Ireland is still open for business...

- GDP in 2011 was 0.7% higher than in 2010, the first time since 2007 that GDP grew over the course of a full year

- Global confidence in Ireland is improving and the banking sector has stabilized

- The government is working on a strategy with the EU to exit Ireland’s rescue programme at the end of next year without a second bailout

- IBEC predicts further growth in 2012 with record export sales
Did you know?

• Ireland has a population of just 4.3 million people but is home to nearly 1000 global companies:
  • 8 of the top 10 global technology companies
  • 9 of the top 10 global pharmaceutical companies
  • 17 of the top 25 medical devices companies
  • 14 of the top 21 financial services companies

• Investment by US companies in Ireland is greater than the combined US investment in the “BRIC” countries of Brazil, Russia, India and China
Did you know?

“If the lights were to go out in California, Dublin would maintain Google worldwide.”

Nelson Mattos,
Vice-president of engineering for Google EMEA.
Why Ireland?

- Availability of skilled labour
- Member of EU and OECD
- Common law legal system
- Only English speaking country in the euro-zone
- Friendly time zone for Middle East, Europe and US
- Sophisticated financial and commercial infrastructure
- Modern technological infrastructure
"I don't know much about cloud computing, but I think it might be responsible for the strange weather we're having."
What about Tax?

- 12.5% corporate tax rate for active business/trades
- Low and stable tax base
- Extensive double tax treaty network
- No CFC legislation
- No thin capitalisation rules
- Limited Transfer Pricing
- Favourable Holding Company regime
- Special tax regimes for IP and structured finance
Recent Changes

- Reduction in stamp duty on “non-residential property” property to a flat rate of 2%

- Introduction of an exemption from capital gains tax where commercial property acquired and held for a period of 7 years

- Extension of 3 year exemption for trading start-ups (where annual CT bill < 40K)

- Possibility of tracing through non-EU group companies for the purposes of establishing a 75% “group” for group relief purposes
2010: Effective CIT Rates

- >25%
- 20-25%
- <20%

Source: Table II-4.3 Effective Average Corporate Tax Rates, non financial sector Taxation Trends in the EU, 2011, Eurostat
# 12.5% Corporate Tax Rate

(Source: KPMG 2012)

<table>
<thead>
<tr>
<th>Country</th>
<th>Headline Tax Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ireland</td>
<td>12.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>17</td>
</tr>
<tr>
<td>Russia</td>
<td>20</td>
</tr>
<tr>
<td>Switzerland</td>
<td>21</td>
</tr>
<tr>
<td>UK</td>
<td>21</td>
</tr>
<tr>
<td>Netherlands</td>
<td>25</td>
</tr>
<tr>
<td>China</td>
<td>25</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>28.8</td>
</tr>
<tr>
<td>Germany</td>
<td>29.48</td>
</tr>
<tr>
<td>France</td>
<td>33.3</td>
</tr>
<tr>
<td>USA</td>
<td>40</td>
</tr>
</tbody>
</table>
12.5% Corporate Tax Rate

“Let me be absolutely clear on this issue: our 12.5% rate of corporation tax is here to stay. It is central to our industrial policy and is an essential part of our international brand.”

Michael Noonan, Minister for Finance (2011)
Why set up an IP trading company in Ireland?

“We’ve devised a new security encryption code. Each digit is printed upside down.”
12.5% Corporate Tax Rate

• The 12.5% tax rate is available in respect of income from a trade that is actively carried on by a company in Ireland

• Income from the royalty streams of a company that is actively acquiring, developing and exploiting IP in Ireland will qualify for the 12.5% tax rate

• The company will require substance in Ireland – look to whether the company has sufficient personnel located in Ireland with the appropriate expertise and skills required to manage the relevant IP portfolio
IP Depreciation Regime

• It is possible for an active IP trading company to reduce its effective rate of tax on income from intellectual property with a minimum tax rate of 2.5%

• This is achieved by:
  • writing down acquisition spend on “specified intangible assets” against income from the IP trade; and
  • claiming deductions for financing costs

• The term “specified intangible” assets is widely defined
IP Depreciation Regime

• The term “specified intangible” assets includes:
  
  • Patents
  • Copyright
  • Registered designs
  • Design rights or inventions
  • Trademarks
  • Brands
  • Domain names
  • Service mark or publishing title
  • Know-how
  • Certain software
  • Costs associated with applications for certain legal protection
  • Licences to do any of the above
Research and Development

- It is possible to obtain tax relief at an effective rate of up to **37.5%** on R&D expenditure (in addition to any Irish government R&D grants)
  - 12.5% trading deduction
  - 25% R&D tax credit for:
    - first €100,000 of qualifying expenditure [200,000 under the Budget]; and
    - any incremental expenditure, in excess of 100,000, as compared to 2003 base year

- R&D grants are available from the IDA, EI and Science Foundation Ireland, with typical grant assistance rates between 15% - 20%
R&D Tax Credit

• The R&D Tax Credit is available to:
  
  • offset the current year corporation tax liability of the company; or
  • reward key employees who have been involved in the development of the R&D

• Companies now have the option to account for the credit “above the line” in the P&L account thereby immediately impacting on the unit cost of R&D

• Excess credits can be:
  
  • carried forward indefinitely
  • carried back to previous year
  • surrendered within the group
  • reclaimed from Revenue over a three year period, provided certain conditions are met
R&D Facilities

• 25% tax credit available for capital expenditure on buildings constructed or refurbished for the purposes of carrying on R&D activity

• Relief is available on a proportional basis if at least 35% of the building is used for R&D

• The tax credit may be claimed in full in the year in which the expenditure is incurred.

• There is a clawback of the relief if the building is sold or ceases to be used for R&D within 10 years
...and don’t forget

• There is generally no Irish stamp duty on the transfer of Intellectual Property

• Withholding taxes on inbound royalty income are typically eliminated or significantly reduced under the applicable treaty provisions or by virtue of unilateral credit relief

• No Irish withholding tax on outbound royalties (except for Irish source patent royalties) paid to non-EU or non-Treaty resident companies

• 25% tax credit available for capital expenditure on buildings constructed or refurbished for the purposes of carrying on R&D activity
Grant Assistance (R&D)

- A variety of R&D Grant assistance is available from:
  - IDA Ireland (which is relevant agency for US Companies)
    www.idaireland.com
  - Science Foundation Ireland. www.sfi.ie

- For example 25% Grant Assistance possible
- Up to 50% for “Industrial Research”
- In 2012 R&D Grants typically around 15 - 20% from IDA Ireland which is in addition to the R&D Tax Credit
Irish R&D Support Grants

• Maximum amount can be as high as 50% depending on type of research and collaboration with third parties and research institutes

• In practice the typical grant assistance rates are 15% - 20%

• Eligible costs include capital expenditure, personnel, travel, consultancy, materials, technology acquisition and overheads

• No retrospective assistance can be given so application needs to be submitted before work commences
Sample IDA backed R&D in Ireland

- **Citi** - [http://www.idaireland.com/citi/](http://www.idaireland.com/citi/)
**Benefits to Receiving Country: R&D Spend**

<table>
<thead>
<tr>
<th>IRISH RANK</th>
<th>COMPANY</th>
<th>EU RANK</th>
<th>SECTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Seagate Technology</td>
<td>44</td>
<td>Computer Hardware</td>
</tr>
<tr>
<td>2</td>
<td>Covidien</td>
<td>64</td>
<td>Health Care Equipment &amp; Services</td>
</tr>
<tr>
<td>3</td>
<td>Accenture</td>
<td>75</td>
<td>Support Services</td>
</tr>
<tr>
<td>4</td>
<td>Ingersoll-Rand</td>
<td>107</td>
<td>Industrial Machinery</td>
</tr>
<tr>
<td>5</td>
<td>Elan (now part of Alkermes)</td>
<td>112</td>
<td>Pharmaceuticals</td>
</tr>
<tr>
<td>6</td>
<td>Kerry</td>
<td>122</td>
<td>Food Producers</td>
</tr>
<tr>
<td>7</td>
<td>Cooper Industries</td>
<td>177</td>
<td>Electrical Components &amp; Equipment</td>
</tr>
<tr>
<td>8</td>
<td>Warner Chilcott</td>
<td>183</td>
<td>Pharmaceuticals</td>
</tr>
<tr>
<td>9</td>
<td>SSI Investments II</td>
<td>366</td>
<td>Software</td>
</tr>
<tr>
<td>10</td>
<td>Bank of Ireland</td>
<td>374</td>
<td>Banks</td>
</tr>
<tr>
<td>11</td>
<td>James Hardie</td>
<td>495</td>
<td>Construction &amp; Materials</td>
</tr>
<tr>
<td>12</td>
<td>Allied Irish Banks</td>
<td>530</td>
<td>Banks</td>
</tr>
<tr>
<td>13</td>
<td>Glanbia</td>
<td>627</td>
<td>Food Producers</td>
</tr>
<tr>
<td>14</td>
<td>Trinity Biotech</td>
<td>810</td>
<td>Healthcare Equipment &amp; Services</td>
</tr>
<tr>
<td>15</td>
<td>Norkom</td>
<td>817</td>
<td>Software</td>
</tr>
</tbody>
</table>

Source: EU Commission: the 2011 "EU Industrial R&D Investment Scoreboard". The report examines overall levels of R&D investment by EU companies.
The Dutch Sandwich

- This structure is the most commonly used by multi-national companies and requires activity and employees in Ireland.
- There is an exemption from Irish withholding tax where Irish source patent royalties are paid to a company in an EU Member State, such as a DutchCo.
- There is no need to use a DutchCo, if there are no Irish source patent royalties (although this can be difficult to prove and Irish Revenue will not grant advanced clearance in the context of a “licence-in licence-out” structure).
- Post-royalty profits taxed in Ireland at 12.5% rate.
- Depreciation available on any capital expenditure on IP acquisition by IRCo.
- Irish transfer pricing applies as IRCo is trading.
- Favourable tax treatment in the Netherlands and no Dutch withholding tax on royalties paid by DutchCo to IR HoldCo.
- Use of unlimited companies helps to minimise disclosure.
- IRCo and DutchCo disregarded for US tax purposes.
- ETR of 2.4% to 4% (or lower where IRCo is a non-trading company (very passive, no employees) as transfer pricing would not apply.)
The IP Financing Structure

- Structure benefits multinationals wishing to acquire IP into Ireland or migrate IP to Ireland.
- IP TradeCo profits taxed in Ireland at 12.5% rate but depreciation available against IP cost (100) and interest deduction on loan reduce effective tax rate.
- Favourable tax treatment in Lux – deemed interest deduction even though non-interest bearing loan.
- LuxCo and IP TradeCo disregarded for US tax purposes to maintain tax deferral.
Thank You.

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