Deloitte.

International Tax

Ireland Tax Alert

5 December 2012

2013 budget announced

Ireland’s 2013 budget was presented by the Finance Minister on 5 December 2012. This is the sixth successive budget as part of the fiscal adjustment process with a target increase of over EUR 1 billion in additional taxation to be raised in 2013, funded by taxes on consumption and property, increases in capital tax rates and reductions in certain allowances and benefits. The key measures being introduced are designed to stimulate the indigenous small and medium-sized enterprise sector. Measures of relevance to the foreign direct investment sector are outlined below.

Maintenance of corporation tax rate

The Minister reiterated that the government is fully committed to the 12.5% corporation tax rate. This commitment has been restated in every budget since the fiscal adjustment process began, demonstrating its importance to successive governments.

Personal tax incentives

There has been no increase to income tax rates again this year, which is in line with the Program for Government.

The Minister has taken the opportunity to extend the Foreign Earnings Deduction scheme, introduced in Finance Act 2012, to include work-related travel to a number of high growth economies in the African continent, namely Algeria, the Democratic Republic of Congo, Egypt, Ghana, Kenya, Nigeria, Senegal and Tanzania. The relief broadly removes the portion of income attributable to the foreign-based duties from Irish income tax.

This welcome amendment should encourage Irish companies to expand their global footprint into high growth developing economies where Irish investment has traditionally been week.

Contacts

Joan O’Connor
joconnor@deloitte.ie

Declan Butler
debutler@deloitte.ie

Deirdre Power
dpower@deloitte.ie

Daryl Hanberry
dahanberry@deloitte.com

Conor Hynes
chynes@deloitte.ie

Lorraine Griffin
lorgriffin@deloitte.ie

Paul Reck
preck@deloitte.ie

Dan O’Donovan
dodonovan@deloitte.ie

Olivia Waldron
owaldron@deloitte.ie

IGA with U.S. in relation to FATCA

The Minister announced that the Irish government has agreed to a new Inter-Governmental Agreement (IGA) with the U.S. in relation to the U.S. Foreign Account Tax Compliance Act (FATCA). This agreement has been under negotiation for a number of months and its conclusion means that Ireland will be one of the earliest countries to conclude such an agreement with the U.S. (Demark, Mexico and U.K. also have signed IGAs with the U.S.). The conclusion of this agreement should provide certainty to Irish financial institutions and assist them in meeting their compliance obligations under FATCA.

Aviation and aircraft leasing

Ireland traditionally has been a strong location for aircraft leasing activities.

The Minister has announced that he will be implementing measures, including a new tax depreciation regime over seven years, to facilitate the construction of additional hangers and ancillary facilities in Irish airports to further attract aviation sector businesses into Ireland.

The government also is examining the feasibility of new funding sources for airlines and aircraft financing and leasing companies. Detail of these measures is to be released shortly.

Film investment

A significant change has been announced to the film relief scheme.

Until now, film relief was available as a deduction against an investor’s income at his/her marginal rate of tax. This attracted high income individual investors, paying tax at the highest rates of income tax. Under the new regime to be effective in 2016 (full details of which are not yet available), there will be a move to a tax credit model, which will benefit film production companies, making Ireland a more attractive location for non-Irish film and TV productions. Individual investors will not benefit under the new regime.

The scheme will be extended from its current expiry date of 31 December 2015 to 2020.

Real Estate Investment Trust (REIT) regime

The Minister announced the establishment of a REIT regime in Ireland. This is a welcome development as such investment vehicles already are a feature of the investment landscape of many developed economies, such as the U.S. and U.K. A successful REIT regime should add additional liquidity to the Irish investment property market and potentially enable the Irish National Asset Management Agency to deleverage some of its property portfolio.

Capital gains tax

The rate of capital gains tax will increase from 30% to 33% with effect from midnight, 5 December 2012.

Tax on savings

The rate of deposit interest retention tax (DIRT), together with the exit tax on life assurance policies and investment funds, is being increased by 3% to 33% for payments made annually or more frequently and to 36% for payments made less frequently than annually. This change will be effective for payments made on or after 1 January 2013.

Further details on all of the above measures and any additional measures will be included in the Finance Bill, which will be issued early in 2013.