pack of 20 cigarettes will be increased by 50 cents in addition to pro rata increases on other tobacco products.

The Act further provides for corresponding pro-rata adjustments across fine-cut tobacco and other Tobacco Products Tax (TPT) categories, also taken effect from 8 October 2025. In addition, Natural Gas Carbon Tax (NGCT) and Solid Fuel Carbon Tax (SFCT) reliefs in respect of the generation of electricity have been narrowed in scope.

Tax Administration and Revenue Powers

The Act has extended Revenue's compliance and enforcement powers, but most changes are relatively minor. Most notably, it introduces an income tax and corporation tax estimation power where returns are not filed, mirroring the existing VAT regime and removing the prior need for a formed judgment on liability. The Act also amends the due date for tax due on an assessment that has been amended multiple times where the tax return does not contain a true and full disclosure. The Act also provides Revenue with an enhancement of general anti-avoidance rules to allow withdrawal of tax advantages arising from a taxpayer's actions or omissions.

Revenue can now amend assessments outside the standard four-year limit to implement outcomes of Mutual Agreement Procedures (MAP) conducted under Tax Information Exchange Agreements, aligning MAP implementation across treaty and Tax Information Exchange Agreement (TIEA) cases and potentially extending the lifecycle of cross-border disputes.

Further detail is given in the Tax Administration and Revenue Powers section.

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Policy/International Outlook

02

How tax policy changes shape Finance Act 2025

While Ireland's domestic tax agenda continues to be impacted by international reform, significant aspects remain within our control, providing policymakers with an opportunity to enhance our position as a highly competitive jurisdiction. Although Finance Act 2025 ("the Act") is a step in the right direction, further attention must be paid towards progression of tangible measures to enhance Ireland's attractiveness.

Businesses need immediate administrative easements and clear legislative timelines, not another cycle of consultation. 2026 must be the year Ireland moves from consultation to delivery.

Enhancing Ireland's tax framework

Participation Exemption

We welcome the updates made to the participation exemption, including the expansion of the geographic scope to include jurisdictions where non-refundable withholding taxes apply, changes made to reduce the lookback period from 5 years to 3 years and other technical amendments and clarifications to improve the operation of the relief. However, more can still be done to improve Ireland's competitiveness such as removing any lookback period and extending the geographic scope even further. The absence of a similar exemption for foreign branch profits is also a missed opportunity. Bolder changes are needed now to secure Ireland's competitiveness against our peers.

Interest Consultation

On 7 October 2025, the Government published an action plan for the reform of Ireland's taxation regime for interest. This follows a previous public consultation on Ireland's tax treatment of interest in 2024. The first phase of the new action plan will focus on the underlying framework for the taxation and deductibility of interest in Ireland, with publication of a Feedback Statement for consultation published on 21 November 2025, followed by an outline of draft legislation in April 2026, with the aim of including legislative changes in Finance Act 2026. Further phases of reform will also follow.

While we acknowledge the stated aim of simplifying Ireland's interest taxation regime, it is unfortunate that no changes have been announced in the Act. The first phase of this action plan addresses some issues but is not root and branch reform. Whilst we appreciate that this may be due in part to the need for Ireland to await the outcome of the European Commission's evaluation of the Anti-Tax Avoidance Directive, concrete reform is needed immediately to simplify Ireland's taxation regime for interest.

The Department of Finance ("DoF") published a Feedback Statement for Phase One of the reform of Ireland's taxation regime for interest. This document outlines a strawman proposal for a reformed interest regime, with legislative changes intended for Finance Bill 2026.

Withholding Tax Consultation

The Department of Finance (DoF) and Revenue have launched a public consultation survey on electronic withholding tax ("eWHT"). The DoF and Revenue have commenced the consultation process on the modernisation and expansion of withholding taxes which includes the modernisation of Professional Services Withholding Tax and Relevant Contracts Tax, and exploring expansion of a withholding tax to the platform economy. The closing date for submissions to this consultation is 5pm on 30 January 2026.

E-invoicing

It was announced on Budget Day that Revenue will begin a three-phase rollout of domestic electronic invoicing arrangements for business-to-business transactions, building on agreed EU-wide reforms under the VAT in the Digital Age (ViDA) package. The phased rollout will see large corporates as first to adopt e-invoicing and real-time reporting for domestic business-to-business transactions in November 2028, followed by all VAT-registered businesses engaged in cross-border EU business-to-business trade in November 2029. Full compliance for all intra-EU business-to-business transactions must be achieved by July 2030 in line with the EU Directive for ViDA.

Funds Sector 2030

The Government has announced its intention to publish a roadmap early next year which will set out an approach to simplify and adapt the tax framework to encourage retail investment, in accordance with recommendations deriving from the Funds Sector 2030 Report. This follows the publication of an implementation plan on 7 October stating that the tax rate on payments made from Irish domiciled investment funds and equivalent offshore funds to Irish individual investors will be lowered from 41% to 38% from 1 January 2026. Please see more details in our Financial Services insight. The EU Commission recently published recommendations for the Member States to introduce tax incentives and administrative simplifications to support the uptake by retail investors of “Savings and Investment Accounts”.

Research and Development

The Act legislates for an increase of the R&D tax credit rate from 30% to 35%, effective for accounting periods starting on or after 1 January 2026, alongside a rise in the first-year minimum payment threshold from €75,000 to €87,500. New administrative simplifications will allow companies to claim 100% of an R&D employee’s salary and emoluments as qualifying costs, provided that the employee spends at least 95% of their time on qualifying R&D activities.

The Act confirms that qualifying building expenditure includes costs incurred on constructing laboratories for use in R&D activities. Furthermore, the Act clarifies that claimant companies must elect whether each of the three annual instalments are to be treated as an overpayment of tax or to be refunded by Revenue.

Whilst these changes mark positive improvements to the R&D tax credit, there remains significantly more to be done to make Ireland’s R&D regime best in class. Given the Government has recently announced the imminent publication of an R&D Compass, aimed at refining the R&D tax credit with a focus on better alignment with industry practices, including outsourcing and expanding the definition of qualifying expenditure, we expect to see further improvements to the R&D regime in the near future. The Minister’s comments that the R&D Compass will “set a pathway for development of innovation supports” are promising.

OECD

Pillar One & Digital Services Taxes (DST)

Pillar One’s Amount A remains at a standstill. Negotiations have lost momentum and are not a current OECD priority, with no meaningful near-term progress expected. Although Amount B was implemented in last year’s Finance Act, its global impact continues to be limited.

On Digital Services Taxes, while a post-Pillar One stalemate surge had been anticipated, actual uptake has been more muted. The Trump Administration’s stated opposition to unilateral DSTs has dampened momentum and reinforced policy friction, leaving multinational groups navigating a patchwork of measures rather than a coordinated solution.

Pillar Two

Despite ongoing uncertainties surrounding the OECD negotiations on the G7 Agreement, Pillar Two legislation is in force in Ireland, along with over 50 other countries. The OECD is discussing potential approaches to the implementation and coordination of the Pillar Two framework, including consideration of a side-by-side system that could result in US parented groups being excluded from the UTPR and IIR, introduction of a permanent simplified effective tax rate (“ETR”) safe harbour and revising rules around the treatment of substance-based tax incentives. If approved, this would take effect for fiscal years starting on or after 1 January 2026, aligning with the expiry of the transitional UTPR safe harbour and avoiding a gap in coverage.

The OECD is also in the process of implementing an extension of the transitional CbCR safe harbour, and a new simplified ETR

safe harbour that can relieve further Pillar Two compliance for high-tax jurisdictions, without a "once-out, always-out" rule. Businesses are required to meet compliance obligations for FY2024 and FY2025, and Pillar Two compliance obligations must be met regardless of the ongoing negotiations.

Another development affecting Pillar Two is the recent Belgian Constitutional Court judgement regarding legality of the UTPR, which has been referred to the Court of Justice of the European Union ("CJEU"). It is expected to take some time for the outcome of this case to be concluded, but the development could have broader implications for the OECD's Pillar Two framework, particularly as jurisdictions continue to assess the practicalities and legal robustness of implementing the UTPR.

As part of the Act, Ireland has legislated for the EU's 9th Amendment to the Directive on Administrative Cooperation in the field of taxation. Please refer to our Pillar Two section for more detail.

Global Mobility

The Council of the OECD approved updates to the Model Tax Convention ("MTC") and accompanying Commentary. The update revises and clarifies various MTC Articles, including detailed considerations of whether working from home triggers a permanent establishment ("PE"). The OECD published a summary of the key changes, which is available here.

On 26 November 2025, the OECD launched a public consultation on global mobility for cross-border workers, focusing on tax rules related to personal income, residency, employment income, compliance, dispute resolution, existing tax incentives, and transfer pricing. Interested stakeholders are invited to submit their responses by 22 December.

EU Tax Reforms

1. FASTER

The main aim of the FASTER Directive is to aid cross-border investors who are often subject to tax in multiple jurisdictions, by streamlining refund procedures for withholding tax on cross-border payments, thereby making the EU Single Market more efficient and attractive to investors. It also serves the purpose of preventing tax-avoidance opportunities and introduces a standardised digital tax residence certificate (eTRC). The FASTER Directive entered into force on 30 January 2025.

2. Unshell

The Unshell proposal seeks to prevent the misuse of shell companies in the EU. The European 2026 work program has withdrawn this stalled file. However, this proposal is expected to materialise in another form within the next year's Omnibus package, potentially through new hallmarks in DAC6.

3. Savings and Investment Union

The Savings and Investments Union ("SIU") is a strategic initiative published in March 2025 that seeks to improve how the EU financial system channels savings into productive investments. EU citizens have significant savings, but the investment market is fragmented. The aim of SIU is to channel private capital better, offering citizens broader access to investments and improved financing options for companies. The SIU aims to align investments with the EU's strategic goals, effectively connecting savings and investment needs. The recently released EU Commission recommendations for tax relief and simplification (see above) should support this objective.

4. ATAD and DAC Evaluations

In 2024, the European Commission held public consultations to gather feedback to evaluate the functioning of two key EU Directives: the Anti-Tax Avoidance Directive ("ATAD") and the Directive on Administrative Cooperation in the field of taxation ("DAC"). The consultations aimed to assess whether the ATAD and DAC provisions have achieved their intended objectives, identify areas where revisions may be needed and explore potential enhancements. The outcomes of the evaluations of these two Directives are expected to be published by the European Commission in 2026, and lead to further EU legislative reforms via an omnibus package.

5. Energy Taxation Directive

The Energy Taxation Directive ("ETD") governs the taxation of energy products across the EU. Adopted in 2003, ETD is set for revision in November 2025 to agree an approach to better align energy taxation with current EU climate and energy policies, promote clean technologies, and remove outdated tax exemptions and reduced rates that currently incentivise fossil fuel use. The revised ETD will introduce minimum excise duties on electricity and provide Member States with the flexibility to reduce tax rates to zero where legally possible for energy-intensive industries, households and industries using renewable sources of energy.

6. Clean Industrial Deal

The Clean Industrial Deal ("CID") outlines concrete actions to use decarbonisation to drive the growth of European Industries. Affordable energy is a cornerstone of the strategy, as set out in the action plan. The European Commission adopted a new Clean Industrial Deal State Aid Framework ("CISAF") in June 2025, and it will apply until 31 December 2030. It allows Member States to invest in clean energy projects through simplified procedures and speedy implementation, and to provide temporary electricity price support for energy-intensive industries. The European Commission issued recommendations (subsequently approved by the Council) on tax incentives to support the CID, including accelerated depreciation and targeted tax credits. Member States must report adoption of the measures to the Commission by 31 December 2025.

7. CBAM

The EU has introduced a tool to put a fair price on the emission of carbon during the production of carbon-intensive goods entering the EU and to encourage cleaner industrial production in non-EU countries. It is designed to combat 'carbon leakage' by companies relocating production to countries with less stringent climate policies. The Carbon Border Adjustment Mechanism ("CBAM") comes into full effect from 1 January 2026.

United Nations Framework Convention

The UN is advancing its work on a Framework Convention on International Tax Cooperation through three workstreams. Workstream I is focused on the Framework Convention's core commitments: sustainable development, fair allocation of taxing rights, and effective dispute resolution. Workstream II relates to the development of the Protocol on the taxation of cross-border services, and Workstream III the development of the Protocol on dispute prevention and resolution.

The Intergovernmental Negotiating Committee will continue to convene three times a year through 2025-2027, with the aim to deliver the Convention's final text and early protocols to the UN General Assembly by 2027. Notably, the United States withdrew from the UN negotiations in February 2025 and has stated it will oppose the outcomes of the Framework Convention process. The EU Commission has proposed that it would negotiate on behalf of the Member States with regard to Workstream III.

Conclusion

The international tax landscape continues to shift rapidly. PwC Ireland, alongside the wider PwC global network, continue to closely monitor and adapt to ongoing developments. While considerable strides with the OECD two-pillar project have been made, many uncertainties remain.

Ireland stands at a pivotal juncture where execution will define its competitive edge. With the Act laying useful groundwork, the policy focus must now shift decisively to actioning simplification, certainty and alignment with peer standards. Completing reforms to the participation exemption, advancing practical roadmaps for e-invoicing, the R&D tax credit and streamlining interest and withholding tax rules will materially improve the attractiveness and ease of doing business in Ireland.

In short, 2026 should be the year Ireland turns intent into impact: simpler rules, clearer guidance and timely implementation that give businesses certainty.

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Pillar Two

03

Finance Act 2025 - Pillar Two measures

Finance Act 2025 ("the Act") advances Ireland's implementation of the OECD Pillar Two framework and the European Union's related measures.

The Act transposes the EU's 9th Directive in the area of administrative cooperation in the field of taxation - DAC 9. It also recognises the OECD Pillar Two Multilateral Competent Authority Agreement on the Exchange of GloBE Information. As anticipated, it legislates for the OECD's January 2025 Administrative Guidance and also introduces a number of technical updates to the Pillar Two rules.

Key measures introduced include:

- Alignment of the form of the Top-up tax Information Return (TIR, commonly referred to as the GloBE Information Return or 'GIR') with the EU standard template under DAC 9 for filers located in EU Member States, and with the OECD GIR for filers outside of the EU.
- Measures to facilitate exchange of information, consistent with DAC 9 for EU Member States and the OECD's Multilateral Competent Authority Agreement (MCAA) on the Exchange of GloBE Information for non-EU Member States.
- Legislative updates to accommodate OECD Administrative Guidance released in January 2025.
- Confirmation regarding the definition of Minority Owned Constituent Entities (MOCEs) and the allocation of top-up taxes from MOCEs that are Securitisation entities.

Transposition of DAC 9: standardised returns and information exchange

The Act gives effect to DAC 9, the EU's Directive extending cooperation and information exchange in respect of minimum effective corporate taxation. In practice, DAC 9 establishes a standardised template for the TIR, where the TIR is filed in an EU Member State. It also allows for filing of the TIR in one EU Member State as opposed to multiple filings across different EU countries.

The Act clarifies that where the TIR is filed outside the EU, the TIR will follow the OECD GIR template.

The Act also confirms the process for the automatic exchange of information. Where the TIR is filed in an EU Member State, information will automatically be exchanged among tax authorities within the EU. Where the TIR is filed outside the EU, the OECD MCAA's dissemination approach will be followed.

The intent is to create a consistent compliance architecture that supports Pillar Two administration, reduces duplication for in-scope groups, and facilitates efficient cross-border risk assessment by tax authorities.

For Irish-headquartered and Irish-based MNE groups, the principal implications are the need to confirm filing obligations for the TIR and map the information and data requirements to existing group reporting systems. Groups should determine where the TIR will be filed and ensure that notification requirements are met in all relevant jurisdictions.

OECD Administrative Guidance (January 2025)

The Act legislates for OECD Administrative Guidance released in January 2025. The process of giving effect to OECD Administrative Guidance is taken to align the Irish Pillar Two legislation with evolving OECD Guidance. This ensures that Irish Pillar Two rules operate consistently with the OECD's Pillar Two framework.

Sections 111AI, 111AJ and 111AW TCA 1997 have been updated to align with the January 2025 OECD Administrative Guidance regarding the treatment of certain pre-Pillar Two deferred tax assets (DTAs). In particular, DTAs that arose before the Pillar Two rules and originated from certain governmental arrangements or from the introduction of a new corporate income tax in other jurisdictions, are excluded for Pillar Two purposes.

These updates are effective for accounting periods commencing on or after 31 December 2023.

Groups should review these legislative changes in respect of the January 2025 OECD Administrative Guidance to identify any changes that may impact their Pillar Two position.

Other updates

- Finance Act 2024 introduced rules prescribing the order of reversal of loss DTAs. Finance Act 2025 addresses the reversal of a loss DTA where the DTA arises from both qualifying and non-qualifying losses. Where a loss DTA arising in an "originating fiscal year" is attributable to both a qualifying loss and a non-qualifying loss, any subsequent reversal of that asset must be apportioned pro-rata. The portion of the reversal treated as attributable to a qualifying loss is determined by the ratio of the qualifying loss to the total loss (qualifying plus non-qualifying) in the originating fiscal year. The rules apply for accounting periods commencing on or after 31 December 2025.

The following updates are effective for accounting periods commencing on or after 31 December 2023.

- Section 638A TCA 1997 addresses mergers and divisions pursuant to the Companies Act 2014. An update has been made that clarifies that this section extends to rights and obligations arising under Part 4A TCA 1997 (Irish Pillar Two rules). Practically, this means that the Pillar Two compliance obligations (e.g. top-up tax payments and filings) transfer to the successor company under a merger or division.
- Orphan owned entities that are fully consolidated in the MNE group are confirmed to be included in the definition of a "minority owned constituent entity". Top-up taxes of any such entities that are securitisation entities should be allocated to the other Irish entities that are not securitisation entities.
- Where the Ultimate Parent Entity does not prepare consolidated financial statements under an acceptable or authorised accounting standard, the Act clarifies that, for the purposes of determining the financial accounting net income or loss, the applicable financial statements are those that would have been prepared under an acceptable or authorised standard.
- A new allocation mechanism has been introduced which will allow all Irish constituent entities of an MNE Group, by unanimous consent, to agree an allocation of the MNE Group's UTPR top-up tax to one or more Irish constituent entities, provided the entire Irish UTPR amount is allocated and paid by the specified return date.
- In order to perform the Irish QDTT calculation by reference to the local financial standard, one of the conditions is that the fiscal year of every company in the jurisdiction must match that of the consolidated financial statements. Changes are made to the legislation to provide that, where this condition is not met as a result of an entity formation, a liquidation, a merger or division or an entity being acquired by the group in the fiscal year, the condition will be deemed to be met.

Compliance readiness as filing and payment deadlines approach

With Pillar Two in force in Ireland and multiple other jurisdictions, the immediate priority for in-scope groups is compliance readiness.

Irish registrations

For groups with 31 December 2024 year ends, registrations for the Irish Qualified Domestic Top-up Tax (QDTT) and the Income Inclusion Rule (IIR) are due on or before 31 December 2025. In-scope Irish groups should take steps now to complete these registrations and confirm who within the group will be responsible for filing the TIR.

First filings and payments

The first Pillar Two filings are due on or before 30 June 2026. By that date, in-scope groups will need to file their TIR and GloBE Top-up tax returns and pay any Top-up taxes due to Irish Revenue. Given the typical resource constraints around year-end close through Q1, advancing Pillar Two workstreams now will be essential to meet deadlines.

Key actions businesses can take today

Register for Pillar Two top-up taxes now

Initiate the registration process to ensure that registrations obligations are met ahead of the 31 December 2025 deadline.

Establish a clear plan for the TIR and data collection

Determine the TIR filer and carry out an assessment to identify data elements required for the TIR that are not currently captured within the existing tax reporting processes.

Finalise top-up tax positions

Confirm whether any top-up taxes are expected and, if so, finalise calculations, ensuring that adequate documentation is in place to support these calculations.

Validate Transitional CbCR Safe Harbour eligibility

If relying on the Transitional CbCR Safe Harbour, verify that your calculations support eligibility and that your Country-by-Country (CbC) Report meets the qualifying criteria.

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Participation Exemption for Foreign Distributions

04

Finance Act 2025 - Participation Exemption for Certain Foreign Distributions

The Participation Exemption on foreign distributions was first introduced last year in Finance Act 2024. Finance Act 2025 ("the Act") makes some improvements to and technical amendments of the Participation Exemption regime. The main changes made in the Act can be summarised as follows:

- **Territorial expansion** from distributions of entities resident in a 'relevant territory' (i.e. EEA, Treaty or Treaty-pending territories) to now also include distributions from entities resident in a territory in which foreign tax is charged and paid directly on the distribution made by that entity at a rate greater than 0%. That tax must not be repaid to any person. This new category of territory is referred to as a 'specified territory'.
- **Shortening of "lookback period"** during which foreign relevant subsidiary must not have acquired a "business" or "assets used for the purposes of another business" from non 'relevant territory' resident companies. The lookback period for any such 'excluded acquisition' has been shortened from 5 years to 3 years but it is only shortened with effect from 1 January 2026.
- **Clarification that an 'excluded acquisition' does not include the acquisition of share capital** when considering acquisitions made by the foreign relevant subsidiary during the "lookback period". Nor do any acquisitions from a company resident in Ireland need to be considered. In addition, to the extent a company was resident in Ireland prior to becoming resident in a 'relevant territory' that period of residence in Ireland is allowable for "lookback period" purposes. These clarifications have retrospective effect to distributions made from 1 January 2025.
- **Technical amendments** include one which deems new or pending Treaty territories to be a 'relevant territory' from the date that is 3 years prior to the date of the Treaty arrangements having been entered into. A further technical amendment was made to cater for Treaty territories where the concept of tax residence is not relevant under the domestic law in that territory. That amendment confirms that that Treaty residence is sufficient for the purposes of satisfying the "resident for the purposes of foreign tax" test.

Overall, the changes represent a modest expansion of the territorial scope of the regime and a moderate relaxation of the restrictions imposed by the "lookback period". The changes represent an improvement on the status quo which should allow some companies to be more assured that they can now satisfy the qualifying criteria. However, there remains significant scope to improve the regime for it to meet the stated policy objective of being a broad, simple and straightforward regime to operate.

Background to Participation Exemption

The Participation Exemption for foreign distributions was first introduced in last year's Finance Act.

In broad terms, the Participation Exemption regime exempts certain income receipts (e.g. dividends) from share capital of qualifying non-Irish resident entities. The treatment available under the regime is optional and is available upon election (on an accounting period by accounting period basis). If the election for Participation Exemption is not made, then no dividends will be exempted. Instead, a "tax and credit" approach is applicable to such receipts where no election is made. If the election is made, then all income receipts which meet the conditions to qualify for the Participation Exemption are exempted and all income receipts that do not are taxed under the "tax and credit" regime. To qualify for Participation Exemption treatment a 'parent company' must have a 'relevant participation' (e.g. directly or indirectly own 5% of ordinary share capital for at least 12 months) in a 'relevant subsidiary'.

Background to Finance Act 2025 changes

A number of practical issues arose from the approach taken to the design of the Participation Exemption mechanics upon its introduction last year. In particular, certain requirements (referred to herein as the "lookback period" requirements and discussed in detail below) have proven to be the most problematic condition of the regime, causing the Participation Exemption to be practically inoperable for some companies to date.

The Act endeavours to resolve some of the more frequently occurring practical issues arising in connection with the "lookback period" requirement. Although the proposed changes are welcome, it is disappointing that the lookback period requirements remain in any guise as the legislation has sufficient protections within it to prevent misuse or abuse.

In addition to the amendments affecting the "lookback period" requirements, the Act also modestly expands the territorial scope of the Participation Exemption regime.

These amendments together with other smaller technical amendments are considered in turn below.

1. Territorial scope expanded

The Participation Exemption is currently limited to distributions received from 'relevant territory' resident companies. A 'relevant territory' includes EEA and Tax Treaty territories as well as territories where a Tax Treaty with Ireland has been made but is not yet in force.

The Act adds a new category of territory from which distributions may be eligible from 1 January 2026. This new category of territory is referred to as a 'specified territory, that being a territory that generally imposes a foreign tax directly on distributions to companies not resident in that territory.

Provided all other conditions are met, where foreign tax at a rate greater than 0% is directly chargeable on distributions made by and received from a 'relevant subsidiary' which is resident in a 'specified territory' then that receipt may be eligible for Participation Exemption provided that tax is paid and does not fall to be repaid in whole or in part to any person. In other words, distributions received from 'specified territory' resident entities essentially must suffer tax which is actually charged and paid directly on any such distributions and that tax is not to be repaid to any person thereafter.

Clarity may need to be given in relation to the timing condition surrounding the payment of the distribution and the payment of the tax by the 'relevant subsidiary'.

Whilst this amendment will be an expansion of the territorial scope, the Participation Exemption regime continues to fall short of being a worldwide regime.

2. "Lookback period" amendments

As mentioned, many of the practical issues with the Participation Exemption as originally introduced flow from the breadth of what we refer to in this document as the "lookback period" requirement.

The "lookback period" requirement formed part of the criteria to be met by the foreign company making the distribution to qualify as a 'relevant subsidiary' (as originally defined in Finance Act 2024). The Finance Act 2024 version of the definition of 'relevant subsidiary' included a requirement that the company did not at any time during the previous 5 years, 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'.

Satisfying the above conditions required the parent company which is in receipt of the dividend/distribution to have knowledge of the residence status of the company involved in the acquisition event with the foreign subsidiary at the time of any asset/business acquisition by the foreign subsidiary from that entity and the five years previous. The parent company or the foreign subsidiary may not be in possession of this information, particularly in circumstances where the other company is a third party. In addition, neither the parent company that is in receipt of the dividend/distribution nor the foreign company paying same may know whether the assets/business acquired by the foreign subsidiary 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 disposer of same. Given these practical issues with the requirements of the 5 year "lookback period", the Participation Exemption, as initially introduced, was considered practically inoperable for some.

In light of the above issues, PwC Ireland were amongst the parties to make submissions recommending removal of the 'lookback period' requirement entirely. However, as initiated, Finance Act 2025 only proposes amendments to, as opposed to abolition of, the "lookback period".

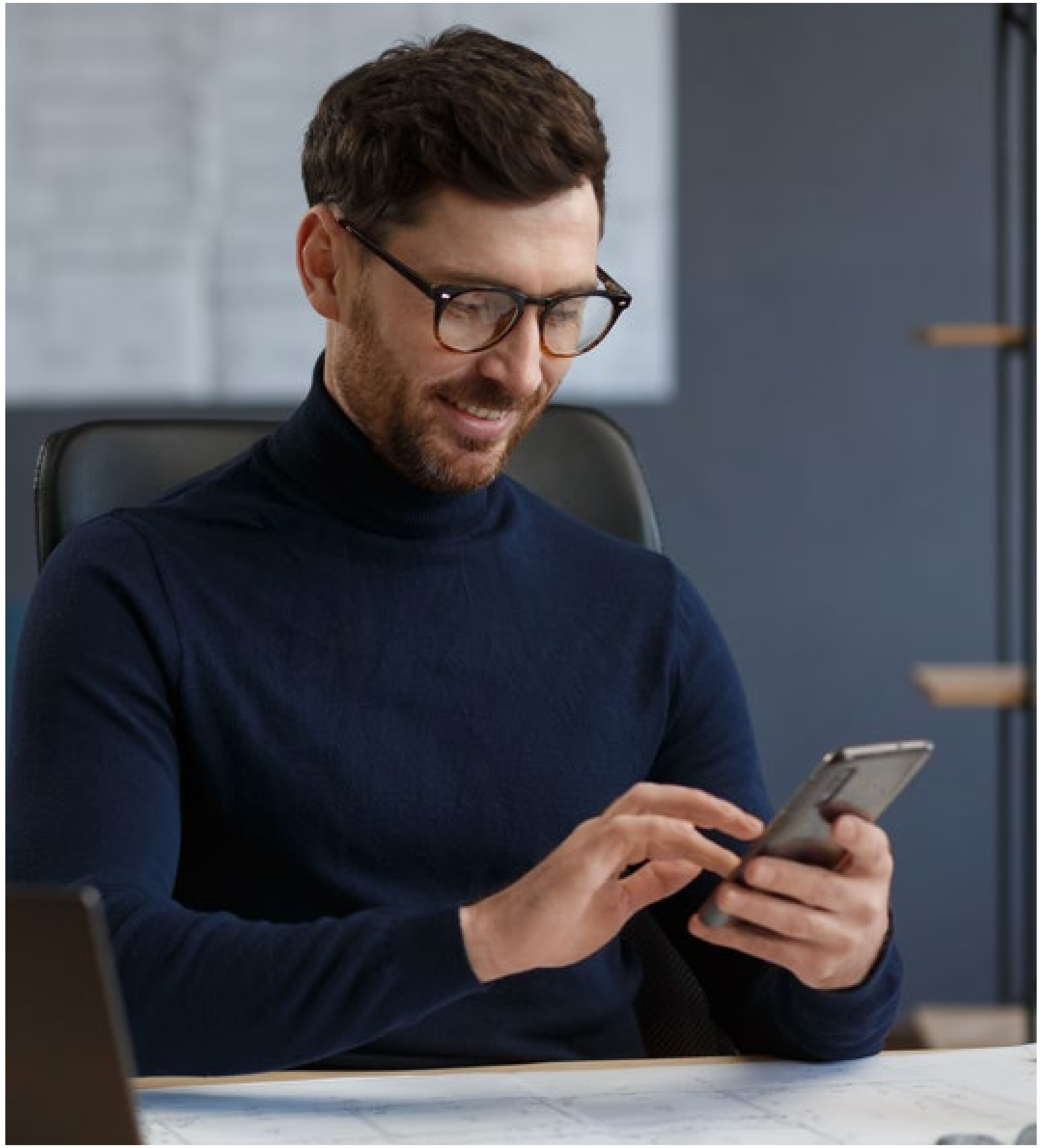
"Lookback period" shortened from 5 years to 3 years

The first of these amendments to the "lookback period" is to shorten same from 5 years to 3 years. This amendment will only be effective for distributions made on or after 1 January 2026. Therefore, where distributions were made since 1 January 2025 and where distributions are made between now and 31 December 2025 (inclusive) it will continue to be necessary to apply the lookback period for 5 years, not 3 years.

Clarification that the term "business" and "assets used for the purposes of another business" for "lookback period" purposes does not include share capital

The second type of amendment to the "lookback period" is aimed at clarifying that the acquisition of certain assets (i.e. shareholdings) by a foreign company within the proposed 3 years should not prevent that foreign company from qualifying as a "relevant subsidiary" for Participation Exemption purposes.

As noted above, the "lookback period" conditions mean that Participation Exemption



will not be available if the dividend/ distribution making company, at any time during the previous 5 years (soon to be 3 years), 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'. The Act now defines such an asset or business acquisition as an "excluded acquisition".

There was uncertainty as to whether or not the term "business" or "assets used for the purposes of another business" included shareholdings. If it did then the mere acquisition of shareholdings by the foreign subsidiary within the lookback period could render it incapable of qualifying as a 'relevant subsidiary' such that the exemption would not be available.

The Act provides that that an "excluded acquisition" does not include the acquisition by a company of share capital in another company. This amendment has retrospective effect and applies in relation to distributions made from 1 January 2025.

This amendment will afford some companies greater comfort than they would have had heretofore that they can now meet the qualifying criteria. However, there remains significant scope to improve the regime for it to meet the stated policy objective of being a broad, simple and straightforward regime to operate.

Post Finance Act 2025 it will remain necessary to consider the 3 year "lookback period" in relation to any other asset acquisitions (except share capital) by the foreign subsidiary. This exercise will need to be undertaken each year prior to a dividend/distribution being made to the Irish parent by the foreign subsidiary. It is unfortunate that the opportunity was not taken in the Act to finally resolve the "lookback period" issues entirely.

Irish residence and the "lookback period"

Since its introduction in Finance Act 2024, the definition of "relevant territory" for Participation Exemption regime purposes has included *"an EEA state other than the State"*. This definition meant that Ireland was and remains excluded from the definition of 'relevant territory'. Prior to the Act, the result of this was that any transfers of a business, part of a business, or the assets used for the purpose of another business from an Irish company to a foreign subsidiary or the involvement of an Irish resident company in a cross-border merger with the foreign subsidiary during the "lookback period" could result, on the face of it, in the conditions for a "relevant subsidiary" not being met by the foreign subsidiary. However, similar transfers from EU Member States other than Ireland would not have had the same result. This was an anomalous outcome.

This issue has since been resolved with retrospective effect to 1 January 2025 via the Act. The definition of 'relevant territory' remains as originally drafted; however, the issues have been dealt with via a combination of the revised definition of 'relevant subsidiary' and the newly defined concept of an 'excluded acquisition'. As a result of these amendments, acquisitions by a foreign subsidiary from an Irish resident company are no longer harmful when considering asset/business acquisitions during the "lookback period".

In addition, to the extent a company was resident in Ireland prior to becoming resident in a relevant territory that period of residence in Ireland is allowable for "lookback period purposes". This amendment also has retrospective effect from 1 January 2025.

3. Technical amendments

New and pending Treaty territories – now deemed 'relevant territory' for three years prior to signing of Treaty

Discussions took place at TALC in 2025 on the "lookback period" as it related to entities resident in territories with which a tax Treaty has recently come into force or has recently been signed but is not yet in force. The question that arose was whether or not a company already incorporated in such a territory at date of signing must wait the full "lookback period" before distributions from same can be considered eligible for Participation Exemption. A welcome amendment has been made in the Act which brings clarity to this issue. The amendment deems a territory to be a 'relevant territory' from the date that is 3 years prior to the date of the treaty arrangements having been entered into. This amendment has effect for distributions made on or after 1 January 2026.

Territories with no domestic law concept of tax residence

A further technical amendment was made to cater for Treaty territories where the concept of tax residence is not relevant under that the domestic law in that territory. That amendment confirms that Treaty residence is sufficient for the purposes of satisfying the "resident for the purposes of foreign tax" test. This amendment has effect in relation to distributions made from 1 January 2026. Some clarity may need to be sought in relation to the practical need for the foreign tax in such a Treaty territory to be one which generally applies to income 'arising' in that territory in the context of foreign tax systems.

Distribution deductible for foreign equivalent of close company surcharge remains eligible

A distribution will not be excluded from scope of Participation Exemption eligibility solely as a result of it being deductible for the purposes of calculating a foreign tax or surcharge which is similar to the close company surcharge in section 440 of the TCA 1997. This issue was raised at TALC and is a welcome confirmation in legislation. The amendment will have effect in respect of distributions made on or after 1 January 2026. Some clarity may need to be given in relation to the wording as currently proposed – this may be given via guidance.

Key actions businesses can take today

Whilst disappointing that the "lookback period" looks set to remain for now, the amendments mean groups should:

- Reassess eligibility for participation exemption over the shortened timeframe as acquisitions of assets/business by the foreign subsidiary more than 3 years before the distribution will no longer be relevant from 1 January 2026.
- Reassess eligibility for participation exemption where doubt existed heretofore for the group because of historic share acquisitions by the foreign subsidiary during the "lookback period". Share capital acquisitions are now entirely irrelevant

for "lookback period" purposes with retrospective effect from 1 January 2025.

- Reassess eligibility for participation exemption where doubt existed heretofore for the group as a result of asset/business acquisitions by the foreign subsidiary from an Irish resident company during the "lookback period". Acquisitions of any business or asset from an Irish resident entity is now confirmed as being irrelevant for "lookback period" purposes with retrospective effect from 1 January 2025.
- Consider whether any distributions from non-relevant territory resident subsidiaries likely to suffer non-refundable withholding tax at a rate greater than 0%. If so, Participation Exemption potentially now available.

We are here to help you

The Participation Exemption regime as first introduced in Finance Act 2024 whilst welcome, it requires careful management. The proposed amendments in Finance Act 2025 resolve some of the practical issues with the regime. With proper protocols and procedures in place, it is possible to readily demonstrate on a year-by-year basis that the criteria are satisfied such that the Participation Exemption can have the potential to be a valuable relief for your group.

We are here to discuss what the changes mean for your group and to help you maintain ongoing eligibility for the relief year-to-year.

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Domestic and International Large Corporates

05

What will Finance Act 2025 mean for large corporates?

As expected, there are few surprises in Finance Act 2025 ("the Act"). The Act provides further details on the measures announced in the Minister for Finance's Budget Day speech. The measures legislated for continue to demonstrate Ireland's commitment to being an attractive and competitive business location for multinationals and large corporates.

The key large corporates measures introduced include:

- Modest amendments to the participation exemption for foreign dividends;
- Further enhancements to the research and development (R&D) tax credit;
- The introduction of a stamp duty exemption for share transfers in publicly traded Irish SMEs;
- Technical amendments to Pillar Two legislation;
- Amendments to the intellectual property capital allowances legislation;
- Amendments to tax reliefs applying to Ireland's digital games and visual effects industries (film relief and digital games relief);
- Amendments to a number of VAT rates; and
- Miscellaneous legislative updates.

Participation Exemption for certain foreign distributions

The participation exemption on foreign distributions was first introduced last year in Finance Act 2024. Finance Act 2025 proposes modest improvements to, and technical amendments of, the participation exemption regime.

The main changes proposed in the Act are as follows:

- **Territorial expansion** from distributions of entities resident in a 'relevant territory' (i.e. EEA, Treaty or Treaty-pending territories) to now also include distributions from entities resident in a territory in which foreign tax is charged and paid directly on the distribution made by that entity at a rate greater than 0%. That tax must not be repaid to any person. This new category of territory is referred to as a 'specified territory'.
- **Shortening of the "lookback period"** during which a foreign relevant subsidiary must not have acquired a "business" or "assets used for the purposes of another business" from non-relevant territory resident companies. The lookback period for any such excluded acquisition has been shortened from five years to three years, with effect from 1 January 2026.
- **Clarification** that an "excluded acquisition" does not include the acquisition of share capital when considering acquisitions made by the foreign relevant subsidiary during the "lookback period". Nor do acquisitions from a company resident in Ireland need to be considered. In addition, to the extent a company was resident in Ireland prior to becoming resident in a relevant territory, that period of residence in Ireland is allowable for "lookback period" purposes. These clarifications have retrospective effect to distributions made from 1 January 2025.
- **Technical amendments** include one which deems new or pending Treaty territories to be a 'relevant territory' from the date that is three years prior to the date of the treaty arrangements having been entered into. A further technical amendment was made to cater for Treaty territories where the concept of tax residence is not relevant under the domestic law in that territory. This amendment confirms that the treaty residence is sufficient for the purpose of satisfying the "resident for the purposes of foreign tax" test.

Overall, the proposed changes represent a modest expansion of the territorial scope of the regime and a moderate relaxation of the restrictions imposed by the lookback period. The changes represent an improvement on the status quo, which should allow some companies to be more assured that they can now satisfy the qualifying criteria. However, there remains significant scope to improve the regime for it to meet the stated policy objective of being a broad, simple and straightforward regime to operate.

For further details, please refer to our Participation Exemption insight.

Research and Development tax credit

The Act delivers meaningful improvements to Ireland's R&D regime, with the headline credit rate rising from 30% to 35% for accounting periods ending on or after 23 December 2026 and the first-year minimum payment threshold increasing from €75,000 to €87,500, providing a welcome boost for smaller claims.

The Act also introduces a targeted simplification measure for claiming labour costs for employees that spent a high proportion of their time on qualifying R&D activities. The rules permit companies to treat 100% of an employee's salary and emoluments as qualifying where the employee spends at least 95% of their time on eligible R&D activities. This change helps simplify the position where employees are dedicated to R&D activities with an immaterial amount of time spent on administrative and non-R&D tasks. Similar principles are adopted in R&D tax credit regimes in some other jurisdictions.

The Act includes a provision to extend the R&D tax credit available on the construction of a building or structure that might not otherwise meet the conditions to be eligible for the credit. This may include the construction of a laboratory that does not qualify for industrial buildings allowances where it is not embedded in a manufacturing environment. The extended provision does not include expenditure incurred on any part of the laboratory for use as an office or for any purpose ancillary to the purpose of an office. As a result, it is likely that this will only apply to the specialised area of a laboratory.

Separate to the Act enhancements, a forthcoming R&D Compass publication is expected to further enhance aspects of the R&D regime to align with industry practice. It is also hoped that this compass will set the pathway for the development of broader innovation supports. This compass has not been released as part of the Finance Act publications, but is expected in the coming weeks.

Stamp Duty market capitalisation exemption

The Act introduces a new exemption for transfers of shares in Irish companies that are admitted to trade on regulated markets, multilateral trading facilities (MFTs) or non-EU markets that are equivalent to regulated markets or MFTs where the market capitalisation of the company is less than €1 billion.

The market capitalisation of the company for a calendar year is based on its closing market capitalisation on 1 December in the preceding year. For the exemption to apply to a company's shares for a particular year, the company or the operator of the relevant market, or both, must notify the Revenue Commissioners of the company's sub-€1 billion market capitalisation. The exemption will then apply from 1 January of the particular year, or 14 days after the notification date, whichever is later.

In conjunction with the introduction of this exemption, the existing exemption for shares admitted to trading on Euronext Growth is to be abolished.

These changes will take effect from 1 January 2026.

Please refer to our Stamp Duty insight for further information.

Pillar Two

The Act gives effect to DAC 9, the EU's directive extending cooperation and information exchange in respect of minimum effective corporate taxation. In practice, DAC 9 establishes a mandatory, standardised Top-

Up Tax Information Return (TIR) — the EU equivalent of the OECD's GloBE Information Return — to be filed in one EU Member State, as opposed to multiple filings across different EU countries. It also introduces a system where TIRs will automatically be exchanged among tax authorities within the EU.

The Act also legislates for the OECD Administrative Guidance, released in January 2025. Groups should review the January 2025 updates to identify any changes that may impact their Pillar Two position.

Finally, the Act recognises the OECD Multilateral Competent Authority Agreement (MCAA), which provides for the automatic exchange of information with respect to the filing of top-up tax information returns between Pillar Two-implementing jurisdictions around the world, which Ireland signed in August 2025.

A number of technical amendments were also made to ensure that the Pillar Two legislation operates as intended.

Please refer to our Pillar Two insight for further details.

Group Payments

Currently, payments can be made between group companies without the deduction of tax provided certain conditions are met. One condition is that the companies must be part of a group with at least 51% ownership. Currently, when determining whether such a group exists, any share capital held, directly or indirectly, in a company not resident in a relevant Member State/EEA State, or in the UK is disregarded.

The Act expands this rule to also include share capital held, directly or indirectly, in a company that is tax resident in any country with which Ireland has a double tax treaty, meaning such shareholdings will no longer be disregarded when assessing group membership.

Interest deduction on loans from connected companies

The anti-avoidance provision contained in Section 840A TCA 1997 has been amended to allow an interest deduction on connected party borrowings used to purchase assets from a connected company subject to certain conditions. The intra-group sale must be carried out for bona fide commercial purposes, the seller must have been entitled to a deduction for interest payable on a loan used to acquire the relevant asset immediately prior to the intra-group sale and the lender must be in either Ireland, the EU or a jurisdiction with which Ireland has a tax treaty. The Act allows for an interest deduction for the acquirer of the asset calculated by reference to the principal outstanding on the relevant borrowings of the seller prior to the intra-group sale, (or where there was a similar previous asset transfer by reference to the principal outstanding in the first seller). There has also been an expansion of the existing exemption for group lenders whose sole business is the on-lending money from unconnected parties to the buyer. The Act expands this relief to situations where the lender holds shares in the borrower or multiple borrowers.

Intellectual property capital allowances

Section 291A TCA 1997 provides for capital allowances for companies that incur capital expenditure on the provision of certain intangible assets for the purpose of a trade. The allowances are ring-fenced for offset against trading income generated by those assets. The deduction is capped at a maximum of 80% of relevant trading profits each year, but any unused allowances can be carried forward to future accounting periods.

The Act provides for amendments to how balancing allowances, which arise on certain events such as the disposal or transfer of the asset, can be used. The Act clarifies that the 80% cap will also apply to any balancing allowances arising under Section 288. The amendment applies to any event that triggers a balancing allowance and which occurs on or after 8 October 2025.

The following clarifications will take effect from 1 January 2026:

- The “excess amount” of allowances, which are unallowed due to the imposition of the ring-fencing provisions and 80% cap, are regarded as having been made in the first accounting period that they were subject to the restriction.
- Capital allowances will be available for the transferee under Section 284 in respect of the acquisition of a specified intangible asset where reliefs in respect of a group reconstruction or intra-group transfer under Section 615 or Section 617 apply, and the acquisition occurs on the transfer of a trade under Section 400.
- In cases where a company transferring a trade under Section 400 has excess Section 291A allowances or excess interest brought forward, these may also be transferred to the successor company, provided all necessary conditions are satisfied.

Visual effects and digital games

Film Tax Credit

The Act enhances Ireland’s Section 481 Film Tax Credit regime to allow for a specific Visual Effect (VFX) measure. Productions with a minimum of €1 million in eligible expenditure on relevant visual works in the state will now benefit from an enhanced Section 481 tax credit of 40%. The 40% rate will apply to eligible expenditure up to a maximum of €10 million per visual effects project.

Eligible expenditure in excess of €10 million will qualify for the Section 481 tax credit at the standard rate of 32%. As this enhancement will form part of the existing Section 481 Film Tax Credit, it will also be subject to the existing sunset clause of 31 December 2028.

The introduction of the credit is subject to a ministerial commencement order.

These updates reinforce Ireland’s commitment to supporting the screen industry and maintaining its competitiveness as a global production hub.

Digital Games Tax Credit

The Digital Games Tax Credit, first introduced in Finance Act 2021, is being extended by six years to 31 December 2031. The credit is also being enhanced to allow for claims in respect of post-release content work, subject to certain conditions. The extension is subject to a ministerial commencement order.

The extension of the credit to include post-release content work will only be available where the original game has availed of the credit. The game must have been released to the public in advance of any claim for post-release content, and the credit will be available in respect of qualifying expenditure for a maximum of three years post-release.

The Act provides for a change to the definition of qualifying expenditure to clarify that, for corporation tax purposes, the expenditure must be allowable as a deduction in computing, or against, the income of the trade of developing digital games.

A number of technical amendments were also made to ensure that the section operates as intended. The amendments are subject to a ministerial commencement order.

These enhancements aim to broaden the scope of the relief and support Ireland's ambition to become a leading centre for digital game development.

Country-by-Country Reporting

Section 891H, which relates to Country-by-Country Reporting (CbCR), has been amended to provide additional clarifications in relation to the application of the rules. Among others, the updates clarify that CbCR reports must also be prepared in accordance with OECD CbCR implementation guidance, which was published in May 2024.

As a further helpful clarification, the Act has legislated for specific circumstances where the OECD guidance provides flexibility to jurisdictions for the purpose of applying the €750 million threshold for determining whether a group is within the scope of the CbCR requirements.

Green action

The Accelerated Capital Allowances scheme for certain energy efficient equipment, gas and hydrogen vehicles and refuelling equipment has been extended for a further period of five years until 31 December 2030.

Please refer to our Climate / Energy measures insight for further details on Green actions and incentives.

Interest regime consultation

On 7 October 2025, the Government published an action plan for the reform of Ireland's taxation regime for interest. The first phase of the new action plan will focus on the underlying framework for the taxation and deductibility of interest in Ireland, with publication of a feedback statement for consultation expected on 21 November 2025, followed by an outline of draft legislation in April 2026. While this will be a welcome development for many large corporates operating in Ireland, concrete reform is needed immediately to simplify Ireland's taxation regime for interest to ensure it is aligned with international best practice.

Please refer to our Policy insight for further details.

Consultation on withholding tax

It was also announced on Budget Day that a joint Department of Finance and Revenue public consultation will be launched soon in relation to withholding taxes. We look forward to this consultation.

E-invoicing

It was announced on Budget Day that Revenue will begin a three-phase rollout of domestic electronic invoicing arrangements for business-to-business transactions, building on agreed EU-wide reforms under the VAT in the Digital Age (ViDA) package. The phased rollout will see Large Corporates as first to adopt e-invoicing and real-time reporting for domestic business-to-business transaction in November 2028, followed by all VAT-registered businesses engaged in cross-border EU business-to-business trade in November 2029.

Please refer to our VAT insight for more information.

Public Country by Country Reporting

The EU's public Country by Country Reporting (pCbCR) Directive applies to both EU and non-EU based large multinational corporations ("MNCs") operating through a branch or subsidiary, from accounting periods beginning on or after 22 June 2024. However, some countries have early reporting dates or have applied the Directive for earlier accounting periods – see PwC's EU pCbCR Tracker for full details of requirement.

A common template for reporting by EU based MNCs was published in December 2024, and with reporting due next year (within 12 months of balance sheet date), companies should begin considering the technical aspects of pCbCR, focusing on what information needs to be disclosed and how it will be presented.

Miscellaneous measures include:

- The Stamp Duty Residential Development Scheme has been extended and enhanced.
- The introduction of an enhanced corporation tax deduction in respect of certain construction costs on apartments.
- The definition of a "large scale asset" for the purpose of the interest limitation rules has been updated for relevant references to the Planning and Development Act 2014.
- A new exemption from corporation tax in respect of rental income arising from properties in the Cost Rental Scheme.
- A reduction of the VAT rate from 13.5% to 9% on the sale of completed apartments.

We are here to help you

Finance Act 2025 comes at a time where there is still considerable uncertainty in the global economy. The Act contains many important changes that will have implications for domestic and international corporations.

Our tax team is available to help you understand how these changes will impact your business. Get in touch today.

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Financial Services

06

What does Finance Act 2025 mean for the financial services industry?

Finance Act 2025 ("the Act") is a broadly constructive package for financial services taxpayers that modernises the code, supports investment and in part makes a number of necessary surgical changes.

On balance, most measures will be welcomed by financial services taxpayers. The participation exemption reforms, coupled with the introduction of a targeted dividend withholding tax exemption on payments made to regulated partnerships in particular, significantly enhance the Irish product suite in an asset management context. A notable disappointment is the changes made to Section 840A. While the Act does provide a carve-out to disapply the interest restriction where certain connected-party loans meet lender-taxation and commercial purpose criteria, the amendment does not go far enough to address the practical constraints that Section 840A imposes on ordinary group financing, refinancing and asset reorganisation transactions.

Overall, while not substantive, the remainder of the Act contains measures that will be welcomed for enhancing certainty, competitiveness and administrative clarity across the tax code.

Key measures introduced in the Act from a financial services perspective are as follows:

Dividend Withholding Tax exemption for payments to regulated partnerships

The Act brings into legislation a long-awaited dividend withholding tax exemption for payments from Irish companies to an Irish-regulated investment limited partnership (ILP) or an EEA-equivalent partnership. The exemption will be available where:

- the partners are beneficially entitled to at least 51% of the ordinary share capital in the dividend paying company;
- the ordinary share capital of the dividend paying company is an asset of the ILP/ equivalent; and
- the investment limited partnership has provided the dividend paying company with the relevant declaration to state it is such an ILP/equivalent.

The interaction with the recently amended outbound payment rules will require further clarification in the context of widely held funds. However, clarification that the ILP will constitute the beneficial owner for the purpose of making the necessary declarations is welcome. Overall, a very positive development for the Irish collective investment product suite — particularly for private assets.

Participation Exemption Regime

The Act introduces a series of technical amendments to the dividend participation exemption regime established by Finance Act 2024. These amendments represent incremental steps toward enhancing the regime and aligning it more closely to international holding company standards.

Collective Investment Scheme carve-out

The Act introduces a targeted enhancement to the collective investment scheme (CIS) carve-out within anti-reverse hybrid rules. To improve the operational attractiveness of the Investment Limited Partnership (ILP), it facilitates a look-through approach via one or more "relevant company" when assessing whether an ILP holds a "diversified portfolio of assets" for purposes of the CIS carve-out. In addition, the Act increases the maximum permitted holding in a single issuer from 10% to 20% where the CIS carve-out is being applied.

Pillar Two and securitisation entities

The Act helpfully clarifies that orphan-owned entities that are fully consolidated into a multinational entity (MNE) group are considered to be "minority owned constituent

entities" (MOCEs) for Pillar Two purposes. The legislation further confirms that a securitisation entity that is a MOCE shall calculate its top-up tax in line with the MOCE provisions (i.e. on a standalone basis), but any resulting top-up tax will be allocated to the other Irish entities that are not securitisation entities.

Although this aligns with the previous interpretation of OECD rules, it is a positive development for the Irish securitisation industry and those entities in scope as it offers certainty of the level of tax to be applied at the securitisation entity level.

Leasing amendments

Section 840A was introduced in Finance Act 2011 to counter perceived base erosion through intra-group asset transfer and financing arrangements that generated Irish interest deductions. Its broad drafting captured assets such as aircraft and loans, inadvertently impacting genuine commercial transactions and group reorganisations.

Revenue later issued eBrief 11/11 to carve out certain assets — such as those used in leasing trades — but its removal late last year has created uncertainty, particularly for the leasing sector where intra-group transfers are common.

The Act introduces a new subsection to Section 840A, providing a carve-out from interest restrictions where specific conditions are met:

- the seller must have borrowed to acquire the asset and claimed a tax deduction in Ireland on the associated interest immediately prior to the intra-group sale;
- the lender must be taxable in Ireland, the EU or a DTA country; and
- the loan must be commercially motivated, not tax-driven.

Importantly, the buyer's deductible interest calculated by reference to the seller's outstanding principal immediately before the sale (or where there was a similar previous asset transfer by reference to the principal outstanding in the first seller). Where only part of the seller's borrowings relate to the asset, a "just and reasonable" apportionment is allowed. This presents practical challenges, especially in tracing historic debt and accommodating commercial financing structures. It may also lead to inequitable outcomes in Irish-to-Irish transactions that were not the original intent of the legislation. There has also been an expansion of the existing exemption for group lenders whose sole business is the on-lending of money from unconnected parties to the buyer. The Act expands this relief to situations where the lender holds shares in the borrower or multiple borrowers.

The new rules apply to transfers of assets within the scope of Section 840A that take place on or after 1 January 2024, thus opening the door to potential self-corrections in respect of transfers in 2024. The full impact of this retrospective application is potentially far-reaching and generates significant uncertainty for taxpayers given that the eBrief was withdrawn late in the year

These revisions add complexity at a time when a broader consultation is expected to simplify the interest regime. Given the evolved tax landscape and existing anti-avoidance rules, the continued relevance of Section 840A is increasingly questioned, and this latest amendment is seen as a missed opportunity for reform.

Retail investment

The tax rate on payments made from Irish funds, equivalent offshore funds, as well as Irish and foreign life assurance policies to Irish individual investors (i.e. exit tax and life assurance exit tax) has been lowered from 41% to 38% with effect from 1 January 2026. While we had hoped that the eight-year deemed disposal rule would be abolished and that the exit tax and life assurance exit tax rates would be fully aligned with the 33% rate of capital gains tax (CGT) in this year's Act, it is hoped that the reduced exit tax is but a first step and that the 2026 roadmap announced in Budget 2026 will provide a clear timeframe to address and implement the remaining recommendations in the 'Fund Sector 2030' Report.

Technology and innovation

Ireland is well-positioned to be a leading innovator in the global financial services industry by harnessing our position as both a leading financial services hub and the extensive digital skills within our economy, linked to the presence of some of the largest technology companies in the world. The stepped-up R&D credit (to 35%) with cleaner payment mechanics, clearer continuity and carry-forward rules for specified intangible assets in reconstruction scenarios are all welcome in this context.

These measures, in addition to a refinement of the Special Assignee Relief Programme (SARP), signal a clear intention to optimise Ireland's tax system for international investment both in the financial services space and beyond.

Crypto-Asset Reporting Framework (CARF)

The OECD's CARF ushers in a new era of automatic exchange of information for crypto-assets, closing long-recognised transparency gaps as activity shifts away from traditional intermediaries. DAC 8 introduces new tax transparency rules for crypto-assets within the EU, adopting the CARF for that purpose.

Ireland has implemented DAC 8 through the Act, with the first reporting under CARF due by 31 May 2027 in respect of the 2026 reporting period. Reporting Crypto-Asset Service Providers (RCASPs) must register with Revenue by 31 December 2026.

The CARF provides for the automatic exchange of tax relevant-information on crypto-assets. An individual or entity is deemed to be a RCASP if, as a business, it provides a service effectuating exchange transactions for, or on behalf of, customers in respect of relevant crypto assets. Notably, CARF requires transaction-level reporting and imposes several due diligence obligations on RCASPs.

Entities and individuals should now assess whether they should be viewed as RCASPs under CARF and begin upgrading systems and processes to effectively manage obligations.

Common Reporting Standard (CRS) 2.0

In addition to implementing the CARF, and following a comprehensive review by the OECD, DAC 8 also adopted the changes to CRS/DAC 2.

These amendments are designed to capture emerging financial assets and products that serve as alternatives to traditional offerings, and to bring additional entities within the scope of the CRS. Among other updates, enhanced due diligence obligations have been introduced as well as several changes to the reporting obligations.

Other financial services measures

Exempt unit trusts

Chargeable gains accruing to exempt unit trusts may no longer be treated as wholly exempt from CGT where the units in the EUT are held by an investment undertaking.

Auto-enrolment and investment undertakings

Participants in an auto-enrolment scheme have been added to the list of Irish investors exempt from exit tax on payments from Irish investment undertakings.

Foreign body corporates

A new Section 1009A provides that a foreign body corporate and its members will be chargeable to tax on the basis that the foreign body corporate is a partnership, where it is substantially similar to an Irish partnership. This amendment provides legislative clarity to taxpayers. However, it may interact with several other tax provisions relevant to cross-border structures which should be monitored as we move through the legislative process.

Bank levy

The bank levy has been extended for another year with changes to the base year and the rate. The levy to be charged in 2026 will be based on the eligible deposits held by each relevant institution as at the end of 2024 (previously 2022). The rate of levy applied to the base has been changed from 0.112% to 0.1025% for 2026, to achieve the target yield of €200 million.

Life assurance

No reference was made to the 1% life assurance levy, which the industry hopes will be abolished off the back of the recommendations included in the Funds Sector 2030 report. However, the implementation plan refers to 'detailed consideration' being given to the recommendations in this area.

As noted, however, the exit tax rate on life assurance policies will be reduced from 41% to 38%.

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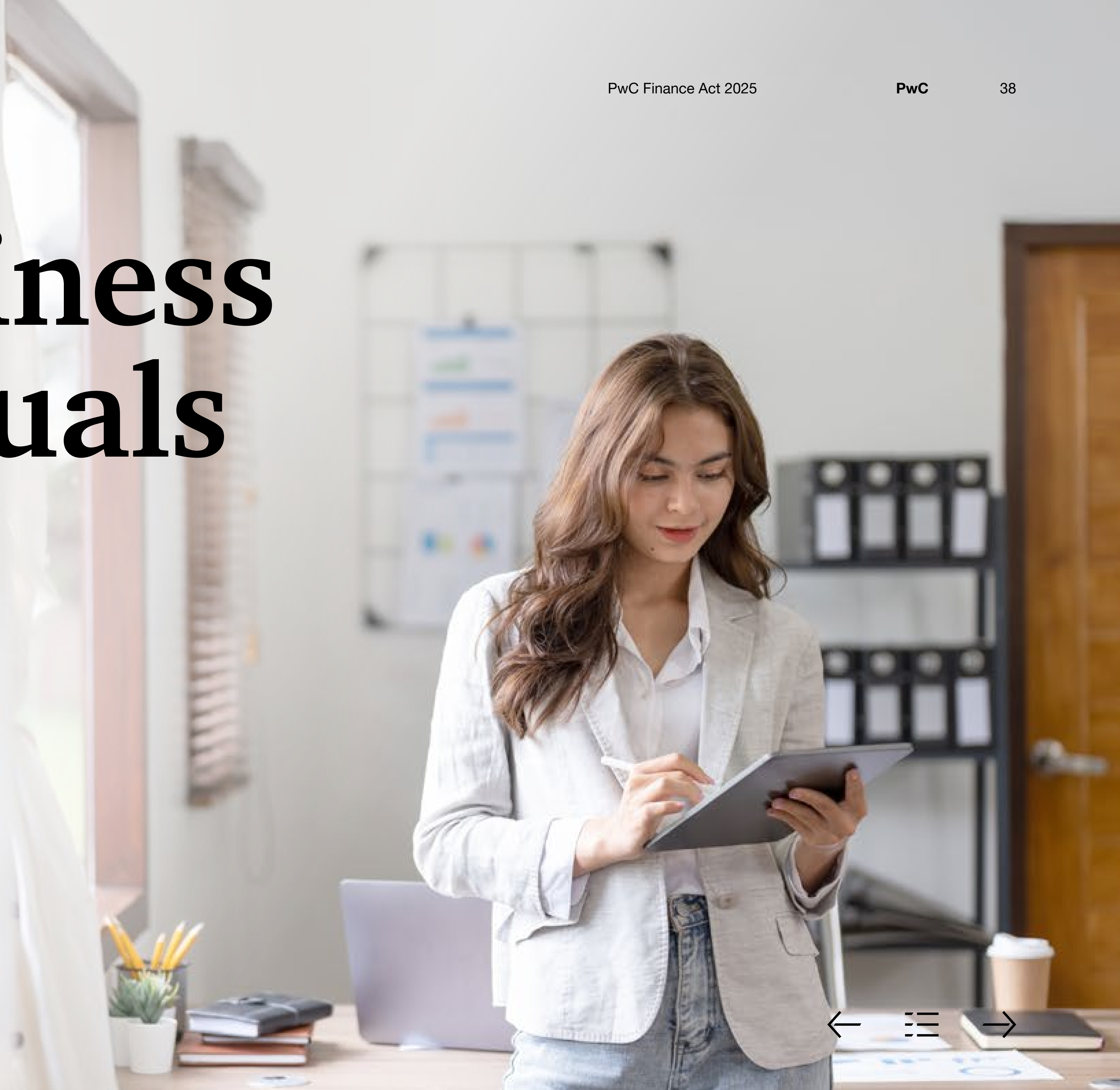
Private Business and Individuals

07



What Finance Act 2025 means for Private Business

Finance Act 2025 seeks to encourage entrepreneurs from a Private Business perspective with incentives such as the increase in Entrepreneur Relief as well as a reduction in the tax rate on offshore funds.

The key private tax measures introduced in Finance Act 2025 ("the Act") include:

- An increase in the lifetime limit for entrepreneur relief from €1million to €1.5million.
- A reduction in the income tax rate on income and gains arising on certain offshore funds from 41% to 38%.
- Extension of the KEEP scheme to end of 2028.
- Changes to what is deemed to be an "excepted asset" for the purposes of CAT Business Relief as well as to the clawback rule where the full sales proceeds are not reinvested.
- Extension of the charge to CAT in certain instances where an individual disposes of their interest in a life assurance policy.
- Extension on the accelerated allowances for energy efficient equipment to 31 December 2030 and for slurry storage to 31 December 2029.
- Extension of the Digital Games Tax Credit to 31 December 2030 and clarification of definition of eligible expenditure.
- Enhancement of the Film Tax Credit by increasing the rate from 32% to 40%.
- Enhancement of the Farm Restructuring CGT relief to include commercial and non-commercial woodlands.
- Reduction in the VAT rate from 13.5% to 9% for hospitality, hairdressing and supply of completed apartment units.
- A new provision regarding the taxation of foreign body corporates that are substantially similar to Irish partnerships.

Entrepreneur Relief

The Act proposes an increase in the Entrepreneur Relief ("ER") lifetime chargeable gain threshold from €1million to €1.5million. The increase in this lifetime chargeable gain threshold will come into effect from 1 January 2026. The Act provides that any chargeable gains arising between 1 January 2016 – 31 December 2025 on which ER was claimed will be capped at €1million for the purposes of calculating the available threshold for chargeable gains realised from 1 January 2026.

VAT reduction

The reduction in the VAT rate for food and catering businesses, hairdressing services, and sale of completed apartments will be relevant for Private Business. Further details of the changes are included in the VAT section.

Taxation of Offshore Funds

The Act proposes to reduce the current income tax rate on payments/gains from Irish Investment Undertakings and certain equivalent offshore funds from 41% to 38%. The rate change will also apply to Exchange Traded Funds (ETFs) that are subject to tax under this regime, including Irish domiciled ETFs.

Key Employee Engagement Programme (KEEP)

It is proposed that KEEP is extended to 31 December 2028. This extension is subject to state aid approval. The scheme was due to cease at the end of 2025. The conditions of KEEP remain unchanged.

Accelerated Capital Allowances

There has been an extension to the Accelerated Capital Allowances schemes for energy efficient equipment, gas, hydrogen vehicles and refuelling equipment for trading purposes from 31 December 2025 until 31 December 2030. Accelerated allowances for capital expenditure incurred on slurry storage has also been extended from 31 December 2025 until 31 December 2029.

Digital Games Tax Credit

There has been an extension to the Digital Games Tax Credit from 31 December 2025 until 31 December 2031. In addition, the definition of "qualifying expenditure" has been amended to provide clarification that for corporation tax purposes, the expenditure must be allowable as a deduction in computing the income of the trade of developing digital games.

Film Tax Credit

The Film Tax Credit has been enhanced by increasing the tax credit rate from 32% to 40% for productions with a minimum value of €1million and a maximum value of €10million of eligible expenditure on relevant visual effects work. Eligible expenditure more than €10million will still be subject to the 32% rate. This section is subject to a ministerial commencement order.

Farm Restructuring Relief

There has been an amendment to the Farm Restructuring relief from CGT to extend the relief such that it applies to the sale, purchase and exchange of commercial woodland and non-commercial woodland that is used for sustainability and biodiversity purposes. There has also been an extension to the deadline for completion of the first restructuring transaction to 31 December 2029. These amendments are subject to a ministerial order.

Donations to Certain Sports Bodies

A number of changes were introduced in relation to the rules on donations to certain sports bodies. These include:

- an individual's decision about whether to claim the relief themselves or give it to the approved sports body being irrevocable; and
- it will now be necessary to provide additional information to Revenue when claiming a deduction against income tax.

The Act also introduces a provision providing that a donation will not affect the calculation of maximum tax relieved pension contributions.

CAT Business Relief

Under current legislation, Capital Acquisitions Tax (CAT) Business Property Relief is not available on assets that were not used wholly or mainly for the purpose of the business prior to the gift/inheritance. These assets are known as "excepted assets" for CAT purposes. The Act introduces a provision providing that an asset will also not be an excepted asset at the date of the gift or inheritance if it was required to be used for a specific purpose of the business concerned within the subsequent six-year period. If the asset in question is not used for that purpose within six years, Business Relief will be withdrawn on that asset, unless it can be demonstrated to the contrary that the asset is to be used for the purposes of the business. It appears this may have been introduced on foot of recent Tax Appeal Commission determinations.

It is further proposed, in relation to gifts/inheritances taken after 1 January 2026, that where property on which Business Relief was claimed is disposed of within six years and the full proceeds are not reinvested in other property that would qualify for Business Relief, the relief will be clawed-back.

Where the property is disposed of for less than full consideration, the "full proceeds" will be deemed to be equal to its market value immediately before the disposal.

CAT – Life Assurance Policies

Currently, a charge to CAT will not arise on a gift/inheritance of a life assurance policy until:

(i) the policy matures,

(ii) is surrendered to the insurer for consideration, or

(iii) the insurer otherwise makes a payment under the policy.

The Act proposes that where an individual disposes of their interest in the policy before any of the aforementioned events occur, a charge to CAT will arise at the time of the disposal. The amendment will apply to a disposal of a policy of assurance on or after 1 January 2026.

Taxation of Foreign Body Corporates

This new section provides that a foreign body corporate and its members will be chargeable to Irish tax on the basis that the foreign body corporate is a partnership, where the foreign body corporate has similar characteristics to an Irish partnership and the rights and obligations of its members are substantially similar to the rights and obligations of partners of an Irish partnership.

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Employment and Individual Taxes

08

What Finance Act 2025 means for Employers and Individuals

From an employment and personal tax standpoint, the majority of the legislative actions contained in Finance Act 2025 are aligned with announcements made on Budget Day. Budget 2026 did not feature broad ‘across-the-board’ income tax cuts, instead it provided more targeted reliefs with an extension to some important reliefs.

The key employment and individual tax measures introduced in the Act include:

- Special Assignee Relief Programme (SARP) has been renewed for a further five years, with an increase to the minimum income threshold to €125,000 from 2026. There has been some relaxation in the requirement to ensure the employer certification is completed within 90 days of the individual’s arrival in the State. This point is discussed in further detail below.
- Foreign Earnings Deduction (FED) relief will be increased to €50,000 from 2026, extended for a further five years and its scope has widened to include the Philippines and Turkey.
- Company Car BIK: the current €10,000 company vehicle OMV deduction has been extended by 1 year into 2026. It will then reduce to €5,000 in 2027 and €2,500 in 2028 before being abolished from 2029.
- A new vehicle category for zero emission cars will apply with BIK rates of between 6% - 15% from 2026. The threshold for entering the highest mileage band (where a lower BIK rate applies), has been permanently reduced from 52,001km to 48,001km from 1 January 2026.
- There is an increase to minimum wage, adding €0.65 cents per hour to bring it to €14.15 per hour.
- A small tweak in USC bands, increasing the ceiling of the 2% rate by €1,318 to €28,700 to ensure that full time workers on the minimum wage remain outside the higher rates of USC.
- The USC concession for individuals with a full medical card and income of less than €60,000 has been extended to 2027.
- The Rent Tax Credit has been extended for three years to the end of 2028. The value of the credit remains unchanged at up to €1,000 per person.
- Mortgage Interest relief was extended for a further two years (2025 and 2026) - with a reduced value applying in the final year (2026).
- PRSI increases already took effect as of 1 October 2025, with further increases legislated through 2028.

SARP

The Special Assignee Relief Programme (SARP) has been renewed for a further five years, with an increase to the minimum income threshold to €125,000 for those arriving in Ireland on or after 1 January 2026.

There has also been a noteworthy administrative amendment which provides that the employee will qualify for the relief where the employer certification is made after 90 days but within 180 days from the employee’s date of arrival in the State. However, relief will be restricted to a maximum of four consecutive tax years. In essence, the first year of relief will be lost but claims can be made for years two-five. Under existing provisions, where the employer certification is not made within the current 90 day window, SARP relief is not available for any year.

The annual employer end of year SARP return deadline has also been extended to 30 June in respect of the 2025 tax year and subsequent years.

The extending measures announced will ensure the relief remains of significant benefit to employers in the relocation of key employees to Ireland.

Company Car BIK Changes

The current €10,000 company vehicle OMV deduction previously introduced as a temporary cost of living measure has been extended by one year into 2026. It will then reduce to €5,000 in 2027 and €2,500 in 2028, being abolished from 2029.

A new vehicle category for zero emission cars will apply with BIK rates of between 6% - 15% from 2026. Additionally, the lower mileage limit in the highest mileage band which applies to employer-provided cars will remain at 48,001km permanently.

Foreign Earnings Deduction

Foreign Earnings Deduction (FED) relief will be increased to €50,000 from 2026. FED is also extended for a further five years and the scope has widened to include the Philippines and Turkey. An amendment was made at Report Stage to remove the Russian Federation from the scope of the relief for years of assessment 2026 onwards.

In addition, the definition of a “qualifying day” is amended to remove the requirement for an individual to spend three consecutive days working in a relevant state. However, it also provides that the relief will not be available where an individual chooses to spend time working in a relevant state for personal reasons.

Rent Tax Credit

The Rent Tax Credit has been extended for three years to the end of 2028. The value of the credit remains unchanged at up to €1,000 per person.

We are here to help you

Finance Act 2025 comes at a time of increased costs and significant compliance obligations for employers. October 2025 has seen a further planned increase in employer PRSI and 1 January 2026 will trigger the introduction of auto-enrolment. From an employee perspective, the increased PRSI rates will negate the marginal increase to USC bands, resulting in a net reduction in net take-home pay in most cases.

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Climate Change / Energy Transition

09

What Finance Act 2025 means for Climate Change and Energy Transition

Finance Act 2025 ("the Act") contains a limited number of tax measures focused on incentivising investment in the green transition, but it is disappointing that more targeted policy measures were not introduced. For example:

- In line with the Tax Proposals under the Clean Industrial Deal, the introduction of targeted tax measures to incentivise and mobilise the private investment needed for renewable energy, broader decarbonisation and circular economy projects, including the requisite supply chain. This is critical for Ireland to make meaningful progress on the reduction of carbon emissions (including our exposure to significant financial penalties for failing to meet our EU climate targets), to improve energy security, to sustain economic growth and to drive competitiveness in the Irish market.
- Expansion of the accelerated capital allowances regime for investment in energy efficient equipment and simplification of the existing provisions to encourage greater uptake, and
- Integration of sustainability metrics into the suite of property incentives to encourage low carbon construction methods / investments.

The key climate measures introduced in the Act include:

- An extension of the accelerated capital allowances schemes for certain energy efficient equipment, gas and hydrogen vehicles, and refuelling equipment to 31 December 2030.
- In relation to Benefit-in-Kind (BIK) for company cars, a new vehicle category for zero emission cars will apply with BIK rates of between 6-15% from 2026.
- BIK rules for company cars in categories A to D and vans are also updated to extend the temporary universal relief, on a tapered basis, for a further three years to 31 December 2028.
- Extension of the €400 income tax exemption for the sale by households of electricity back to the grid from micro-generation for three more years, until the end of 2028.
- The reduced 9% VAT rate on gas and electricity, which is due to expire on 1 November 2025, has been extended until 31 December 2030.
- The €5,000 vehicle registration tax (VRT) relief for battery electric vehicles has been extended until 31 December 2026.
- The relief for Natural Gas Carbon Tax and Solid Fuel Carbon Tax where gas or fuel used for the generation of electricity has been narrowed.

Accelerated Capital Allowances – Energy Efficient Equipment, Gas & Hydrogen Vehicles and Refuelling Equipment

Accelerated capital allowances allow for a 100% first-year capital allowance deduction in respect of expenditure incurred on certain approved energy efficient equipment, gas and hydrogen-powered vehicles and refuelling equipment used for the purposes of a trade. The Act amends Section 285A and 285C TCA 1997 by extending the availability of this relief by a further five years to 31 December 2030.

Benefit-in-Kind (BIK) for Zero-Emission Company Cars - New Category

To encourage investment by employers in zero emission cars, from 1 January 2026 there will be a new vehicle category (A1) for zero-emission, employer-provided cars. BIK on category A1 cars will be calculated at reduced rates of between 6% and 15% of the cars original market value (OMV), depending on business mileage.

BIK on Lower-Emissions Company Cars and Vans

In calculating the taxable benefit of company cars in categories A to D and vans, the OMV can be reduced by €10,000 (temporary universal relief). This provision was due to expire on 31 December 2025 but has been extended to 31 December 2028 on a tapered basis. The relief will remain at €10,000 for 2026, reducing to €5,000 for 2027 and €2,500 for 2028. Company cars in the new category A1 can also avail of the temporary universal relief.

Finally, the lower mileage limit in the highest mileage band will remain at 48,001 km permanently.

Income Tax disregard for the Micro-generation of Electricity

The Micro-generation Support Scheme (MSS) allows homeowners to sell any excess electricity they produce from solar panels back to the grid. In line with section 216D TCA 1997, an income tax, PRSI and USC exemption is available for the first €400 of income earned in this manner. This measure was due to expire on 31 December 2025 but has now been extended to 31 December 2028.

VAT Rate on Gas and Electricity

The current temporary reduction (from 13.5% to 9%) of the VAT rate applicable to gas and electricity was due to expire on 1 November 2025. This temporary reduction has been extended to 31 December 2030. Please see further details in our VAT insight.

VRT relief for electric vehicles

The Act extends the remission or repayment of Vehicle Registration Tax of up to €5,000 for battery electric vehicles, including electric motorcycles, to 31 December 2026.

Narrowing of relief for NGCT and SFCT where gas or fuel used for the generation of electricity

The reliefs from Natural Gas Carbon Tax and Solid Fuel Carbon Tax, where the gas/fuel is used for the generation of electricity, have

been narrowed to apply only where used to generate electricity in installations holding a greenhouse gas emissions permit. This is to enter into effect by way of ministerial commencement order.

We are here to help you

Whether you are concerned about the impact of the Finance Act changes on your business or you would like to seek tax advice around investments in renewable energy, energy efficiency or circular economy projects, our Energy, Utilities and Resources tax group is here to support you. Contact us today.

The Irish and global green tax and incentive landscape is constantly evolving as Governments continue to use tax policy to influence behavioural change, mobilise private investment and encourage innovation for the development of new clean technologies.

At PwC, we guide clients through the tax implications of decarbonisation and net zero strategies. Leveraging our global network, we quantify the impact of environmental and energy taxes on your business and help you identify, apply, and comply with various environmental and energy incentives tied to decarbonisation efforts.

For more information, please access our dedicated webpage here.

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10 Infrastructure

What does Finance Act 2025 mean for the real estate sector?

Finance Act 2025 (“the Act”) includes a range of measures that will impact the taxation of the real estate sector, a number of which are intended to address the “viability gap” between what it costs to build an apartment and what a buyer is willing to pay.

Measures include a reduction in the VAT rate, from 13.5% to 9%, on the sale of completed apartments and the introduction of an enhanced corporation tax deduction in respect of certain construction costs on apartments.

The key real estate measures introduced in Finance Act 2025 include the following:

- A reduction of the VAT rate from 13.5% to 9% on the sale of completed apartments.
- The introduction of an enhanced corporation tax deduction in respect of certain construction costs on apartments.
- A new exemption from corporation tax in respect of rental income arising from properties in the Cost Rental Scheme.
- An extension of the Residential Development Refund Scheme to 31 December 2030. This scheme provides for a refund of 11/15 of the stamp duty paid on a conveyance of land that is subsequently developed as residential property.
- A number of amendments have been made to the Residential Zoned Land Tax, including additional exemptions and deferrals.
- The rental tax credit available for a principal private residence will be extended for a further three years to 31 December 2028.
- The one-year mortgage interest tax relief for homeowners has been extended for another two years, such that interest tax relief is available in respect of the increase in mortgage interest paid in 2025 and 2026 (with tapering) versus interest paid in 2022.
- The income tax deduction available for landlords carrying out retrofitting activities on their properties has been extended for a further three years to 31 December 2028.
- The Living City Initiative, which provides tax relief for expenditure incurred on refurbishing or converting residential or commercial properties in designated “special regeneration areas”, will be subject to several amendments, including an increase in the scope of the scheme and an extension of its duration to 31 December 2030.

VAT on the sale of new apartments

From 8 October 2025 there was a reduction in the VAT rate from 13.5% to 9% for the sale of completed apartments (including apartments already under development).

In addition, from 26 November 2025 the 9% rate was extended to also apply to the sale of land which will be used for apartments and the construction of apartments. These amendments extend the benefit of the 9% rate to forward fund contracts.

Enhanced corporation tax deduction

In another measure intended to boost the supply of apartments, an enhanced corporation tax deduction will be introduced in respect of certain construction costs incurred on both the new development of apartments and conversion of existing properties (e.g. conversion of non-residential property, such as retail property, to apartments).

The enhanced deduction will be available for projects comprising of ten or more apartments, provided certain requirements in respect of both the apartment block and the individual apartment are met. This enhanced deduction will be available for projects where a commencement notice is submitted between

8 October 2025 and 31 December 2030 (inclusive).

The measure will allow an additional deduction of 25% on certain “hard” costs incurred (i.e. a total deduction of 125% of the cost) up to a maximum enhanced deduction of €50,000 per apartment unit.

Cost Rental Scheme: Exemption from corporation tax

There will be a new exemption from corporation tax in respect of rental income arising from properties in the Cost Rental Scheme.

This exemption will apply to all developments that are first designated by the Minister as falling within the scheme on or after 8 October 2025.

Stamp Duty

The Residential Development Refund Scheme, which provides for a refund of 11/15 of the stamp duty paid on a purchase of land that is subsequently developed as residential property, is to be extended to 31 December 2030. For multi-phase developments, it will be possible to claim the entire refund once the first phase commences. In addition, the current 30-month time limits that apply to the scheme (time from purchase to commencement of development, and time from commencement to completion) are to be extended to 36 months for “large-scale residential developments”, as defined in the Planning Acts.

Residential Zoned Land Tax

The Residential Zoned Land Tax (RZLT) was introduced in Finance Act 2021 and applies to owners of serviced and undeveloped land that has been zoned for residential use. For land that is within the scope of the regime, an annual 3% tax applies based on the market value of the land at the valuation date.

In 2026, landowners will have the opportunity to have their land rezoned to avail of an exemption from RZLT if they seek to have their land rezoned to reflect genuine economic activity being carried out.

An exemption is also being provided from RZLT during An Coimisiún Pleanála proceedings brought by a third-party in relation to a grant of planning permission in respect of a relevant site. This had previously taken the form of a deferral.

Relief for renters

The annual tax credit available on principal private residences will be extended for a further three years to 31 December 2028. The value of the credit will remain at a maximum of €1,000 per single individual and €2,000 for married couples.

Mortgage interest relief

The mortgage interest tax relief for homeowners has been extended for another two years, such that interest tax relief is available in respect of the increase in mortgage interest paid in 2025 and 2026 (with tapering) versus interest paid in 2022.

This relief is available to LPT-compliant homeowners who have an outstanding mortgage of €80,000 to €500,000. Relief will be available at the standard rate of income tax, with the maximum relief capped at €1,250 per property for 2025 and €625 per property for 2026.

Certain anti-avoidance provisions apply for acquisitions of residential property from connected parties.

Retrofitting

The income tax deduction available for landlords carrying out retrofitting activities on their properties has been extended for a further three years to 31 December 2028.

The relief will also now be allowed to be claimed in respect of the year in which the expenditure occurred and the number of properties for which landlords can claim the relief in respect of is being increased from two to three. The relief available is the lower of €10,000 or the amount incurred on the retrofitting works.

Living City Initiative

The Living City Initiative, which provides tax relief for expenditure incurred on refurbishing or converting residential or commercial properties in designated "special regeneration areas" (i.e. in Cork, Dublin, Galway, Kilkenny, Limerick and Waterford), will be subject to several amendments including an extension of its duration to 31 December 2030 and an increase in the scope for residential properties from those built before 1915 to those built before 1975.

The scheme will also be amended to support the use of "over the shop" premises for residential purposes and where the works are carried out by enterprises. The maximum amount of relief available will be increased from €200,000 to €300,000. The designated "special regeneration areas" will also be expanded to include Athlone, Drogheda, Dundalk, Letterkenny and Sligo. The relief on qualifying expenditure incurred on or after 1 January 2026 can now be claimed over two years at a rate of 50% per annum. The period over which unused relief may be carried forward is extended from seven years to ten years.

We are here to help you

1. **Take action now**

   The Irish tax system is complex and ever-changing. The Finance Act brings new and improved incentives to maximise tax savings for your business. Please reach out to your PwC contact to find out how we can help.

2. **Consider the impact on your business**

   The proposed legislative changes will likely have an impact on your organisation. PwC's tax team is available to help you and your business understand how these changes will impact your business.

The PwC real estate tax team has significant experience in all aspects of the market, working closely with both property developers and investors alike, and would be happy to discuss any of the amendments outlined above.

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Stamp Duty

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Finance Act 2025 - Stamp Duty amendments

Finance Act 2025 ("the Act") contains a number of changes announced in Budget 2025, including the introduction of a new exemption for transfers of shares in Irish listed companies with small market capitalisations, an extension to, and enhancements of, the Residential Development Refund Scheme, and extensions to the Bank Levy and certain farming reliefs. It also includes a few other minor amendments that were not announced on Budget day.

The key measures included in the Act are:

- A new exemption for transfers of listed shares in Irish companies with market capitalisations of less than €1 billion (and the abolition of an existing exemption for shares admitted to trading on the Euronext Growth market).
- An extension of the Residential Development Refund Scheme to 31 December 2030, and enhancements to the scheme which extend timelines for "large-scale residential developments" and provide a cash flow benefit for certain developments.
- Helpful amendments to existing land anti-avoidance provisions.
- Retention of the bank levy for another year.
- Extensions of the Young Trained Farmer relief and the Farm Consolidation Relief to 31 December 2029 and a minor enhancement to the latter.
- Some technical and minor amendments.

Listed companies valued below €1 billion - new exemption

The Act introduces a new exemption, originally announced in Budget 2025, but formally announced in Budget 2026.

The exemption will apply to transfers of shares in Irish companies, that are admitted to trading on regulated markets, multilateral trading facilities ("MTFs"), or non-EU markets that are equivalent to regulated markets or MTFs (all "relevant markets"), where the market capitalisation of the company is less than €1 billion.

The market capitalisation of the company for a calendar year is based on its closing market capitalisation on 1 December in the preceding year, i.e., if a company's closing market capitalisation on 1 December 2025 is less than €1 billion, its market capitalisation will, for the purposes of the exemption, be treated as less than €1 billion for all of 2026.

In order for the exemption to apply to a company's shares for a particular year, the company, or the operator of the relevant market, or both, must notify the Revenue Commissioners of the company's sub-€1 billion market capitalisation as at the preceding 1 December, and the exemption will then apply from 1 January of the particular year, or 14 days after the notification date, whichever is later.

Where a company is admitted to trading after the 1 December valuation date, its shares can still be eligible for the exemption where the expected market capitalisation upon admission is less than €1 billion and a notification of such is made to Revenue.

As the €1 billion test is an annual test, annual notifications by companies with 1 December market capitalisations below €1 billion will need to be made to Revenue for the exemption to continue to apply.

The exemption is aimed at supporting Irish capital markets and helping indigenous businesses to expand internationally.

In conjunction with the introduction of this exemption, the existing exemption for shares admitted to trading on Euronext Growth (formerly the Enterprise Securities Market) is to be abolished. Therefore, while the new exemption may be welcomed by many, it may negatively impact the trading of shares in companies with market capitalisations over €1 billion that are listed on Euronext Growth, and the shares of which are currently exempt from stamp duty.

The new exemption will take effect, and the old exemption will be abolished, on 1 January 2026. The exemption will remain in place until 31 December 2030.

Residential Development Refund Scheme

As part of the numerous measures to combat the housing crisis, the Residential Development Refund Scheme is to be extended and enhanced.

Firstly, the scheme, which provides for a refund of 11/15 of the stamp duty paid on a conveyance of land that is subsequently developed as residential property, is to be extended to 31 December 2030.

In addition, the current 30-month time limits that apply to the scheme (the time limit for construction operations to commence following acquisition of the land, and the time limit for the development to be completed after construction has commenced) are both to be extended to 36 months for "large-scale residential developments". The definition of "large-scale residential development" is linked to definitions in the Planning Acts, and currently means a development including:

a. 100 houses or more;

b. 200 student beds or more;

c. a mix of 100 houses or more and student accommodation; or

d. a mix of 200 student beds and houses,

In each case, such houses / student beds making up at least 70% of the floor space of the buildings comprising the development.

When Section 82 of the Planning and Development Act 2024 is commenced, the definition will also require the development

to be wholly outside a strategic development zone, wholly outside an urban development zone, and wholly outside a candidate UDZ.

The time limits for developments that are not “large-scale residential developments” will remain unchanged at 30 months.

Lastly, for multi-phase developments, it will be possible to claim the entire 11/15 refund once the first phase commences. Currently, where a development is commenced in phases / under more than one commencement notice, the refund can only be claimed phase by phase (or all together once the final phase commences), so this enhancement should create a cashflow benefit for developers of multi-phase developments.

The amendments will come into effect on the date of passing of Finance Act 2025.

While these changes are to be welcomed, the restriction of the extended time limits to “large-scale residential developments” is not ideal, and an extension of the time limits to 48 months for all multi-unit developments would have gone further to assist developers. In addition, there are no changes to the 75% coverage test, which is very difficult to satisfy for low density / housing estate developments.

Amendments to land anti-avoidance provisions

The anti-avoidance provisions contained in Sections 31A, 31B and 50A of the Stamp Duties Consolidation Act, 1999 (“SDCA”) impose a charge to stamp duty on certain instruments (which would not otherwise be stampable) related to land transactions when 25% of the consideration or market value of the land is paid. As stamp duty is usually payable by reference to the date an instrument is executed, but the stamp duty charge under these sections can arise months, or even years, after execution of the instrument, the eStamping system currently incorrectly applies surcharges and interest where a stamp duty return is filed in respect of an instrument that has become stampable under Section 31A, 31B or 50A. These sections are to be amended to deem the date the 25% mark is breached as the date of execution of the instrument, such that the eStamping system should no longer apply surcharges and interest where they should not be applicable. The changes will bring the legislation in line with current Revenue practice, and will be effective from the date of passing of the Finance Act.

Bank levy – further extension

The bank levy is to be continued for another year to the end of 2026, with a target yield of €200m. This levy will apply to Allied Irish Banks, Bank of Ireland, EBS and Permanent TSB, and will be calculated at a rate of 0.1025% of relevant deposits held by these banks on 31 December 2024.

Farming relief extensions

The stamp duty reliefs for transfers of farms to young trained farmers, and for farm consolidations, which are due to expire on 31 December 2025, are to be extended to 31 December 2029. In addition, the farm consolidation relief is to be expanded to include woodland not occupied on a commercial basis, where the woodland is to be retained for conservation purposes.

The amendments to the farm consolidation relief is subject to a ministerial commencement order.

Technical and other amendments

A minor amendment is being made to the wording of the residential property stamp duty rates in Schedule 1 SDCA, which is currently open to a potential misinterpretation that certain purchases of residential property could be stampable twice.

There are some small changes being made to the levy on health insurance contracts, with regard to the date at which the age of the insured party should be calculated, and to provide for the insurer to obtain a partial rebate of the levy where an insurance contract is commuted during a year. The effective date of these levy changes is 1 April 2027.

Key actions businesses can take today

Listed companies with market capitalisations below €1 billion or listed on Euronext Growth

We have already seen market interest in this exemption, so companies with market capitalisations below €1 billion should consider how to communicate to the markets that their shares will qualify for the exemption, and how to increase interest in the trading of their shares. For companies valued over €1 billion and traded on Euronext Growth, consideration will need to be given to the potential impact of the abolition of the Euronext Growth exemption on the trading of their shares.

Residential Development Refund Scheme

The changes to this scheme could mean that a development you thought might not qualify for a refund due to existing time limits might now actually qualify, so you should take a fresh look at the scheme in the context of recent land acquisitions / developments. For those engaging in multi-phase developments, the accelerated cash flow benefits of making a claim once the first phase commences should be considered.

We are here to help you

Many of the stamp duty changes introduced over the last few years, including the changes in this year's Finance Act, are complex and nuanced, requiring detailed consideration.

Our stamp duty team would be happy to help guide you through this difficult area of tax, and we have significant experience in dealing with the Revenue Commissioners on complicated stamp duty matters.

We also have significant experience in assisting clients with determining the entitlement to refunds and making the actual refund claims under the Residential Development Refund Scheme, and would be happy to help you with your claim.

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Pensions

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What Finance Act 2025 means for Pensions

Finance Act 2025 introduces new annual reporting requirements for Qualifying Fund Managers (QFMs), requiring them to submit specific details to Revenue for each Approved Retirement Fund (ARF) they manage, with the first return due by 31 March 2027.

In addition, a number of changes to the tax treatment for the Auto-Enrolment (AE) savings system have been introduced. These changes will come into effect from 1 January 2026 and relate to:

- The tax treatment of AE retirement savings upon a participant's death, amended so that it now aligns with the treatment applied to Approved Retirement Funds (ARFs).
- The tax treatment of employer contributions to AE, amended so that employer contributions are now exempt from both tax and USC.
- The tax treatment of AE investments, amended so that income and gains of AE funds held by an AE provider are now exempt from tax.

Annual return requirements for Qualifying Fund Managers (QFMs)

Section 13 of Finance Act 2025 ('the Act') adds a new section 784BA to Part 30 of the TCA 1997, requiring QFMs to submit an annual return by electronic means to Revenue for each Approved Retirement Fund they manage. This requirement applies for the 2026 year of assessment and for every subsequent year. The first report is due by 31 March 2027 covering the 2026 year of assessment. Failure to file will result in a fixed penalty of €3,000.

Auto-Enrolment (AE) Updates

The Department for Social Protection has confirmed that AE, also known as My Future Fund, will be introduced on 1 January 2026.

AE contributions will be phased in over a 10-year period, starting with initial rates of 1.5% employer, 1.5% employee, along with a government top-up. Unlike other pension schemes, employee contributions to the AE scheme do not qualify for tax relief.

Section 14 of the Act repeals Section 14 of Finance Act 2024, which had not been commenced, with a reinserted version containing certain amendments provided under Section 15 of the Act.

Similarly, Section 16 of the Act repeals Section 15 of Finance Act 2024, which had also not been commenced, with a reinserted version containing certain amendments provided under Section 17 of the Act.

The amendments under Section 15 and Section 17 address the following and come into effect on 1 January 2026 subject to the passing of the Act:

1. The tax treatment of AE retirement savings upon the participant's death

Amendments have been made such that the tax treatment of AE retirement savings upon a participant's death now aligns with that of Approved Retirement Funds (ARFs). Upon death, proceeds will be dealt with as follows:

- Where proceeds are inherited by a spouse or civil partner the proceeds will be exempt from income tax and Capital Acquisitions Tax (CAT)
- Where the proceeds are inherited by a child under 21 the proceeds will be exempt from income tax but liable to CAT
- Where the proceeds are inherited by a child over 21 the proceeds will be subject to 30% income tax and exempt form CAT
- For all other beneficiaries the proceeds will be subject to both income tax and CAT.

2. The tax treatment of employer contributions to AE

Employer contributions qualify for corporation tax deduction. There was a BIK exemption for employer contributions to the AE system, but no exemption for USC. This amendment has now introduced a USC exemption for employer contributions to the AE savings scheme resulting in employer contributions to AE being exempt from tax and USC.

3. The tax treatment of AE investments

Regarding AE investments, there are existing exemptions from income tax on AE investment income earned by investment providers, as well as exemptions from Capital Gains Tax (CGT) and exit tax on investment undertakings.
To ensure the intended exemption applies consistently to all AE providers and the National Automatic Enrolment Retirement Savings Authority (NAERSA), the Act includes additional exemptions. As a result, income and gains of AE funds held by an AE provider will be exempt from tax.

We are here to help you

With the upcoming introduction of the Auto Enrolment (AE) Retirement Savings Scheme ("My Future Fund") on 1 January 2026, the pension landscape is becoming increasingly complex for both employers and employees to navigate.

PwC's blend of actuarial, taxation, investment and pensions expertise can support you to navigate this complexity and ensure you are fully prepared for the successful introduction and rollout of AE.

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VAT

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What Finance Act 2025 means for VAT

Finance Act 2025 includes a range of measures on VAT designed to boost housing supply and to support businesses and employment in the hospitality sector

The key VAT measures introduced in Finance Act 2025 ("the Act") include:

- Extension of the 9% rate on gas and electricity supplies to 31 December 2030
- Application of the 9% rate to the supply of food and drink supplied in the hospitality sector (excluding soft drinks and alcoholic beverages but including hot tea and coffee) from 1 July 2026
- Application of the 9% rate to the supply of hairdressing services with effect from 1 July 2026
- Application of the 23% rate on the hire of rooms in hotels and guesthouses for use other than as accommodation with effect from 1 January 2026
- A reduction of the VAT rate from 13.5% to 9% on the sale of completed apartments which took effect from 8 October 2025
- With effect from the date of passing of Finance Act 2025, removal of the VAT on property waiver of exemption provisions, meaning the cancellation of all waivers from that date
- Application of VAT exemption for the supply of financial services consisting of managing the Automatic Enrolment Retirement Savings System as provided for in legislation.
- Clarification of the date from which the statutory penalty for failure to comply with CESOP reporting obligations may be applied
- Amendment of the time period to be reviewed when assessing VAT registration requirements for farmers to align with all other businesses, as required by EU legislation
- Decrease in the farmers flat-rate compensation rate from 5.1% to 4.5% with effect from 1 January 2026

Building on agreed EU-wide reforms under the VAT in the Digital Age (ViDA) package, a three-phase rollout of domestic electronic invoicing arrangements for business-to-business transactions was also announced on Budget Day. This phased rollout will see large corporates as first to adopt e-invoicing and real-time reporting for domestic business-to-business transactions in November 2028.

The measures take effect from the date of passing of the Act unless stated otherwise below

VAT on the sale of new apartments

From 8 October 2025 there was a reduction in the VAT rate from 13.5% to 9% for the sale of completed apartments (including apartments already under development).

In addition, from 26 November 2025 the 9% rate was extended to also apply to the sale of land which will be used for apartments and the construction of apartments. These amendments extend the benefit of the 9% rate to forward fund contracts.

Extension of the reduced rate of VAT on Electricity and Gas

In a continued effort to alleviate energy cost pressures, the 9% rate of VAT applicable to supplies of electricity and gas (which had been due to expire on 31 October 2025) has now been extended until 31 December 2030.

Application of the 9% rate to certain supplies of food and drink supplied in the hospitality sector

VAT on supplies of food and drink supplied in the hospitality sector (excluding soft drinks and alcoholic beverages) will be reduced from 13.5% to 9% from 1 July 2026. This is a further measure designed to support businesses in the services sector and retain jobs.

Application of the 9% rate to supplies of hairdressing services

In another measure to support businesses in the service sector the VAT rate on hairdressing services will be reduced from 13.5% to 9% rate with effect from 1 July 2026.

Application of the 23% rate on the hire of rooms in hotels and guesthouses for use other than as accommodation

Current VAT legislation provides that the letting of a room in a hotel or a guesthouse is subject to VAT at the reduced rate of 13.5%. The Act provides that the 23% rate of VAT will apply from 1 January 2026 on the hire of rooms in hotels and guesthouses for use other than as accommodation.

Amendment to penalties for non-compliance with Central Electronic System of Payment Information (CESOP) obligations

The Act amends current VAT legislation to clarify that a penalty of €4,000 may be applied from the day after the filing date by which a Payment Service Provider is required to report data on certain cross-border payments.

A further penalty of €4,000 may be applied from the day after subsequent filing dates where the Payment Service Provider has still failed to report that data.

Flat Rate Farmer's Compensation Scheme

As announced in the Budget, the Act reduces the farmer's flat-rate compensation rate from 5.1% to 4.5% with effect from 1 January 2026.

Waiver of exemption

The waiver of exemption was a feature of the old VAT and property system in place up to 1 July 2008. From 1 July 2008 no new waivers of exemption could be made but pre-existing waivers could continue in force. The legislation provided that in the event of a cancellation of a waiver of exemption a potential VAT clawback could arise. This clawback was based on the difference between the VAT charged on the properties subject to the waiver and the VAT originally deducted. Following the High Court decision in *Killarney Consortium v Revenue Commissioners* [2024] IEHC 732, Revenue agreed in its Tax and Duty Manual that, with effect from 20 December 2024, they would no longer seek to collect any cancellation amount due.

The Act now provides that any pre-existing waivers will automatically be cancelled with effect from the date of passing of the Act. While no cancellation adjustment will arise, the cancellation will mean that ongoing lettings which had been subject to VAT will become VAT exempt. As a result, to preserve VAT deduction on costs incurred subsequent to the waiver the landlord should consider whether to opt to tax the letting.

Key actions businesses can take today

eInvoicing

Begin reviewing current processes to prepare for the VIDA changes coming into effect on 1 July 2030. The domestic electronic invoicing arrangement announced in Budget 2026 significantly advances the timetable for businesses to prepare for the integration of the new eInvoicing obligations into existing commercial processes.

Apartment sales

Evaluate contracts in respect of the sale of apartments to determine whether the 9% or 13.5% VAT rate applies. This includes contracts signed prior to 8 October 2025 (when the rate change took place) which have not yet closed.

Room hire in hotels

Hotels which are hiring out rooms other than bedrooms should consider their contracting and pricing as the hire of such rooms will be subject to VAT at 23% with effect from 1 January 2026.

Properties subject to waiver of exemption

Landlords should evaluate whether any properties are let on historic waiver of exemptions granted prior to 1 July 2008 as the waiver of exemption will cease from the date of passing of the Act. In such cases, consider opting to tax the letting to preserve VAT recovery.

We are here to help you

We work with a broad spectrum of clients across a variety of industries to deliver practical and effective VAT solutions. We would be pleased to discuss any of the VAT issues raised in this publication with you further so that we can assess the impact to your business and help you find practical solutions to comply with the new requirements that combine industry insight with first-class technical expertise. We can help to distil the Finance Act measures down to what they mean for you and/or your business. Please do not hesitate to get in contact with us to find out more.

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Trade and Customs

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What Finance Act 2025 means for Trade and Customs

Finance Act 2025 ('the Act') sets out a number of updates regarding tobacco products tax increases, modernisation of betting and gaming legislation, narrowing of certain carbon tax reliefs, and the extension of VRT relief for battery electric vehicles.

The key measures introduced include:

- An increase of €0.50 (inclusive of VAT) on a packet of 20 cigarettes from 8 October 2025, with pro rata increases for other tobacco products.
- Corresponding pro rata adjustments across fine-cut tobacco and other Tobacco Products Tax (TPT) categories with effect from 8 October 2025.
- The €5,000 Vehicle Registration Tax (VRT) relief for electric vehicles has been extended until 31 December 2026.
- Narrowing of Natural Gas Carbon Tax (NGCT) and Solid Fuel Carbon Tax (SFCT) reliefs for gas/fuel used for the generation of electricity so that these reliefs apply only when used to generate electricity in installations holding a greenhouse gas emissions permit.
- Update to treatment of betting duty to align with Gambling Regulation Act 2024.
- The Amusement Machine Licence Duty legislation has been repealed.

Tobacco Products Tax rate change

The Act confirms the increases to Tobacco Products Tax set out in Budget 2026 that entered into effect from 8 October 2025. These increases amount to an equivalent of €0.50 (inclusive of VAT) on a standard pack of 20 cigarettes. Pro-rata increases apply to other tobacco product categories.

VRT relief for electric vehicles

The Act extends the €5,000 remission or repayment of Vehicle Registration Tax for battery electric vehicles, including electric motorcycles, to 31 December 2026.

Narrowing of relief for NGCT and SFCT where gas or fuel used for the generation of electricity

The reliefs from NGCT and SFCT, where the gas/fuel is used for the generation of electricity, have been narrowed to apply only where used to generate electricity in installations holding a greenhouse gas emissions permit. To enter into effect by way of ministerial commencement order.

Align treatment of betting duty with Gambling Regulation Act 2024

A range of provisions have been introduced to align the treatment of betting duty, remote betting duty and betting intermediary duty in light of the new Gambling Regulation Act 2024.

Mineral Oil Tax ("MOT")

The Act introduces certification-based conditions for MOT carbon-charge relief on biofuels and vehicle biogas by defining the "appropriate procedure" and sustainability criteria in the legislation. A clawback of MOT carbon-charge relief is introduced where later determinations identify non-compliance. The Act also narrows the MOT electricity-generation relief to apply only where used to generate electricity in installations holding a greenhouse gas emissions permit.

Note: "The "appropriate procedure" for vehicle propellants is the Biofuels Obligation Scheme (BOS), and for non-vehicle propellants is the SEAI's Procedure for Verifying Sustainability of Biomass Fuels.

Repeal of Amusement Machine Licence Duty legislation

The Amusement Machine Licence Duty legislation has been repealed subject to a ministerial commencement order.

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15 Tax Administration and Revenue Powers

What Finance Act 2025 means for Tax Administration and Revenue Powers

Finance Act 2025 ("the Act") has extended Revenue powers in a number of areas, but most changes are relatively minor in nature. Perhaps the most significant is the new power for Revenue to issue estimates of income tax and corporation tax where the relevant returns have not been filed, similar to the existing power under the VAT legislation.

This change increases the importance of taxpayers filing returns on time and is likely to lead to higher levels of compliance.

Additionally, the Act allows Revenue to rely on a taxpayer's actions or failures to act when seeking to withdraw a tax advantage under its general anti-avoidance powers in Section 811C TCA 1997.

There are a number of practical measures which will help encourage compliance such as the ability for Revenue to issue electronic notices to individuals requiring them to make an income tax return and greater flexibility for income taxpayer's discharging their preliminary tax obligations by direct debit. Additionally, the Act provides that a chargeable person who files a return late can claim allowances, deductions or reliefs, except where the making of a late claim is expressly prohibited in the tax legislation.

The ability for Revenue to amend an assessment outside the normal statute of limitation period to give effect to an agreement reached under Mutual Agreement Procedures (MAPs) has been extended to MAPs conducted under a Tax Information Exchange Agreement (TIEA). This is a welcome change given that foreign Revenue Authorities are increasingly challenging tax positions which impact Irish tax assessments.

Finally, the Act amends the due date for tax due on an assessment that has been amended multiple times where the tax return does not contain a true and full disclosure. In this instance the additional tax will become due and payable from the original tax due date.

Key administrative measures introduced in Finance Act 2025:

- Strenghten Revenue's powers to raise assessments where income tax and corporation tax returns have not been filed.
- Revenue has wide ranging powers in respect of transactions to avoid tax which will be bolstered by the ability to withdraw a tax advantage which stems from a taxpayer's actions or failure to act.
- Enable Revenue to serve electronic notices on individuals to file an income tax return.
- Ensure that Revenue has the ability to amend assessments outside the normal statute of limitation to give effect to a mutual agreement reached under a MAP conducted under a TIEA.
- Provide greater flexibility for individuals availing of the direct debit preliminary tax facility to discharge their income tax liability.
- Amend the due date of tax due on an assessment that has been amended multiple times where the return is not a true and full disclosure to the original tax due date.
- Ensure that a taxpayer who files a return late can claim allowances, deductions or reliefs except where the making of a late claim is expressly prohibited in the tax legislation.

Income and Corporation Tax estimation for late returns

Section 31 of the Act increases Revenue's powers in relation to enforcing compliance and encouraging timely filing of tax returns. It is similar to the provisions already in place for VAT under Section 110 VATCA 2010. The section allows Revenue to issue a notice of estimated income tax or corporation tax payable where a chargeable person fails to deliver a return by the due date.

The estimated tax due will be the higher of either the average tax due from the taxpayer's two most recent returns or €1,000. This estimation of tax can be cancelled if the outstanding return is filed, along with payment of any tax, interest, penalties and surcharge due, or by notifying Revenue that the individual is not a chargeable person for that period. If the taxpayer does not file a return, the estimated tax due becomes payable as if the taxpayer had filed a return on the due date. This section builds on Revenue's existing power under Section 959AC and removes the requirement for a Revenue officer to form a judgment as to the amount of tax due.

Transactions to avoid liability to tax

Section 90 of the Act enhances Revenue's general anti-avoidance powers under Section 811C TCA 1997.

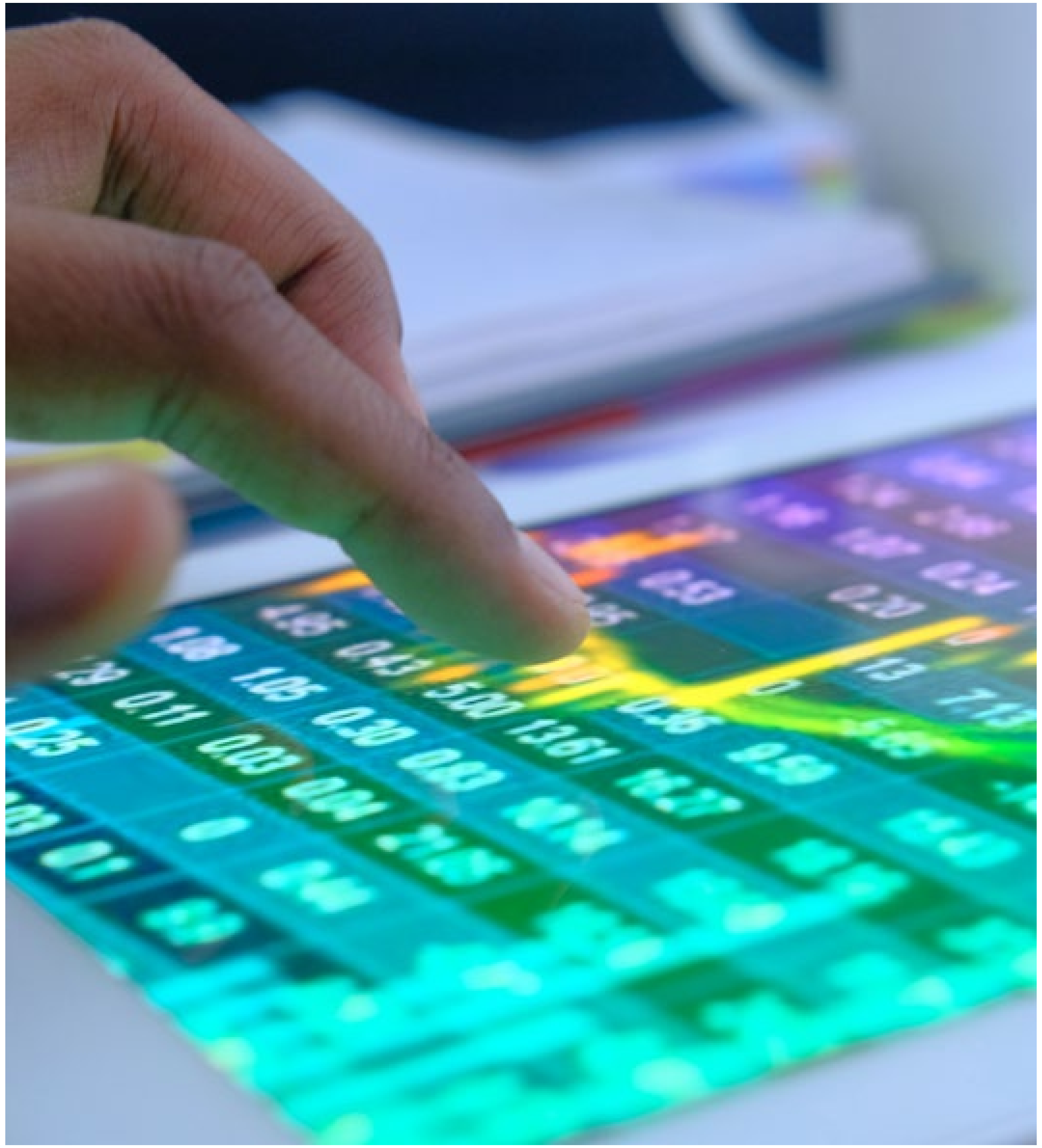
Beyond considering returns, declarations, statements, accounts, and claims submitted by an individual to secure a tax advantage, Revenue now has the authority to withdraw that tax advantage if it results from the individual's actions or omissions.

Service of Notice

Section 94 of the Act amends Section 869 TCA 1997 to enable Revenue to serve an electronic notice to an individual via MyAccount or ROS requiring them to deliver an income tax return. In order for the notice to be delivered electronically it must be sent to an email address or MyAccount and recorded by Revenue. Consent is also required from the taxpayer to receive electronic communications.

Time limit on assessment

Section 95 of the Act extends the power of Revenue to make or amend assessments outside the typical four-year period in order to give effect to a mutual agreement reached at the conclusion of a MAP process. The additional power means that mutual agreements reached following a MAP conducted under a TIEA can now be given effect after the four-year limit has elapsed; prior to this amendment, only MAPs under Double Taxation Agreements were covered.



Preliminary tax collection

Section 96 of the Act affords greater flexibility to taxpayers paying income tax via direct debit, by removing the requirement for the taxpayer to pay a minimum of three instalments in the first year and eight instalments per annum thereafter. In addition, the direct debit payments are no longer required to be debited from the taxpayer's bank account on the 9th of each month.

Date of payment for amended assessments

Section 97 of the Act amends Section 959AU TCA 1997 and applies where an assessment has been amended for a second or subsequent time, and where the amended assessment did not contain a full and true disclosure of all material facts before it was amended.

In those circumstances, the additional tax that arises from the amendment will be deemed due and payable on the same day as the tax was originally due under the assessment before any amendment was made.

Late filing on claims

Section 98 of the Act amends Section 959I TCA 1997 and provides that a chargeable person who files a return late can still claim allowances, deductions or reliefs in that late return, except where the making of a late claim is expressly prohibited by other provisions of the Acts.

We are here to help you

Our Tax Risk & Controversy team help individuals and companies deal with all aspects of tax risk prevention, Revenue interventions, appeals and Mutual Agreement Procedures. Our focus is on helping you to manage your tax risk, both prior to intervention or audit, as well as when Revenue formally intervenes. To talk to us about Revenue audits, tax appeals, Mutual Agreement Procedures and any concerns that you might have around risks in your business, please contact any member of our team.

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