

Europe Newsalert*

International Tax Services

Ireland

December 11, 2009

Ireland's 2010 Budget - key highlights of interest to inward investors

The Irish 2010 Budget was announced on December 9, 2009. As widely anticipated, the Budget focused mainly on cutting expenditure, but also included various taxation measures of relevance to inward investors. A summary of budget announcements of interest to inward investors is outlined below - these legislative measures will be published in the Finance Bill in early 2010.

Strong commitment to the 12.5% corporate tax rate

The Minister has commented that the 12.5% corporation tax rate is an effective and internationally recognized brand of Ireland, and a powerful expression of Ireland's pro-business culture. In a clear signal, the Minister has again confirmed that the 12.5% rate will not change, and is here to stay.

R&D and Intellectual Property

The Minister commented that he was looking forward to receiving the report of the Innovation Taskforce and considering its recommendations in the context of the 2010 Finance Bill. Further enhancements to both the R&D and Intellectual Property regimes are anticipated at that time.

International financial services sector/ holding company regime

The Minister noted the significant opportunities which exist in the international financial services sector for centralizing high value added activities in Ireland. The Minister referred to important changes to be introduced in the Finance Bill which will strengthen Ireland's competitive advantage in this area. We believe that the Minister may be referring to positive legislative changes that would enhance Ireland's attractiveness as a holding company location.

In addition, the Finance Bill will contain specific measures aimed at improving Ireland's attractiveness as a European hub for the international funds industry. This is a very welcome development in light of the adoption of the UCITS (Undertakings for Collective

Investments in Transferable Securities) IV Directive on June 22, 2009 and the expected adoption of the AIFM Alternative Investment Fund Managers) Directive in 2011. These measures in the Finance Bill are likely to facilitate Ireland positioning itself as the jurisdiction of choice within the EU for the location of investment management companies and investment funds.

Start-up Companies

A welcome measure was introduced in Budget 2009 with respect to new start-up companies which commenced trading in 2009. Such companies are exempt from corporation tax and capital gains tax in each of the first three years to the extent that their tax liability for the year does not exceed €40,000. This measure is being extended to companies which commence trading in 2010.

Environmental initiatives

A widely anticipated carbon tax has now been introduced. The tax will apply to the following categories of fuel which are supplied in Ireland:

- transport fuels; *petrol and auto-diesel*,
- non-transport fuels; *oil and gas* and
- solid fuels; *commercial peat and coal*

It is hoped that the introduction of this tax will encourage innovation by incentivizing companies to bring low carbon products and services to the market.

Biofuels and certain blended biofuels will be exempt from the carbon tax. Participants of the EU emissions trading scheme (ETS) will also be exempt from this tax.

Energy efficient equipment

The scheme of accelerated capital allowances for energy efficient equipment is being enhanced to include additional categories of qualifying equipment, including:

- Refrigeration and cooling systems
- Electro-mechanical systems, and
- Catering and hospitality equipment

A 100% tax deduction is available for qualifying expenditure under the accelerated capital allowances scheme in the year of expenditure.

Other budget announcements

- Reduction in rate of VAT from 21.5% to 21% effective from January 1, 2010. Businesses will need to ensure that invoices and credit notes issued post January 1, 2010 show the appropriate VAT rate.
- No changes to the income tax rates, levies or social insurance for individuals in Ireland.
- Plans for a more simple streamlined income tax and payroll system to be introduced in 2011.

For more information, please do not hesitate to contact:

Your Irish contact in the US

Brian Leonard +1 646 471 4244 leonard.brian@us.pwc.com

Your international contacts in Ireland

Liam Diamond +353 1 792 6579 liam.f.diamond@ie.pwc.com
Denis Harrington +353 1 792 8629 denis.harrington@ie.pwc.com

pwc.com/us/its

© 2009 PricewaterhouseCoopers LLP. All rights reserved. "PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, a Delaware limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity. *connectedthinking is a trademark of PricewaterhouseCoopers LLP. This document is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.