



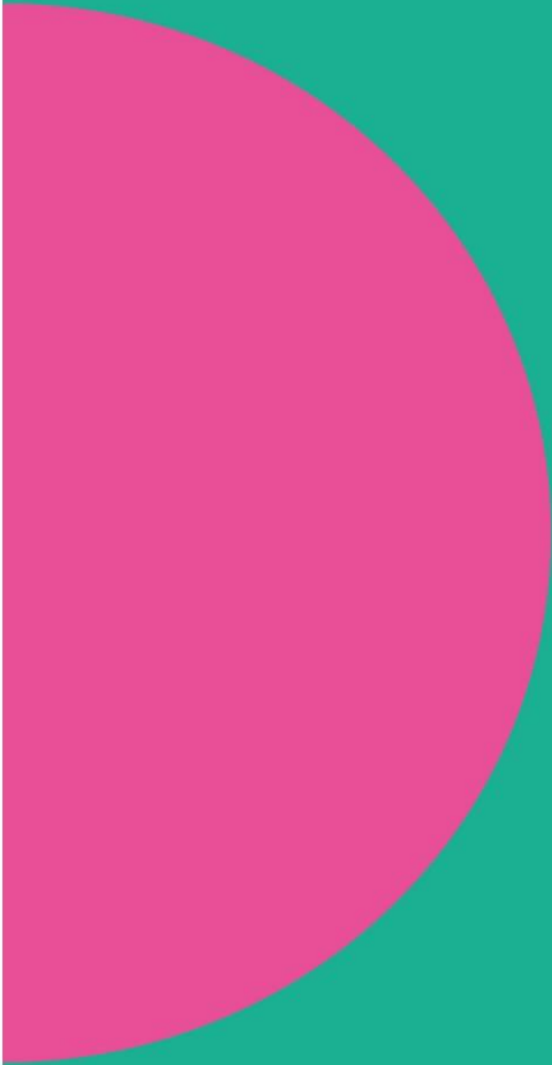
Roadmap to Introduction of Participation Exemption

Ibec submission

December 2023



Ibec
For Irish Business



1. Introduction

Ibec represents the interests of Irish business including indigenous and multinational enterprises, and SMEs, spanning all sectors of the Irish economy. Ibec is Ireland's largest lobby group and business representative. We campaign for real changes to the policies that matter most to business. Policy is shaped by our diverse membership, who are home grown, multinational, big and small. With 39 trade associations covering a range of industry sectors, 6 offices around Ireland as well as an office in Brussels and almost 300 employees, Ibec communicates the Irish business voice to key stakeholders at home and abroad.

2. General Comments

As outlined in previous consultations, Ibec supports a move to a territorial system of taxation for Ireland on the basis that there are many wide-reaching policy benefits of such a move. These include reduced complexity, lower administrative costs and greater certainty for taxpayers.

The last number of years have seen a significant change in the Irish corporate tax landscape. Since 2018 alone we have seen the introduction of Controlled Foreign Company Rules, the BEPS Multilateral Instrument, ATAD Interest Limitation rules, Public Country-by-Country Reporting, an ATAD compliant Exit Tax, Hybrid Mismatch Rules, updated Transfer Pricing rules, changes in the taxation of outbound payments and Mandatory Disclosure Rules. The recent Finance Bill will introduce the most wholesale change to Irish corporate tax in decades, with the introduction of a 15% minimum effective tax rate compliant with Pillar 2 of the OECD agreement.

Ibec supports a move to a territorial system of taxation for Ireland on the basis that there are many wide-reaching policy benefits of such a move. As outlined in the Coffey Report, the current worldwide system has formed in a piecemeal fashion over time, which has resulted in an extraordinarily complex system which places undue administrative burdens on businesses. Additionally, the complexity of the current system increases both the cost of compliance and the risk of error among the affected corporations. A territorial system would provide more certainty for business and reduce the associated administrative costs.

The complexity of the current system is also a competitiveness issue. Ireland is unusual among OECD countries as one of the few member states with a worldwide taxation system. Most countries have an exemption methodology for dividends. The adoption of a territorial system would bring us in line with other OECD members and closer to the international standard. As things stand, MNCs choosing where to locate activity are faced with a choice between the complex Irish regime and the certainty and ease of many competitor countries.

The merits of such a regime have been discussed in previous consultations over recent years, most notably the Coffey Review of Ireland's corporation tax code. Within the implementation of Pillar 2 there are additional reasons to transition given the GloBE system aligns with common definitions of excluded dividends used in participation exemptions in most OECD countries. There are strong precedents elsewhere in the world in transitions to this type of regime. Indeed, Ireland is unusual as the only EU country left operating a global regime and one of only four OECD countries doing so. This undermines Ireland's reputation for competitiveness vis-a-vis other regimes globally.

As outlined in previous submissions to both the Public Consultation on the OECD International Tax Proposals and the Commission on Taxation and Social Welfare Ibec has also outlined other forms of regime simplification which should be considered, including but not limited to ending the multi-rate system over time and allowing related businesses to compute income tax on a consolidated basis as a single entity ('fiscal unity') in a manner similar to consolidation for financial reporting purposes.

We also strongly support reform of Ireland's interest deductibility rules. The increased complexity of Ireland's interest deductibility rules combined with ATAD rules and a new layering of Pillar 2 will require simplification of the overall system to avoid it becoming vastly complex and restrictive compared to our competitors.

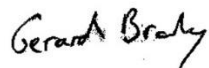
3. Ongoing dialogue

We are aware that several detailed and comprehensive technical submissions have been received by the Department in the past year regarding territoriality and interest deductibility. This follows on from the consultation, which was held on the same topic in March 2022, to which Ibec submitted. We believe these submissions have answered in significant technical detail the questions raised in the current consultation and are a comprehensive response to the ask of the business community where there is agreement on implementation detail.

We would welcome the opportunity to facilitate discussion between the Department and our members on any further issues of clarification in 2024 through direct interaction with our Ibec Economics and Taxation Committee.

Thanks again for your work and the work of your team on these issues. We look forward to the response of the Department on these matters and both Ibec and its members remain available to work with you and your team over the coming weeks on this and any other areas which arise.

Yours sincerely



Gerard Brady

Head of National Policy and Chief Economist



About Ibec

Ibec is Ireland's largest lobby group and business representative. We campaign for real changes to the policies that matter most to business. Policy is shaped by our diverse membership, who are home grown, multinational, big and small and employ 70% of the private sector workforce in Ireland. With 40 trade associations covering a range of industry sectors, 6 offices around Ireland as well as an office in Brussels. With over 250 employees, Ibec communicates the Irish business voice to key stakeholders at home and abroad. Ibec also provides a wide range of professional services and management training to members on all aspects of human resource management, occupational health and safety, employee relations and employment law.

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