Ireland's accession to the OECD agreement on international tax reform

Ibec briefing deck
Oct 7th 2021.

What are Pillar 1 and Pillar 2?

Pillar 1

- The re-allocation of some part of global tax bases (where tax is paid) to consumer markets.
- Agreement on more detailed terms at the OECD this week and further technical detail to follow.
- Final agreement potentially relies on passage of international treaty change by US Congress and is unlikely until Q1 2022

Pillar 2

- A global minimum effective tax rate of 15% on profits in every country.
- Agreement on more detailed terms at the OECD this week.
- Final agreement relies on changes to US GILTI rules in Congress in the coming weeks.

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What has changed this week?

- Ibec was fully supportive of the Government's position that 12.5% should be acknowledged as an acceptable rate of tax. This, however, was not accepted by other countries.

- The text on a minimum global effective tax rate previously stated the rate would be "**at least** 15%".

- Ireland had refused to sign-up to any agreement until the rate was clear, competitive and guaranteed at the OECD and there was clarity from the European Commission that there would be no 'gold-plating', no higher EU minimum tax rate and an allowance for the 12.5% regime to continue for those companies not in scope.

- The new text agreed this week references a rate of 15%. The European Commission looks to have agreed with Ireland's key concerns.

- As such Ireland has been reassured enough to accede to the agreement.

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Is the process over?

- Almost 140 countries have now agreed detailed texts at the OECD but there is still some distance to travel to final implementation.
- In the first instance, the US Congress will need to make significant changes to the US tax code – starting in the coming weeks and continuing into Q1 2022.
- Secondly, ratification will be needed across all countries. At EU level this may mean the passing of two Directives in 2022.
- There is also some technical detail to be agreed at the OECD which could take until late 2021 or early 2022. This includes important questions like the status of various unilateral measures, the treatment of IP and treatment of losses.
- This is a significant political step for Ireland but the process has some distance to run – with implementation not slated until 2023. An EU Directive on Pillar 2 is expected in late 2021 or early 2022.

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What companies might these changes impact?

- Changes to Ireland's headline rate of corporate tax are likely to be implemented in 2023 or later.
- Government guidance suggests that the Irish rate will only change for companies for whom it has to change - above certain global turnover thresholds.
- The agreed threshold for the global minimum tax at the OECD is €750 million. But the US Congress is discussing rules which might be lower – at around $500 million.
- There are 160,000 companies (1.8 million workers) out of scope (€750 million threshold) who will see no change in their headline rate. The agreement will only apply to about 1,500 companies in Ireland – mainly global MNCS or Irish Headquartered MNCs (between them employing 400,000 workers).
- Pillar 1 rules will only apply to companies with global turnover of over €20 billion and profit margins of over 10%. This may reduce to €10 billion after seven years.
- The 12.5% rate will remain in place (with EU approval) for firms below the final agreed turnover threshold.

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What about the R&D tax credit?

- The treatment of R&D tax credits will be close to that seen in the October 2020 OECD blueprints.
- This means that all R&D tax credits will need to function as an ‘approved refundable credit’.
- In Ireland, this will mean that the credit in future will be of benefit ‘above the line’ as income, rather than ‘below the line’.
- The Irish Government has received assurances no further challenges will be brought from a competition or EU law perspective to the credit.
- Ibec will continue our campaign to lobby for improvements in the credit in line with any changes.

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What is the business view?

- Ibec supported the Government’s position throughout the negotiations but welcomes the accession to the agreement as being the correct course of action.
- The agreement will not be the first time Ireland has had to change its tax rules but the key now is that this week’s events provide certainty on the future of the tax regime at a still competitive rate.
- Ireland still remains an attractive place to invest
- Ireland cannot be complacent and must take this opportunity to improve other tax and non-tax elements of the business model – including investments in digitisation, innovation and skills.

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How will this impact on competitiveness?

- Ireland has experienced significant change in the past, with changes to both the headline regime and to the base. The Irish headline rate of 12.5% itself was only introduced for all sectors in 2005.

- At a guaranteed 15% effective rate, our headline regime still remains relatively competitive in a Global context.

- The core reason we continued to thrive despite these changes was radical and concrete action by business and Government.

- We have been clear for several years that we will need to meet this competitiveness challenge and ensure all else does not remain equal by investing in other growth levers such as improving our tax offering in areas we control and investing in education, digital transformation, innovation, talent and critical infrastructure.

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Ongoing strengths for investors

Regime certainty

As demonstrated over recent years and months, Ireland has a strong commitment to regime certainty in the face of major external pressure.

12.5% had support as an acceptable and competitive rate amongst all three major political parties – Fine Gael, Fianna Fáil and Sinn Féin (see comments in recent days from Sinn Féin strongly arguing for Ireland’s 12.5% regime).

Carve-outs for the R&D tax credit regime in Pillar 2 has political support within all three main political parties.

Investors can be guaranteed the stability of rate and commitment to attractiveness regardless of future political configurations.

Skills

Ireland is the youngest country in Europe. Half the population are under the age of 37. The population is expected to increase by 25% over the next 30 years.

Ireland has the highest number of persons with a tertiary education in Europe as a proportion of the working age population.

Companies in Ireland know that they have access not only to a skilled domestic pool but a pool of skilled labour across 27 other EU states, the UK under CTA, and further afield.

For example, Irish non-EU workers are by far the most highly educated in the EU with 65% having a third level education. This compares with an EU average of 30%.

Substance

Ireland has all the top 10 global technology companies, 18 of the world’s top 25 MedTech companies and 18 of the world’s top 20 Biopharma companies and has the highest proportion of high-tech exports in Europe

Ireland is the second largest exporter of medical devices in Europe – including leading Europe in the export of contact lenses, test kits and diagnostics, pacemakers and coming second in the export of orthopaedic products.

Ireland is the second biggest exporter of complex pharmaceutical goods and medicines in the EU after Germany – including leading Europe in the export of antisera and immunological products and being Europe’s second largest exporter of vaccines

The second biggest exports of butter, and beef in Europe, the 3rd largest exporter of spirits and liquer, and the 6th largest exporter of Cheese and Milk.

Ireland is the 5th largest exporter of data processing machines in the EU

Openness

Ireland’s trade openness is crucial to our economic model. Globalisation is key to our ways of working.

MNEs account for 1/5 of Irish jobs, 1/3rd of wages, 2/3rds of capex, and 80% of physical exports.

Ireland is one of the most vocal political supporters of trade and investment openness in Europe. Particularly when it comes to transatlantic relations.

17% of Ireland’s workforce is a non-Irish citizen, far higher than most EU countries. Surveys regularly show some of the strongest pro-immigration views in Europe.

One-in-every-four millennials (25 to 39 definition) in the Irish workforce come from abroad. The EU average is one-in-every-ten workers.

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