



P R E F A C E

Baker Tilly O'Hare, the independent member of Baker Tilly International, has prepared this profile on Doing Business in Ireland (which covers the Republic of Ireland only – see 1.1). The profile is designed to provide information on a number of subjects important to those contemplating investing or doing business in Ireland.

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This guide is one of a series of country profiles compiled for use by Baker Tilly International's clients and professional staff, which may be obtained from any of our international offices, or from the partners of Baker Tilly O'Hare, the independent Baker Tilly International member firm in Ireland.

Doing Business in Ireland has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this booklet may not be comprehensive and recipients should not act upon it without seeking professional advice.

Up-to-date advice and general assistance on Irish matters can be obtained from Baker Tilly International's Irish based member firm. Please see their details in the back cover of this booklet.

The fiscal rates included in this publication are those in force at 1 January 2003.



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1 INTRODUCTION

Over the last 10 years Ireland has witnessed spectacular economic growth. Ireland has proven to be extremely profitable for companies setting up here. Successive governments have focused Irish economic and fiscal strategies to create an economic environment, which is supportive of industry and attractive for investment.

Key reasons for doing business in Ireland can be summarised as:

- Highly educated and skilled labour force with a “can do” mentality at a competitive cost
- Low Taxation and consistent application of Fiscal Policy
- Access to Key Markets
- Wide range of incentives and grants

Ireland's low corporate tax rate and generous financial incentives combine to give investors in Ireland a high rate of return on investment. Ireland, currently the only English speaking member of “Euroland”, is widely considered to be Europe's number one location for foreign direct investment, attracting approximately 40% of all US inward investment into Europe. As a consequence Ireland is currently the largest exporter of computer software in the World.

1.1 Geography

The Republic of Ireland covers an area of 84,000sq Km and comprises of 26 of the 32 counties making up the island of Ireland. Ireland is located west of Great Britain and enjoys a temperate climate. The countryside is predominantly agricultural lowlands. Natural resources include zinc, lead, copper, and gypsum. Offshore gas fields have been successfully developed and continuing exploration for commercially viable petroleum fields is undertaken along the west coast.

1.2 Infrastructure

A network of national roads radiates from the capital city, Dublin, to all major centres of population. European Union structural funds and the adoption of a National Development Plan [NDP] have seen significant investment in transport infrastructure including significant upgrading to primary road links, rail links and development of major ports. Most European destinations are accessible within 48hrs by truck. International airports located at Dublin, Cork, Shannon and Knock ensure that global markets in the US, Europe, Asia and elsewhere are equally accessible by air.

1.3 Population & Demographics

The population of the Republic of Ireland is 3.9 million persons, with approximately 1.12m living in the greater Dublin region. Ireland has seen significant growth in population over the last number of years. The population has grown by 8% since 1996. Ireland has one of the youngest populations in Europe, with some 35% of the population under 25. Such young work force availability means that Ireland also has one of the lowest dependency ratios in the EU

1.4 Political System

The Republic of Ireland is a sovereign independent state since 1922. It is a parliamentary democracy based upon proportional representation. The Oireachtas comprises of two houses of parliament, these are referred to as the Dáil (lower house) and Seanad (upper house). The Irish legal system is based upon a written constitution, legislation passed in the houses of the Oireachtas and a body of judicial decisions (common law). Traditionally the Irish system was strongly influenced by UK and US systems of judicial administration. The Republic of Ireland is one of 15 member states in the EU and is therefore subject to EU law.

1.5 Language & Education

English is the main language used throughout Ireland. All citizens are also educated in Gaelic (sometimes referred to as Irish) and certain financial incentives are available for people and companies operating in designated Irish speaking areas (referred to as Gaelteacht).

Ireland boasts one the best educational systems in Europe, with the proportion of school leavers entering third level institutions amongst the highest. Nearly 60% of all graduates are in the fields of computer science/engineering, business or science.

1.6 Currency & Banking

The currency of Ireland is the Euro, divided into 100 cent. Ireland is one of the twelve current members of the Eurozone Monetary System. The Irish banking system is controlled by the Irish Government through the Central Bank of Ireland. The banking sector is a mature and comprehensive system of both private and state institutions. (also see Section 5)

1.7 Economy

Traditionally Ireland had been a predominantly agriculturally-based economy, but it has enjoyed rapid economic growth and undergone major structural change in recent times. These developments have been driven by export oriented industries based on a large inflow of foreign direct investment. The pharmaceutical and information technology sectors have been notable contributors to this process (Ireland is now the largest exporter of software in the world.) Unemployment is down to about 4%, immigration has replaced emigration and public debt at about 34% of GDP is one of the lowest in the EU area.

Growth rates, which in the period 1995 – 2000 at an average of almost 9% per annum, have slowed in line with the recent global downturn, but still remain higher than other EU members. Inflation which had been higher than the EU average during the period of rapid growth is also expected to decline. The Economist Intelligence Unit currently predicts that Ireland will remain one of the most attractive business locations in the period to 2005.

2 BUSINESS ENTITIES AND ACCOUNTING

The most common forms of business entities are private limited companies, public limited companies, single member companies, sole trader and partnerships. Other corporate vehicles are available in the form of limited partnership and co-operatives and certain specially designed corporate entities.

Companies are regulated by the Companies Acts 1963 – 2001.

2.1 Companies

The typical commercial entity is that of a limited liability company with share capital. A company is treated as a separate legal entity, distinct from its shareholders.

Company law requires the adoption of Memorandum and Articles of Association, which include detailed information pertaining to the company, including its objects and capital structure. It is also required to submit to the Companies Registration Office (CRO) details of shareholders, directors etc to be filed. All limited liability companies must appoint auditors and submit annual returns to the CRO which must include a Profit and Loss Account and Balance Sheet in addition to an Auditors Report and Directors report.

2.2 Partnerships

Partnerships are defined by law as the 'existence of a relationship between two or more people to carry on a business with a view to profit'. Unlike a company it does not enjoy the status of a separate legal entity. In general partners are exposed to joint and severe liability for the firms debts. Partnerships are rarely used in practice by overseas investors coming into Ireland.

2.3 Branches

An alternate approach to standard incorporation can include the establishment of a 'Branch'.

A branch can be formed where an overseas company establishes a place of business in Ireland without the formation of an Irish limited company. A branch is not considered a separate legal entity and all legal responsibilities and liabilities are with the parent company.

The establishment of a branch structure requires copies (in English or certified translated copies) of the parent company's Charter and Statutes and a detailed listing of all directors and the secretary to be submitted to the CRO. It is also a requirement to nominate at least one person 'resident' in Ireland who is entitled to act on behalf of the company and who will be the responsible person for signature of CRO forms and other documentation.

2.4 Audit, Accounting & Filing Requirements

It is a legal requirement that all businesses maintain proper books of account for taxation purposes. All such records must be retained for a period of six years.

An Annual Return must be submitted each year on the Annual Return Date (ARD) allocated to the company, together with signed abridged audited accounts. There are limited exceptions to the requirement to submit audited accounts. The Return must be filed within 28 days of the ARD date. Late filing of Annual Returns attracts penalties and is an indictable offence under the Companies Acts. The Registrar of Companies has extensive powers to ensure timely compliance. New companies must file an Annual Return six months after the date of incorporation and thereafter annually.

3

EMPLOYMENT LEGISLATION

3.1 Industrial Relations

The system of industrial relations in Ireland is essentially voluntary in nature. This means that there has been agreement on all sides that the terms and conditions of employment of workers should be determined by the process of collective bargaining between an employer or employers' association and one or more trade unions, without the intervention of the State. Thus collective bargaining and not the law is the primary source of regulation in the employment relationship in Ireland. However, the state has enacted legislation setting out certain minimum standards (such as holidays, working hours, minimum pay, minimum notice, redundancy, dismissals and employment equality) which may be improved upon by collective bargaining but cannot be taken away or diminished.

3.2 Contract of Employment

All employees should be given a written statement setting out details of their contract such as rates of pay, deductions, hours worked, holiday entitlement. Section 23 of the Industrial Relations Act, 1990, states that a contract of employment, for the purposes of the Industrial Relations Acts, 1946 to 1990, may be "expressed or implied, oral or in writing".

3.3 Safety, Health and Welfare at Work

The Safety, Health and Welfare at Work Act, 1989 extended legislative protection in safety, health and welfare matters to include all places of work and all employers, employees and the self-employed.

3.4 Minimum Notice

Minimum notice periods exist for the termination of employee contracts. Notice periods are determined by the length of service and are covered by the Minimum Notice and Terms of Employment Acts, 1973 to 2001.

3.5 Redundancy Payments Scheme

The Redundancy Payments Acts, 1967-2001 impose a statutory obligation on employers to pay compensation to employees dismissed for reasons of redundancy. This arises where an employee's job ceases to exist and he or she is not replaced for such reasons as the financial position of the firm, because there is not enough work, the firm closes down altogether, or because of reorganisation.

3.6 Protection of Employment Act

The Protection of Employment Act, 1977 provides that, where employers are planning collective redundancies, they are obliged to supply the employees' representatives with specific information regarding the proposed redundancies.

3.7 Safeguarding of Employee's Rights on Transfer of Undertakings

The European Union's 'Safeguarding of Employees' Rights on Transfer of Undertakings Regulations' are aimed at safeguarding the rights of employees in the event of the transfer of ownership of the business. The regulations provide that the employee rights automatically transfer to the new employer.

3.8 Dismissal

The Unfair Dismissals Acts, 1977 to 2001 provide protection for employees from being unfairly dismissed from their jobs by laying down criteria by which dismissals are judged to be unfair and by providing an adjudication system (the Employment Appeals Tribunal).

3.9 National Minimum Wage

Since 1 April 2000 a National Minimum Wage Act has been in effect. The Act covers all employees although certain exemptions do apply. The Act applies to full time, part time, temporary and casual employees for any hour worked. The current national minimum hourly rate of pay is €6.35 as of 1 October 2002.

3.10 Work Permits

Work Permits are NOT required for the following:

A citizen of a Member State of the European Economic Area (EEA) and, where such a citizen is pursuing an activity as an employed or self-employed person within the State, his or her spouse and any of their children who are under the age of 21 years or are dependent on the EEA citizen. [The EEA comprises of Member States of the European Union: Belgium, Denmark, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal, Finland, Sweden and the United Kingdom together non EU members Norway, Iceland and Liechtenstein].

Work Permit arrangements as of 2 January 2002, state the new procedures which must be taken by employers to try and fill the vacancy through the domestic or wider EEA labour market before making any Work Permit application.

Only an employer can apply for a work permit to employ a person who is not a national of an EU/EEA State. The Work Permit Section of the Department of Enterprise, Trade and Employment examines applications from employers and issues permits where appropriate

Once issued the period of validity of a permit will not exceed one calendar year. Applications for a work permit, including a renewal, should be made well in advance before the non-EEA national is required to take up employment.

4 TAXATION

4.1 Companies

4.1.1 Scope

The residence of a company for tax purposes determines the basis of the company's liability to Irish Tax. To be resident in Ireland for tax purposes, a company must be managed and controlled in Ireland or incorporated in Ireland. If a company is Irish tax resident it is liable to Corporation Tax on its' world-wide income and capital gains.

From 1st October 1999 for existing companies and 11th February 1999 for new companies an Irish registered company is treated as resident in the State for tax purposes. This rule does not apply if:

1. the company is ultimately controlled by persons resident in an EU state or tax treaty country
or
2. the company is regarded as non-resident under the terms of an Irish Tax Treaty.

Foreign resident companies are also liable to Corporation Tax if they carry on a trade in Ireland through a branch or agency. In such circumstances, they are liable to Corporation Tax only in respect of the following profits:

- Trading income arising directly or indirectly from the branch or agency
- Any other income from property or rights, used by, or held for, the branch or agency
- Capital Gains arising on the disposal of assets situated in Ireland, which were acquired or held for the purpose of the branch or agency.

Again this will be subject to the terms of any relevant double tax treaty.

4.1.2 Taxable Profits

Irish resident companies are taxable on their total profits, defined as income from all sources, plus chargeable gains. Corporation tax is charged on a company's income and capital for each of its accounting periods. An accounting period is normally the period for which accounts are produced to comply with company law, but special rules apply where accounts cover a period of more than twelve months.

Dividends received from other Irish companies are generally exempt from corporation tax.

The tax computation of trading profits is, therefore, based on the trading profits shown in the audited accounts. This figure is then adjusted under tax legislation to take account of allowable write-offs for tax purposes and to add back any expenses that are not allowable.

Depreciation is added back as disallowable, and capital allowances (see below) are deducted instead. In general, expenses which are "wholly and exclusively" incurred for the purpose of the trade are deductible, provided they are not of a capital nature – such receipts and expenses are generally excluded. The main exceptions to this rule are as follows:

Business Entertainment

Tax relief is not available in respect of business entertainment expenses. This includes the provision of food, drink, accommodation or any other form of hospitality and gifts to customers.

General Provisions

Tax relief is not granted in respect of general provisions, e.g. general bad debt provisions. Specific provisions are, however, allowable for tax purposes.

Companies are also liable to Corporation Tax on their capital gains. Such gains arising on the disposal of chargeable assets are taxed at 20%. The amount of gain chargeable to tax is measured by the excess of sale proceeds over the cost of the asset, with some relief for inflation for assets acquired prior to 31 December 2002.

For the disposal of assets between connected persons, or where there are no sale proceeds, the market value is used as the figure for consideration received.

4.1.3 Capital Allowances

Capital Allowances are deductible from trading profits as a replacement for the depreciation charged in the statutory accounts. The main assets qualifying for this relief are:

- 1) Industrial buildings
- 2) Hotels
- 3) Multi-storey car parks
- 4) Ships
- 5) Machinery and plant (including motor vehicles)
- 6) Patent rights
- 7) Scientific research
- 8) Laboratories for mineral analysis
- 9) Mining development and exploration
- 10) Agricultural buildings and certain agricultural works

Capital allowances on the cost of offices, shops or other commercial premises are granted in certain limited circumstances.

The rate of capital allowances depends on the assets involved. The following are the main rates:

Plant and Machinery (new and second hand)	12.5% p.a.	Years 1-8
Motor Vehicles	12.5% p.a.	Years 1-8
Hotels	4% p.a.	Years 1-25
Industrial Buildings	4% p.a.	Years 1-25

Capital allowances on commercial vehicles, e.g. vans, trucks, etc. are granted on the full cost of the vehicle. In relation to motor cars, however, only the first €22,000 of the cost of each car is allowable. In both cases the rate of capital allowances is 12.5% per annum.

4.1.4 Interest Payments

Interest payable is usually deductible from profits for tax purposes in the same way as any other trading expense.

Companies must generally deduct income tax at 20% from interest that they pay to lenders other than banks and pay the tax over to the Revenue Commissioners, with the exception of payments to other Irish resident companies.

Most of Ireland's double tax treaties with other countries provide for a reduced rate of withholding tax, or in some cases no withholding taxes at all.

Care is needed with interest payable to an overseas parent company. In some circumstances the interest will not qualify for tax relief and will be treated as a dividend payment.

4.1.5 Royalty Payments

A company resident in Ireland in receipt of patent royalty income is exempt from Irish tax on that income, provided that the patent resulted from an invention, in respect of which the research, planning, processing, experimenting, devising, designing and development was carried out in Ireland.

In certain circumstances exemption from tax is given to individuals resident in Ireland who are in receipt of such income in their own right or in certain circumstances in receipt of a dividend out of such exempt income from an Irish resident company.

The above information is important to consider in relation to the concept of intellectual property companies. Considering the favourable corporate tax rates in Ireland, it would be beneficial for foreign registered companies to set up in Ireland, in order to avail of such rates. However, the Revenue are likely to focus on the establishment of companies, which are used solely to transfer profits into Ireland to avail of the 12% rate and which have no economic substance or no level of business activity. In this regard an intellectual property company needs to show that they are carrying on a certain level of activity in Ireland. Research and development work, as described above, could constitute such an activity and the exemptions for patent income would then be available.

4.1.6 Dividend Payments

Dividends paid by Irish companies are subject to withholding tax at the standard rate, currently 20%. This withholding tax is remitted by the company (or a withholding agent where such exists) to the Revenue Commissioners on or before the 14th day of the month following that in which the dividend is paid.

The withholding tax provisions also apply to distributions made by companies.

Exemption from the withholding tax provisions is granted where the recipient is an Irish resident company, an exempt body such as a pension fund, charity, employee share trust etc, and persons resident in an EU country (other than Ireland) or in a tax treaty country.

Exemption will also apply to companies controlled by residents of an EU or a tax treaty country. Companies, whose shares, or those of its parent, are quoted and traded regularly on the Irish Stock Exchange, or such other stock exchange as the Minister of Finance may decide, are also exempt.

It must be noted that exemption is granted when the recipient makes an appropriate declaration. A recipient, who is liable to tax on a distribution, such as an Irish resident individual can claim an offset for the tax withheld against their tax liability. Where such withholding tax exceeds the tax liability, the balance can then be refunded.

4.1.7 Tax-Free Government Securities

Interest payable on certain Government Securities issued by the Minister for Finance is exempt from Corporation Tax. The relief is given to an investing company, which is either:

- A trading company resident in Ireland with at least 90% of its issued share capital held by a foreign company or companies
- A foreign company trading in Ireland through a branch or agency here. In the context of this relief, the foreign company is the one that is controlled directly or indirectly by a person or persons resident in a country with which Ireland has a full double taxation agreement.

4.1.8 Calculation of Liability

The corporation tax rate will be 12.5% for trading profits from 1st January 2003 for all corporates, except those already currently eligible for a 10% rate.

Existing 10% Rate Enterprises

Until now a 10% tax rate was applicable to companies carrying on manufacturing and certain specified service activities. Corporates will retain this entitlement until 2005 or 2010 depending on their specific eligibility.

4.1.9 Due Dates for Payment

Corporation tax is payable in three instalments and these are due one month before the end of the accounting period, six months after the end of the accounting period and the balance is due nine months after the end of the accounting period. Interest is charged at 0.0161% per day on any overdue tax liabilities. In addition the Revenue also retain the right to impose surcharges of up to 10% on the late submission of Returns.

4.1.10 Transfer Pricing

Many double taxation agreements contain legislation, which provides that sales between connected persons shall be at a price, which would be obtained in arms length dealings. This is always a vitally important element for consideration in any inward investment. The primary focus on this transfer pricing issue is by the Taxation Authorities in the country from which the inward direct investment is being made.

4.1.11 Relief for Losses

Losses arising from a manufacturing trade may be set against the company's other manufacturing income of the same accounting period (if any) and if the company was trading in the accounting period preceding the loss period, then the loss may be set against the manufacturing income of the preceding accounting period also. Unutilised losses may be carried forward and set against manufacturing profits of subsequent accounting periods.

Losses arising in trading activities qualifying for the standard rate of tax i.e. 12.5% can only be set against other income and gains chargeable at the same rate of tax for the same accounting period. The loss may be set against income chargeable at the same rate in the previous accounting period (if the company was trading then) and any unutilised losses may be carried forward to future accounting periods.

To the extent that losses have not been utilised under either of these methods, then the loss is carried forward indefinitely, and it is available for set-off against the trading income from the same trade.

4.1.12 Administration

A system of self-assessment operates. Interest is payable or receivable on any under/overpayments of tax subsequently agreed. A corporation tax return is required from companies in respect of each accounting period. A penalty is levied if the return is not delivered, together with the company's accounts, within nine months of the end of the accounting period.

4.1.13 Tax Planning

An overseas organisation intending to set up operations in Ireland should give early consideration to the manner in which its investment will be structured, in order to avoid excessive taxes both in the home country and in Ireland.

4.2 Individuals

4.2.1 Overview

Individuals who are resident and domiciled in the Republic of Ireland are subject to Irish tax on their world-wide income and capital gains. Individuals are taxed at basic and higher rates on income and benefits and credits are then given depending on the individual circumstances.

Current income tax levels are 20% and 42%.

There is no wealth tax in the Republic of Ireland.

4.2.2 Sole Traders

The self-employed are liable to income tax on their profits as adjusted for tax purposes in broadly the same way as profits are adjusted for corporation tax. Interest on loans to provide capital for the business is an allowable deduction.

The Irish fiscal year runs on a calendar year basis but an individual may draw up his accounts for a year ended on any date. The accounts of the business for the year ended on or prior to 31 December form the basis of assessment for the fiscal year. There are special rules for commencement and cessation and changes in accounting date, giving rise to some scope for tax planning.

4.2.3 Partnerships

Partnerships are taxed in the same way as the self-employed, so that the individual partners are taxed on their share of the profits as adjusted for tax purposes.

4.2.4 Taxation of employees

Employees resident in the Republic of Ireland are subject to income tax and social security contributions on all earnings and most benefits provided by an employer. Benefits include cars, accommodation, cheap loans and health care insurance.

4.2.5 PAYE

Individuals in employment are taxed at source on their earned income under a pay as you earn (PAYE) system. Both employees and employers also pay contributions to a pay related social insurance system (PRSI). Employers are responsible for calculating and deducting employee's taxes and PRSI contributions.

Firms make monthly returns to the Revenue Commissioners and are subject to periodic reviews and inspections by the Revenue Commissioners.

The Revenue Commissioners will, in respect of each employee, notify the employer of:

- Tax Credits
- Standard Cut Off Points
- Rates of Tax to be used

The tax year coincides with the calendar year. The tax year is a 12-month period commencing on 1 January and finishing on 31 December each year.

Further details of current tax credits allowable, rates of income taxes for single and married persons and rates of PRSI are provided in the Appendix attached.

4.2.6 Taxation of savings income

Savings income from sources such as shares and cash deposits are added to the individual's other income and are taxed at either 20% or 42%, depending on the total level of income earned by the individual. There are some exceptions to this general rule however.

Deposit interest earned from bank and building society accounts etc. is taxed at 20% in all cases. This tax is generally deducted at source.

Gross dividends are also subject to withholding tax at 20%. If the dividend income falls into the higher rate band, it is then taxed at 42% and a credit is given for the tax deducted at source.

4.2.7 Income from land and property

The net income from these sources is added to the individual's other income and again is taxed at either 20% or 42%, depending on the total level of income earned by the individual. Interest on loans relating to land or property that is let may be deducted for tax purposes. Where the income is paid to an overseas resident it is subject to withholding tax of 22%. The withholding tax can be avoided if the overseas resident registers with the Irish tax authorities.

4.2.8 Capital Gains

Gains arising on the disposal of chargeable assets are taxed at 20%.

The amount of gain chargeable to tax is measured by the excess of the sale proceeds over the cost of the asset, with some relief for inflation for assets acquired prior to 31 December 2002. If the asset was held before 6 April 1974, the 6 April 1974 market value may be substituted for the cost.

For disposals between connected persons, or where there are no sales proceeds, the market value is used as the figure for consideration received.

There is also an annual allowance to exempt a small amount of the gain in each year.

4.2.9 Capital Acquisitions Tax

Inheritance tax is payable on death by the deceased's personal representatives on the net value of the deceased's assets and liabilities at the date of death. Transfers between spouses are exempt. The rate of tax is 20%.

Gift tax is also payable on the receipt of monetary and non-monetary items. The rate of tax in all cases is 20% however there are varying levels of exemption, depending on the relationship between the donee and the donor. These exemption levels have been set out in the attached appendix.

4.2.10 Administration

A system of self-assessment is in operation in Ireland for tax on income and capital gains. A tax return for the year ended 31 December must be filed annually by the 31 October in the following year, together with a payment of the balance of any tax due for the relevant year. Payments on account are also due on this date and these are calculated by reference to the liability for the previous year.

4.3 Expatriates

4.3.1 Scope of Irish Taxation

Most people who come to Ireland for employment will be in a position to claim that they are 'domiciled' outside Ireland. Domicile is a concept meaning, broadly, one's natural home country, the country to which, if absent, one intends eventually to return. Living as a foreign domicile in Ireland can bring significant tax advantages. In particular, investment income and capital gains arising outside Ireland are not taxed here if the funds concerned are not 'remitted' to Ireland, meaning that they are not brought into or otherwise enjoyed in Ireland. Foreign domicile status should not however be taken for granted. A claim must be made to the Revenue Commissioners and they have the right to challenge it. In practice they will usually accept that a person who comes here solely for employment purposes has retained a foreign domicile, provided an actual intention to return to the country of origin is retained.

Unless the visit to Ireland is for a very short period, individuals who come here for employment purposes will generally be treated as resident here for tax purposes. Residence is an entirely separate concept from domicile. If the individual intends to stay for less than three years they can generally claim that they are resident but not ordinarily resident in Ireland. The chief significance of this is that if their work is partly in Ireland and partly abroad, then they will not be taxed in Ireland on the part of their salary that relates to the overseas work, if that part is paid to them abroad and is not remitted to Ireland.

Longer term employment in Ireland will result in a resident and ordinarily resident status from arrival. On this basis the whole of the salary is taxed even though part of it may be earned outside of Ireland. For those who can claim a foreign domicile there may be scope for having two separate contracts of employment, for respectively their Irish and their foreign duties. A person, who is not domiciled in Ireland and who is employed by a company, which is not resident in Ireland or the UK for duties performed entirely outside of both those countries, is not taxed on the salary therefrom provided it is not remitted to Ireland.

4.3.2 Accommodation provided by the employer

Accommodation provided by the employer is taxable unless it is temporary accommodation that is connected with the employee's relocation. The tax charge is the amount that could reasonably be expected to be obtained on a yearly letting if the tenant paid tenant's rates and if the landlord undertook to bear the cost of repairs, insurance and any other expenses necessary to command the rent. Where the living accommodation is owned by the employer the amount referred to is, in practice, calculated as 8% of the current market value of the accommodation. In addition, any other current expenses borne by the employer in relation to the living accommodation form part of the benefit.

4.3.3 Social Security Contributions

Ireland has reciprocal social security agreements with many countries under which employees may continue to pay the home country contributions for a specified period of time.

Under EU regulations a national of a member state who is posted by their employer to another member state is liable to pay contributions to the state in the period that they are working provided the assignment is for a period of at least 12 months. Employees who have assignments of less than 12 months continue to pay home country contributions.

4.4 Indirect Taxes

4.4.1 Value Added Tax

Value Added Tax is a self-assessment tax chargeable on the supply of goods and services which applies in all EU States. The rate of VAT depends on the goods or services supplied. The three main rates are 0%, 13.5% and 21%.

A business must register and account for VAT if the turnover from goods and services exceeds 50,800 or 25,400 per annum respectively and the business is not exempt from VAT.

4.4.2 Charging and Recovery of VAT

VAT is chargeable at the appropriate rates on all goods and services supplied in each two-month period. A deduction may be claimed in respect of VAT incurred on the purchase of all goods and services, excluding VAT incurred on entertainment, food, drink, accommodation, and petrol. A deduction is also not available for the acquisition (including hire) of motor cars, other than as stock-in-trade, or on the acquisition of goods or services used for the purpose of an exempt activity.

An Irish VAT registered business that incurs Value Added Tax in another E.U. country can apply to the VAT authorities in that country for a refund of the VAT suffered. The application is submitted to the foreign authorities by the end of June in the year following that in which the expenditure is incurred. The extent of the refund in any European country would depend on the local laws applying in the country so that while VAT on accommodation is not recoverable in Ireland, it is recoverable, for example, in Germany.

4.4.3 Accounting for VAT

Generally businesses are required to account for VAT on the basis of the amounts invoiced. However, where 90% of the sales of goods are to unregistered persons, or the turnover of the business is 635,000 or less p.a. then it is possible to elect for the cash receipts basis of accounting for VAT. In this way, payment of the VAT can be deferred until the cash has actually been received.

VAT returns are made for each two month period – January/February, March/April, May/June, July/August, September/October and November/December. The VAT return is due on the 19th day following the end of the two-month period.

Where companies are in a constant repayment situation, it is possible after a period of time to apply for concessionary treatment so that the VAT may be reclaimed on a monthly basis, rather than on a two monthly basis.

Where the majority of a trader's sales are zero-rated exports or intra-Community supplies the trader will generally be in a constant repayment situation. In this regard the Revenue will allow for certain authorised traders to receive almost all their goods and services at the zero rate

rather than at the normal rate of VAT. This is commonly referred to as a VAT13A authorisation and will apply to those who derive at least 75% of their turnover from zero-rated export of goods, from zero-rated Intra-Community supply of goods and from the supply of contract work to another Member State.

4.4.4 VAT on Importation

There is no VAT on the importation of goods from other EC member states.

VAT on goods imported from outside the EC is payable at the point of entry. However, a manufacturer who exports at least 75% of goods manufactured by him is allowed to import materials and components for incorporation in the finished products without the payment of VAT at the point of entry.

A deferred payments scheme also exists whereby a payment of the tax is not requested at the time of import, but is deferred until the 15th of the month following importation. In order to qualify under this scheme, bank guarantee and payment mandates are given to the Tax Authorities.

4.4.5 Customs Duty

In addition to VAT there are sales taxes on particular items notably cars, fuel for motor vehicles, tobacco, cosmetic items and alcoholic drinks.

The EU has a harmonised system of Customs Duties. Goods can move freely within the EU if they originate in the EU or once they are paid in any jurisdiction.

Duty is a one-off absolute cost. It is vital that the correct rules are applied in order to obtain the accurate rate of duty, as an incorrect valuation could mean that either too much or too little duty is paid. If too much is paid this is an irrecoverable cost, and if too little is paid, the company could be subject to interest and penalties.

In order to determine the correct rates and any relief's that may apply, it is advisable to consult the Customs & Excise department, who will advise accordingly.

4.5 Other Indirect Taxes

These include:

Excise Duty	applied to motor fuels, alcohol and tobacco products.
Air Passenger Duty	this is levy on the carriage of a passenger from all Irish airports. The duty rates depend on the distance travelled, either within the EU or other destinations.
Plastic Bag Levy	there is a levy of 15cent on all plastic bags made available in Ireland.
Rates	applied by all local authorities for maintenance and general upkeep of the local area.

4.6 Other Taxes

4.6.1 Stamp/Capital Duty

Stamp Duty is chargeable on certain instruments and transactions. The main rates are:

- Shares or marketable securities: 1% of consideration passing
- Land and Buildings (excluding residential property) where consideration is:

Below €40,000	3% of consideration passing
Between €40,001 to €70,000	4% of consideration passing
Between €70,001 to €80,000	5% of consideration passing
Between €80,001 to €100,000	6% of consideration passing
Between €100,001 to €120,000	7% of consideration passing
Between €120,001 to €150,000	8% of consideration passing
Over€150,000	9% of the consideration passing
- Companies Capital Duty: 1% of the greater of the consideration passing and the nominal value of the shares

4.7 Tax Planning

There are significant advantages built into the Irish tax system for those who can claim successfully that they are 'domiciled' outside Ireland covering not only income tax and tax on capital gains but also inheritance tax on death or lifetime gifts. Detailed advice is necessary for the maximum advice to be obtained. Companies planning to send employees to Ireland are advised to consult us before their arrival, so that prompt action may be taken to minimise any tax liabilities.

5 BANKING IN THE REPUBLIC OF IRELAND

5.1 *Financing the Project*

Overseas projects are in a favourable position to raise finance from Irish banks. Foreign currency borrowings may be used and the Central Bank encourages the introduction of such funds into the country.

Many special types of funding schemes are available to manufacturing industry.

Term loans, foreign currency loans, leasing and hire purchase require the company to undertake a commitment to make payments on specific dates over a period of time which will meet both interest and capital repayments.

Overdrafts are available for short term and seasonal fluctuations in the company's working capital requirements. Irish banks usually require that an overdraft should be in credit at least 30 days in each year.

5.2 *Central Bank of Ireland*

The Irish banking system is controlled by the Irish Government through the Central Bank of Ireland. The banking sector is a mature and comprehensive system of both private and state institutions.

The Central Bank of Ireland's primary functions are in relation to monetary policy, banking regulation and supervision.

5.3 *Banking Institutions*

There are at present, 44 banks operating in the Republic of Ireland which have been granted licences by the Central Bank.

The four major commercial banks are:

- Allied Irish Banks plc. [A.I.B.]
- Bank of Ireland [B.O.I.]
- National Irish Bank Limited [N.I.B.] - Parent: National Australian Bank
- Ulster Bank Limited [U.B.] - Parent: Royal Bank of Scotland

These banks offer a wide range of banking services and a countrywide branch system in the Republic of Ireland.

The remaining 40 banks operating in Ireland are known as non-associated banks. These are banks which mainly engaged in merchant banking, instalment finance and consumer finance.

5.4 *Exchange Control*

Exchange controls were abolished on 1 January 1993.

5.5 *Repatriation of Funds*

There are no restrictions on repatriation of funds since the abolition of exchange controls. Irish individuals and companies must inform the Irish Revenue Commissioners if they open a foreign bank account.

5.6 *Government Support for Business*

The state provides a range of supports to assist businesses during both the start-up and subsequent operating phase of their activities. The principle agency is the Industrial Development Agency (IDA) which provides assistance and grants to manufacturing and certain services industries.

The Grant categories are:

- Capital Grants
- Training Grants
- Research and Development Grants
- Employment Grants
- Technology/Acquisition Grants
- Rent Subsidy Grants

APPENDIX 1

DOUBLE TAXATION AGREEMENTS

Treaty network with the following countries:

Australia	India	Portugal
Austria*	Israel	Republic of Korea*
Belgium*	Italy*	Romania
Bulgaria	Japan	Russia
Canada*	Latvia	Slovak Republic
China	Lithuania	South Africa
Cyprus	Luxembourg	Spain
Czech Republic	Malaysia	Sweden*
Denmark*	Mexico	Switzerland
Estonia	The Netherlands*	United Kingdom
Finland*	New Zealand	United States*
France*	Norway*	Zambia
Germany*	Pakistan	
Hungary	Poland	

* Tax sparing arrangements are in force with these countries.

Treaties are also under negotiation or re-negotiation with the following countries:

Croatia	-	under negotiation
Egypt	-	under negotiation
Iceland	-	under negotiation
Singapore	-	under negotiation
Slovenia	-	under negotiation
Turkey	-	under negotiation
Ukraine	-	under negotiation

Tax Sparing Arrangements

Some tax treaties have special provisions which allow a deemed tax credit to apply to the recipient of dividend income. The benefit of this is to totally or partly exempt the taxpayer resident in the treaty country from further taxation on these dividends.

It is important, prior to investing in Ireland, to obtain professional advice on the best possible tax structure for that investment in order to ensure that full advantage is taken of the tax treaty network. For example, there are extremely favourable arrangements under the double taxation agreement between Ireland and Germany should a particular corporate structure be utilised.

APPENDIX 2

PERSONAL TAXATION RATES

Employers operate P.A.Y.E. (Pay As You Earn) and P.R.S.I. (Pay Related Social Insurance) on income paid to their employees.

Income Tax Allowances

	Single Persons	Married Couples
Earned Income	11,600	19,200
Aged 65 and over	12,625	21,250

These allowances are given as a tax credit at the basic rate. For example the single allowance is given as a tax credit of €2,320 from total gross tax on income.

These credits are deducted from the income tax liability of the individual.

In addition, tax relief is available for mortgage interest up to certain limits, health insurance, medical expenses and certain types of interest payments other than mortgage interest.

Rate of Income Tax

2003

	Single Persons	Married Couples
	€28,000 @ 20%	€37,000* @ 20%
	Balance @ 42%	Balance @ 42%

* for married couples where both spouses have income this can be increased by the lower of €19,000 or the second income.

PAY RELATED SOCIAL INSURANCE (PRSI)

2003

Employers PRSI	Rate
Employees earning less than €18,512 p.a. (€356 per week)	8.5%
Employees earning above €18,512 p.a. (€356 per week)	10.75% on all income

Employees PRSI and Levies	Rate
First €6,604 p.a.	No PRSI/2% Levy
Employees earning less than €18,512 p.a.	4%
Employees earning more than €18,512 p.a.	6% on all income up to €40,420 and 2% on balance above €40,420.

Payment of PAYE/PRSI

Return made up to last day of each month.
Payable by 14th of following month.



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MEMBER FIRM CONTACT DETAILS

Baker Tilly O'Hare is a leading independent firm of chartered accountants and business advisors that specialises in providing an integrated range of services to the owner managed business. We provide our growing and established business clients with audit, accountancy, personal and corporate taxation, VAT, consultancy, corporate finance, financial services and business recovery services. The firm is ranked among the top twenty firms in Ireland and is represented internationally through its independent membership of Baker Tilly International.

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