Doing Business
On the Island of Ireland - 2014

CONVENTION CENTRE, DUBLIN
TITANIC CENTRE, BELFAST

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Introduction

The purpose of this publication is to give an introduction to those considering conducting business on the island of Ireland (Ireland and Northern Ireland), either by establishing a company or a branch or in other ways.

Our intention is to provide a description of the business environment and the main aspects of the legal framework of Irish business life. For readers actually planning to set up a new business on the island of Ireland, we recommend further professional assistance.

The information presented in this publication was assembled by PKF-FPM.

Company Profile

PKF-FPM is an award winning client-focused chartered accountancy and business consultancy practice with offices in Newry, Belfast, Dungannon in Northern Ireland and Dundalk in Ireland. It has seven equity directors and 70 staff and uniquely serves the island of Ireland, North & South.

Just as BMW believe that their brand is associated with "Joy", PKF-FPM believe that their brand is associated with a desire To Serve and Care" and for Service Excellence.

A Member of PKF International (PKFI) from 1 June 2014, one of the top leading global networks of accounting firms, PKF-FPM has specialist skills in accounts and audit compliance, tax planning, cross border business and tax advice, business consultancy, strategic planning, corporate finance, corporate recovery, restructuring & insolvency, wealth management and public sector consultancy.

Since its inception in 1991 PKF-FPM has achieved annual indigenous growth in excess of 15% per annum and has a trusted advisor "umbilical cord" relationship with its clients and has an affinity with emerging and growth companies. The back bone of its practice is growth businesses who share a common goal with the desire to grow and be sustainable in the long term.

PKF-FPM has achieved a number of notable firsts in its short history. It was the first accountancy firm in Ireland to secure both ISO 9001 and Investor in People status. PKF-FPM also maintains a unique free Ireland and UK Tax App which provides up to date current tax rates for both Ireland and the UK, and also incorporates calculators for tax computations in both the UK and Ireland.
The practice is acknowledged for Cross Border Ireland/UK tax and business expertise and was retained by Chartered Accountants Ireland to author the first Tax and Insolvency publication, covering the separate tax and insolvency regimes of Ireland, Northern Ireland and the UK.

Similarly the practice is retained by InterTradeIreland (the cross border body established by the Irish and British Governments to encourage Cross Border Trade on the island of Ireland), to provide the editorial content in respect of tax and other issues for their annual award winning publication - "A Simple Guide to Cross Border Business on the island of Ireland".

PKF-FPM has considerable international experience in terms of advising clients on Foreign Direct Investment into the Island of Ireland and also assisting clients operating from the island of Ireland with international business operations.

PKF-FPM Accountants Limited and PKF-FPM Partnership are registered to carry on work in the UK and Republic of Ireland respectively by Chartered Accountants Ireland as part of the PKF-FPM group, which is branded PKF-FPM. The practice also has a number of Insolvency Practitioners authorised to work in both Ireland and the UK (including Northern Ireland) on formal and informal restructuring assignments.

PKFI is a global network of legally independent firms in 125 countries, with 300 members in 440 locations providing accounting and business advisory services.

In recent years an island economy has emerged on the island of Ireland, with very close links developed between Ireland and Northern Ireland (the latter subject to UK Tax and Legislation).

For ease of use, the remainder of the document is split into two separate sections:

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1. WHY IRELAND

*Ireland is ranked the ‘best country for business’ globally

#1

(Source: Forbes, 2018)*
Key reasons that Global Companies set up in Ireland......
2. BUSINESS FORMS

The starting point for any commercial investment decision is the choice of investment vehicle. The choice of which structure to adopt is an important one for filing and auditing requirements. There are a number of different business structures operating in the Republic of Ireland, starting with a company.

A company is a legal form of business that is a separate legal entity and is therefore separate and distinct from those who run it. In the event of litigation, the company is liable (as opposed to the shareholders or owners). The Companies Acts and related statutory instruments regulate the formation and dissolution of companies in the Republic of Ireland.

Generally one or more persons are permitted to form a company for any lawful purpose by subscribing to a memorandum of association, which sets out the company objectives. A company will not be incorporated unless it appears to the Registrar of Companies that the company will carry on an activity in the Republic of Ireland. Prior to the formation of a company, the memorandum of association and the articles of association (which regulate the manner in which the affairs of the company are conducted) are required. Once formed, every company is required to keep ‘proper books of account’.

The different types of business structures available are outlined below.

Limited Company

The shares of a limited company are owned by its shareholders. The liability of the shareholders is limited to the greater of the amount of the nominal value of the shares or the amount agreed to be paid in respect of the issue of the shares. A limited company can either be a public limited company (plc) or a private company. A plc may seek subscriptions from the public and apply to have its shares quoted on a stock exchange. A private company is prohibited from inviting the public to subscribe for shares in the company. The majority of Irish companies are private companies. A private company can be limited by shares or guarantee (which can be with or without share capital).

Unlimited Company

As opposed to a limited company, an unlimited company has no limit on the liability of the members. Therefore the personal assets of the shareholders can be seized by creditors which the company has failed to pay. On application to the CRO, an unlimited company may be converted into either a private or a public company and vice versa.

Partnership

A partnership is an association of persons wishing to carry on business in common. They normally share both the management and profits. A partnership consists of at least two persons and a normal maximum of 20. A partnership is not a separate legal entity but it is possible to create a partnership in which some members have limited liability for the debts of the firm.

Foreign Companies

A foreign company (those incorporated outside of Ireland) may conduct business in Ireland either through a branch or a place of business, depending on the level of independence of the Irish operation. It is important that all taxation and company law implications are considered in making this decision.

Incorporated in Other Countries Trading in Ireland

Foreign companies (i.e. companies incorporated outside Ireland) may conduct business in Ireland either through a branch or a place of business, depending on the level of independence of the Irish operation.

Trading with Ireland/Trading in Ireland

Care needs to be taken to ensure that an entity does not fall within the charge to Irish tax. There is a distinction between trading into Ireland i.e. Distance selling and trading in Ireland where one may have established a presence thus creating a permanent establishment.

Branch

For Irish company law purposes, a branch is a division of a foreign company trading in Ireland that has the appearance of permanency, has a separate management structure, has the ability to negotiate contracts with third parties and has a reasonable degree of financial independence. EU regulations have been implemented that impose a similar registration regime on branches to that imposed on local companies.

A foreign company setting up a branch in Ireland is required to file basic information with the Registrar of Companies. This includes the date of incorporation of the company, the country of incorporation, the address of the company’s registered office, details regarding the directors of the company and the name and address of the person responsible for the branch’s operation within the State. The foreign company’s constitution, certificate of incorporation and audited accounts must also be filed with the Registrar of Companies.

A foreign company trading in Ireland through a branch is also required to file its financial
statements with the Registrar of Companies within 11 months of the company’s year end or at the same time as they are published in the country of incorporation, whichever is the earlier. Separate branch financial statements are not required. As with Irish incorporated entities, changes in previously notified information must be reported to the Registrar of Companies.

**Other Entities**

**Place of business in Ireland**

A foreign company undertaking business in Ireland from a fixed place of business, not being a branch, must file a copy of its constitution, together with a list of the directors of the company and the address of its established place of business in Ireland, with the Registrar of Companies. Foreign companies which have a place of business in Ireland (not being a branch) and which would be regarded as a public limited company if registered in Ireland are required to file annual accounts with the Registrar of Companies.
3. ACCOUNTING REQUIREMENTS

All Irish companies are required to follow a number of financial reporting and audit requirements as imposed by Irish Company law and EU directives. In summary, the requirements are as follows:

- financial statements must be prepared in accordance with Irish GAAP or IFRS;
- Irish incorporated companies are required to have their financial statements audited by a registered auditor each year; however, audit exemptions are available for private companies who meet certain criteria; and
- companies with subsidiaries must generally prepare group accounts.

**Accounting standards**

In Ireland, International Financial Reporting Standards (IFRS) are currently only mandatory for consolidated group accounts of listed companies. All other companies have a choice of following IFRS or Irish Generally Accepted Accounting Principles (GAAP), while small companies have the option of using Financial Reporting Standard for Smaller Entities (FRSSE).

Irish GAAP takes the form of Financial Reporting Standards (FRS) and is governed by guidelines issued by the Accounting Standards Board as promulgated by the Institute of Chartered Accountants in Ireland. There are certain differences between these principles and international principles, however, a significant amount of work has been carried out to align FRS with IFRS (the Convergence project) and several Irish standards have been amended to mirror IFRS principles.

In March 2013 a new financial reporting framework was introduced in Ireland, entitled FRS 102 – "The financial reporting standard applicable in the UK and the Republic of Ireland". Under the new framework, existing Irish GAAP preparers will generally have the choice of either:

A. migrating to FRS 102, which is based heavily on IFRS for SME’s; or
B. voluntarily applying EU – adopted IFRS.

FRS 102 can also be early adopted for years ending on or after 31 December 2012.

The main difference in presentation to Irish GAAP is that results for the year can be presented in two separate statements, being the income statement and a statement of comprehensive income or a combined statement of comprehensive income.

**Filing/publication requirements**

Irish companies are required to keep proper books of accounts which give true and fair view of the state of affairs of the company. The directors are also required to prepare accounts once at least in every calendar year. Companies are also required to disclose details of their accounts at the Annual General Meeting (AGM) and to attach a copy of those accounts to the annual return filed with the Companies Registration Office (CRO). These accounts are available for public inspection.
4. **AUDIT REQUIREMENTS**

All Irish incorporated companies are required to have their financial statements audited by a registered auditor, subject to the exemptions listed below. The audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company’s circumstances, consistently applied and adequately disclosed. If the auditor is satisfied with the above, a formal (unqualified) audit report will be issued.

Certain private limited companies are exempt from having their financial statements audited. To qualify for the exemption the company must meet the following criteria for both the current and previous accounting year:

- turnover less than €8,800,000;
- balance sheet total less than €4,400,000; and
- average number of employees below 50.

This exemption does not apply to the following entities:

- unlimited companies;
- public limited companies;
- parent or subsidiary companies;
- banks and financial institutions;
- insurance companies; and
- financial intermediaries.

This is an exemption from an audit only. It does not eliminate the need to prepare and file financial statements. In both the previous year and the year concerned, the annual return and accounts must be filed at the Companies Registration Office within the time limit specified in the Companies Acts.

The company must continue to make all annual returns on time as well as meet the exemption criteria, to ensure the entitlement to exemption is not lost.

Branches of foreign companies operating in Ireland are not required to have accounts audited independent of the company accounts to which they relate, however it should be noted that a copy of the company (not the branch) accounts must be filed with the Registrar of Companies within eleven months of the year end.

**Group Accounts**

In addition to preparing their own accounts, parent undertakings are required to prepare consolidated group accounts and to lay them before the AGM at the same time as their own annual accounts.

**Exemption from requirement to prepare group accounts**

An exemption from the requirement to prepare group accounts shall apply to a parent company that is a private company in any financial year if, at the balance sheet date of the parent undertaking in that financial year and in the financial year of that undertaking immediately preceding that year, the parent undertaking and all of its subsidiary undertakings together, on the basis of their annual accounts satisfy two of the following three conditions:

- the balance sheet total of the parent undertaking and its subsidiary undertakings together do not exceed €7,618,428;
- the amount of the turnover of the parent undertaking and its subsidiary undertakings together does not exceed €15,236,857; and
- the average number of persons employed by the parent undertaking and its subsidiary undertakings together does not exceed 250.

However, a plc cannot avail of the exemption, as it is expressed to apply only to parent undertakings that are private limited companies.

Additional exemptions may be claimed where the parent undertaking is itself a subsidiary of another undertaking and certain conditions are met.
5. TAXES

Ireland’s Attractive Tax Regime

Ireland has one of the lowest statutory corporate tax rates in the world at 12.5%.

Companies that have chosen Ireland as their European or international base have been able to maximise Ireland’s favourable tax regime to achieve a high rate of return on their investment.

Manageable transfer pricing rules allied to favourable provisions for IP exploitation, R&D activities and holding companies (see below) make Ireland’s tax regime world class and offer unrivalled opportunities to foreign investors.

So, how does our tax rate compare to elsewhere?

Some of the key advantages are highlighted below:

**IP exploitation benefits**
- Amortisation for qualifying IP acquired outright for trade purposes.
- No balancing charge / recapture on IP sales for 10 years.
- Deduction for licensed-in IP rights.
- Various tax-efficient IP structuring opportunities.

**R&D benefits**
- Refundable 25% tax credit (effective benefit of 37.5%).
- Monetisation-possible repayment of excess credits over three year cycle.
- Credit can be converted into tax efficient bonuses for R&D teams.
- No “base year” limitation for new investors (i.e. full volume basis applies).
- Possible grant aid for qualifying R&D activities.

**Holding company**
- Tax exemption for domestic and foreign gains (EU and treaty countries).
- Tax exemption for Irish dividends, effective exemption for foreign dividends (FTCs).
- Extensive domestic law withholding tax exemptions.
- No thin capitalisation or Controlled Foreign Companies (CFC) rules.
The following table summaries the tax efficient rates that are applicable to businesses operating in Ireland:

<table>
<thead>
<tr>
<th>Rates</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Tax</td>
<td>12.5%</td>
<td>Applies to trading income (including qualifying foreign dividends paid out of trading profits)</td>
</tr>
<tr>
<td></td>
<td>25%</td>
<td>Applies to all other income (including non-trading income and non-qualifying foreign dividends)</td>
</tr>
<tr>
<td>R&amp;D Incentive</td>
<td>25%</td>
<td>Tax credit (in addition to standard tax relief as 12.5%)</td>
</tr>
<tr>
<td>Capital Gains Tax</td>
<td>0%</td>
<td>Participation exemption on qualifying share disposals</td>
</tr>
<tr>
<td></td>
<td>33%</td>
<td>Standard rate for gains (subject to various reliefs / exemptions)</td>
</tr>
<tr>
<td>Value Added Tax (VAT)</td>
<td>23%</td>
<td>Standard rate</td>
</tr>
<tr>
<td></td>
<td>13.5%</td>
<td>Heating fuel, electricity, building services etc.</td>
</tr>
<tr>
<td></td>
<td>9%</td>
<td>Hotels, restaurants, catering services, entertainment etc.</td>
</tr>
<tr>
<td>Stamp Duty</td>
<td>1 – 2%</td>
<td>Payable on legal and commercial documents, including conveyances of property, leases of property, share transfer forms and certain agreements (subject to various reliefs / exemptions)</td>
</tr>
<tr>
<td>Tax treaties</td>
<td>72</td>
<td>Including attractive treaties with China and emerging economies</td>
</tr>
<tr>
<td>Customs</td>
<td>Various</td>
<td>Free circulation of goods to an from other EU Member States. The EU Common Customs Tariff (CCT) sets out rates applying to goods being imported to the EU</td>
</tr>
</tbody>
</table>

**Tax Administration**

The Irish tax system incorporates a self-assessment regime under which a company determines whether or not it is chargeable to tax and, if so, to file tax returns and make appropriate tax payments. Tax returns can be filed online with the Revenue online service (ROS).

**Summary of Favourable Tax Regime**

Ireland provides a very favourable tax environment to encourage business development and sustain rewarding investment. Tax reliefs form an important part of the total incentive package available to overseas companies establishing a business in Ireland. These reliefs establish Ireland as a favourable location for multinational corporations to base regional headquarters and holding companies. As multinationals tend to consolidate their financing, regional head office and R&D activities in one location, Ireland is well equipped to cater for all these requirements. Incentives for the establishment of multinational organisations in Ireland include:

- holding company regime;
- research and development (R&D) credit;
- capital allowances for expenditure on intangible assets;
- low (if any) tax on certain foreign dividends;
- favourable tax allowances for Intellectual Property;
- EU parent subsidiary directive;
- credit for tax on foreign branch profits;
- Capital Gains Tax (CGT) exemption on share disposal;
- intellectual property stamp duty exemption;
- no thin capitalisation or Controlled Foreign Corporation (CFC) rules;
- limited transfer pricing conditions and no imputation; and
- real estate investment trusts (REIT).
These provisions, combined with Ireland’s low corporation tax rate of 12.5% on trading activities and absence of thin capitalisation and controlled foreign company rules, place Ireland in a very competitive position for attracting international companies to establish their global or European headquarters in Ireland.

How Companies Are Taxed

Corporation tax

Irish corporation tax applies to all profits (income and gains) of an Irish-tax-resident company. An Irish branch or agency of a foreign-resident company is also liable to Irish corporation tax on profits derived from its Irish-based activity.

Rates of corporation tax

- A 12.5% rate of corporation tax applies to profits of a trading activity.
- A 25% rate of corporation tax applies to non-trading income, including rental income and interest, patent royalties, and foreign income. Also included in this rate is income from activities consisting of working minerals, petroleum activities and dealing in or developing land.

Irish tax residency

The liability to corporation tax is primarily based on the concept of residence. Resident companies are taxable on their worldwide income. Non-resident companies may be subject to corporation tax if they have Irish-source trading income. Non-resident companies that do not trade in Ireland are not subject to corporation tax but may be subject to Irish income tax on Irish-source income, for example on rental income from Irish property.

Irish tax residency is based on a test of management and control and whether the company is incorporated in Ireland.

The place of management and control is determined by a number of factors, including the location of directors’ meetings, where negotiation of major contracts is undertaken and where shareholders’ meetings are held.

An Irish incorporated company is tax resident subject to exceptions that broadly include companies satisfying residency tests under taxation treaties agreed with Ireland, trading companies quoted in the EU or in a tax-treaty state, or a trading company controlled by residents of an EU member state or a tax-treaty state.

However, a company whose central management and control is exercised in Ireland is regarded as Irish tax resident whether or not the company is Irish incorporated.

Qualifying for the 12.5% rate

The rate of corporation tax for trading activities is 12.5%. To avail of this rate, it is necessary to demonstrate that value added activities are carried on in Ireland. While Ireland does not operate a formal ruling system, the Irish tax authorities (known as the Revenue Commissioners) will provide a view as to whether a particular transaction or operation amounts to a trade or qualifies for the 12.5% rate.

Taxable profits

In calculating taxable profits of a company, the profit in the statutory accounts (IFRS or GAAP) is adjusted for tax purposes. Expenses are generally tax deductible if they are not of a capital nature and are incurred wholly and exclusively for the purposes of the trade, broadly in line with international practice.

While depreciation in the accounts is not deductible for tax purposes, a form of tax depreciation (known as capital allowances) is available for certain assets used in the trade of a company. Plant and machinery is depreciated for tax purposes over an eight-year period on a straight-line basis. New industrial buildings are depreciated for tax purposes over a 25-year period. Capital allowances are also available on certain intangible assets such as patents, designs, trademarks and know-how.

Losses

Trading losses can be offset against trading income of the same and immediately preceding accounting period on a euro-for-euro basis. Any unused trading losses can then be offset against non-trading income, including chargeable gains on a ‘value basis’, i.e. by reference to the prevailing rate.

Trading losses can be carried forward for offset against future accounting period profits of the same trade. Trading losses can also be offset against profits of another company within the same tax group in the same accounting period.

Group of companies

Members of a group may surrender current year losses, excess charges on income, excess management expenses and excess capital allowances relating to rental activities. Two companies will be members of a group if one is a 75% subsidiary of the other or both are 75% subsidiaries of a third company. A company is a 75% subsidiary of another company where not less than 75% of the ordinary share capital is owned directly/indirectly by that company. Group relief is available to Irish parent companies subject to certain conditions in respect of trading losses incurred by their non-Irish subsidiary companies where such a company is resident in an EU member state or EEA member.
state with whom Ireland holds a double-taxation agreement.

Loss relief can also be surrendered by a trading company to members of a consortium. A company is owned by a consortium if 75% or more of its share capital is directly and beneficially owned by five or fewer companies.

The public sector can arrange for projects such as roads, public transport, waste management and water services to be undertaken by entering into a public-private partnership (PPP) arrangement. This involves a private sector company (or consortium) agreeing to design, build and, possibly, operate the project in return for annual service charges that are paid by the public sector body. While tax issues surrounding PPPs are often complex, Ireland has established tax practices in matters relating to PPPs.

**Dividends received**

Dividends received by an Irish company from another Irish company are exempt from Irish corporation tax.

Dividends received from a company located in the EU or in a country with which Ireland has a double-taxation agreement are subject to 12.5% corporation tax provided that the dividend is paid out of trading profits.

The 12.5% rate also applies to dividends paid out of trading profits of a quoted group or a company resident in a country with which Ireland has ratified the Convention on Mutual Assistance in Tax Matters.

Ireland also operates an on-shore pooling system that allows withholding taxes and underlying taxes from high and low tax jurisdictions to be pooled and reduces the overall level of Irish corporation tax on dividends from foreign companies.

**Dividends paid**

Dividends and other distributions (including certain types of interest) are not tax deductible in the calculation of tax profits.

Withholding tax of 20% of a gross dividend must be applied by a company paying a dividend. However, there are extensive exemptions from withholding tax so that, in general, withholding tax only applies to dividends paid to Irish-resident individuals.

**Royalties**

Payments for patent royalties are tax deductible. A withholding tax of 20% prima facie applies to patent royalties and other forms of annual royalty payments. However, royalties can be paid free of withholding tax from Ireland to companies resident in the EU or double-tax-treaty countries where certain conditions are satisfied.

**Interest**

Interest on loans used for the company’s trade is generally tax deductible. However, some restrictions are in place on the tax deductibility of interest, for example on loans used for non trade purposes and on intra-group borrowings used to acquire certain assets.

Withholding tax of 20% is also capable of applying to all payments of annual interest. Extensive exemptions are again in place, which include an exemption from Irish withholding tax where the recipient is resident in the EU or a double-tax treaty country, where certain conditions are fulfilled.

**Tax compliance**

Ireland operates a self-assessment system for the payment and filing of tax returns for companies and branches. In general, there is one corporation tax return filing requirement per accounting year and two/three corporation tax payment requirements per accounting year.

Tax returns and payments for companies must be electronically filed using the Revenue’s Online Service (ROS) www.ros.ie.
Tax Incentives Available for Companies

CGT exemptions on share disposals

Irish CGT of 30% applies to gains arising on the disposal of shares. Ireland operates a participation exemption, which exempts gains arising to an Irish-based holding company on the disposal of shareholdings in EU/double-tax-treaty agreement resident companies. The exemption applies to shareholdings of at least 5% in trading companies or trading groups resident in Ireland, the EU or countries with which Ireland has a double-taxation agreement in place.

Research and development credit

In addition to a tax deduction, a 25% tax credit for qualifying R&D expenditure is available for companies engaged in in house qualifying R&D undertaken within the EEA. The credit is also available to overseas companies with branches carrying on a trade in Ireland.

To qualify for the credit, the expenditure must be incurred on scientific or technical advancement that involves the resolution of a scientific or technological uncertainty.

The first €100,000 of R&D expenditure qualifies for the 25% credit. Expenditure above €100,000 must be compared to expenditure in the base period of 2003 with the incremental expenditure qualifying for the credit. If a company commences trade after 2003, then all qualifying expenditure will be eligible for the credit on a volume basis.

The credit is used to reduce a company’s corporation tax liability in the current period. Excess credits can be used to shelter corporation tax paid in the immediately preceding period. Any remaining excess can be carried forward for use against future corporation tax. Alternatively, the company may claim to have any remaining excess refunded to it by the Revenue Commissioners subject to certain restrictions. A R&D tax credit of 25% is also available for expenditure incurred on buildings used for R&D purposes. There is no base year or incremental expenditure concept. Therefore, 100% of the cost of the building can be claimed as qualifying expenditure in the year of expenditure.

Companies with a corporation tax liability may also choose to use a portion of its R&D credit to make tax-free payments to key employees (subject to restriction) involved in the Irish R&D activity.

How Individuals are Taxed

Income tax

Income tax is payable on Irish-source income and on income for services performed in Ireland. The most common form of income tax is PAYE (pay as you earn), which is a salary withholding tax deducted by the employer from the employee’s pay. Income tax is operated under a progressive tax system that applies tax at rates of 20% and 41% (40% from 1 January 2015) depending on income levels.

Social security (PRSI) and Universal Social Charge (USC)

Employed persons are compulsorily insured under a State administered scheme of pay-related social insurance (PRSI). Contributions are made by both the employee and the employer on all employment income, including benefits in kind. The PRSI contribution for employers is 10.75% of the salary payments and is deductible in the calculation of taxable profits. A reduced rate of PRSI can apply.

Employees also pay PRSI but at lower rates to that payable by employers. Many foreign assignees are
exempt from PRSI. The universal social charge (USC) is also payable by all employees who pay Irish income tax, and is applied at progressive rates of up to 8%. A person is exempt from USC if their total income is less than €12,012 per annum.

An example of tax (income tax, PRSI and USC) payable by individuals with various income levels is as follows:

- A single individual earning a salary of €35,000 will pay an effective rate of 20% in tax.
- A single individual earning a salary of €55,000 will pay an effective rate of 31% in tax.
- A single individual earning a salary of €100,000 will pay an effective rate of 41% in tax.

Taxation of foreign workers in Ireland

A foreign executive coming to work in Ireland will be tax resident in Ireland if he/she spends 183 days in Ireland in a tax year or 280 days over two tax years (ignoring a tax year where he spends less than 30 days in the State). The Irish tax year is aligned with the calendar year.

A foreign executive is subject to tax on Irish-sourced income in full, but the taxation of foreign income is restricted to remittances. Usually, Irish tax is payable on employments exercised in Ireland even where the employment is under a foreign contract of employment. However, relief is available on income from foreign contracts of employment under SARP (see below).

Special Assignment Relief Programme

SARP applies to an employee who:

1. takes up residence in Ireland after 1 January 2012 having not been tax resident in Ireland for five years preceding the date of arrival;
2. carries out employment duties for his foreign employer, Who must be tax resident in a double-tax-treaty state, or an associated company including an Irish-resident company;
3. was employed by his employer for 12 months before arriving in the State;
4. performs substantially all of his duties in Ireland for 12 Consecutive months.

Relief operates by providing an exemption from income on 30% of salary between €75,000 and €500,000 for the first five years of an individual’s residency in Ireland.

Other Taxes

Capital Gains Tax

CGT is chargeable on gains arising on the disposal of assets. Most forms of property, including an interest in property (for example, a lease), are assets for CGT purposes. The standard rate of CGT is 33% in respect of disposals made on or after 7 December 2011.

Stamp Duty

Stamp duty is payable on the transfer of most forms of property where such a transfer is executed under a legal document. The transfer of commercial property is subject to stamp duty of 2%. Transfers of stocks and shares are subject to stamp duty of 1%.

Relief from stamp duty is available on transfers between associated companies (90% common shareholding) and on transfers of shares and assets under reconstructions and amalgamations where certain conditions are fulfilled.

An exemption exists for stamp duty on any instrument for the sale, transfer or disposition of intellectual property. The term intellectual property includes patents, trademarks, registered designs, design rights and inventions or domain names.
Capital Acquisitions Tax

Capital acquisitions tax (CAT) is a tax payable by the recipient of gifts and inheritances at a rate of 33% of the value of the benefit received. Tax-free thresholds are available to reduce the tax payable and these depend on the relationship between the donor and the recipient.

Value-added tax

Value-added tax (VAT) is a tax on consumer spending. It is collected by VAT-registered traders on their supplies of goods and services within the State to their customers. Generally, each trader in the chain of supply, from manufacturer to retailer, charges VAT on his or her sales. The trader is then entitled to deduct from this amount the VAT paid on his or her purchases. For the final consumer, VAT simply forms part of the purchase price. The Irish VAT system follows EU VAT directives.

The standard rate of VAT is 23% (this rate applies to most professional services) but lower rates of 13.5% (e.g. for the supply of electricity and heating), 9% (e.g. on meals in restaurants) and 0% (e.g. for financial services) also apply.

Transfer Pricing in Ireland

Irish transfer pricing legislation applies to all trading transactions and is effective for accounting periods commencing on or after 1 January 2011. The Organisation for Economic Co-Operation and Development (OECD) principles are to be followed in respect of transfer pricing. If profits are understated, there will be an adjustment made to substitute the arm’s length consideration for the actual consideration.

Intercompany trading transactions such as the provision of management services, intra-group transfers of trading stock, certain intellectual property licensing and treasury and finance operations such as cash pooling performed centrally for a group will all be affected by the transfer pricing rules. Conversely, non-trading transactions will not be imposed. There is also an exemption for small and medium enterprises. To fall within the exemption the enterprise (including group companies) must have less than 250 employees and either turnover of less than €50 million or assets of less than €43 million.
6. **GRANT ASSISTANCE**

**Government incentives**

Ireland offers an extremely cost competitive business environment with operating costs among the lowest in Europe. An important part of the incentive package offered is the availability of generous grants towards initial start-up costs. A variety of grants are available which can be specifically tailored to meet the needs of each company. These cash grants are non-repayable and are administered by Enterprise Ireland, the Industrial Development Agency Ireland (IDA Ireland) or by Shannon Development.

Each proposed investment project is assessed by IDA Ireland against a number of criteria. Grant levels are determined by negotiation and grant payments are structured in a way that best suits the financing requirements of the company. The European Union (EU), as part of its social and regional development policy, contributes towards the funding of industrial development.

**Capital grants**

Cash grants towards the cost of fixed assets are available to companies to help to defray the cost of setting up an operation. Fixed assets eligible for assistance include site purchase and development, buildings and new plant and equipment. Where a factory building is rented, a grant towards the reduction of the annual rental payments may be available instead.

**Employment grants**

Employment grants are specifically geared towards companies which create employment but do not need to invest heavily in fixed assets. These grants are non-taxable and are geared to low employment areas. An amount will be approved for each job.

One-half of the agreed amount per job will be paid on certification that the job has been created and the balance one year later, provided the job still exists.

**Training grants**

Grants are available towards the cost of training workers and management for new industries. The costs that are covered include trainees’ wages and travel and subsistence expenses, either in Ireland or abroad. The cost of bringing training personnel to Ireland may also be recovered. The grants also extend to the engagement of instructors, technical advisors or consultants to train or to assist in the training of persons for supervisory or management positions.

Training grants are based on specific training programmes agreed between each investing company, IDA Ireland and FÁS sales (the Irish Training Authority).

**Research and Development (R&D) grants**

Cash grants are provided to assist overseas companies to engage in industrial research and development that will result in increased competitiveness and growth.

**Product and process development**

Grants are available for research into new and improved products and processes. The costs eligible for grant-aid include expenditure on the provision of sites, premises and plant and equipment to set up facilities including wages and salaries, materials, services and consultancy fees.

**Feasibility studies**

Companies based in Ireland investigating the feasibility of new products or markets may apply for a feasibility grant. The work can include assessing markets, technical work and raw material sourcing. Eligible expenditure includes salaries, travel costs, expenses and consultancy.

**Technology acquisition**

Grants are provided towards the cost of acquiring new technology which will assist companies in their production operations.
8. EASE OF DOING BUSINESS IN IRELAND

Doing business in Ireland couldn’t be simpler and getting started is both quick and straightforward. The following is a brief introduction to some of the key things you need to consider when starting a business in Ireland.

Corporate registrations

Once the optimal corporate structure for the Irish investment is decided, the appropriate legal form for the Irish entity can be chosen. The most commonly used options are:

- Place of business
- Branch
- Private limited company (minimum share capital normally €2)

Once the entity is registered, registration for all taxes (corporate, payroll taxes and VAT), can be done by submitting one form to Revenue.

Hiring people

One of the most critical factors for any company investing in a new country is the ability to recruit employees with the right education, skills and experience. Ireland is renowned for the breadth and depth of its people talent and for attracting fresh talent from the EU and internationally.

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“75% of Google staff have relocated from overseas to work in Dublin”

John Herlihy, VP of Online Sales and Operations, Google Ireland

Mobile labour: As Ireland is a member of the EU there is free movement of labour within the European Economic Area (EEA). This provides access to multiple languages and other skills, whilst retaining the benefits of an Irish base. Employees from countries outside the EEA require an employment permit and, in some cases, a visa. We can help manage this process, as well as provide input on tax-efficient planning for assignees.

Visa and immigration: The Irish Immigrant Investor Programme was introduced in 2012 in order to stimulate investment into Ireland from successful business professionals. It enables non-EEA nationals to apply for residency in Ireland if they commit to an approved investment in the country. Typically they receive residency for five years, which is reviewable after two years. Also, through the Naturalisation programme, a foreign national living in Ireland may apply to become an Irish citizen (Irish passport) if they have satisfied the 5 year residency requirements (terms and conditions apply).

Payroll taxes: The only payroll tax borne by employers in Ireland is Pay Related Social Insurance (PRSI) – maximum rate is 10.75%. This must be returned to Revenue along with employee withholding taxes as they fall due. Full details of employer obligations, payroll taxes and personal tax rates are provided in our Tax facts publication.

Airports and sea ports: 3 international airports at Dublin, Shannon and Cork, and 6 regional airports. The major sea ports are Dublin, Cork, Rosslare and Waterford

Education: 81% of Irish students complete second-level education and approximately 60% go on to higher education. This continued commitment and investment in education has helped to develop a knowledgeable and innovative workforce in Ireland.
**Culture:** Ireland is a diverse and multi-cultured society. Extensive immigration has helped Ireland become a melting pot for skills, experience and creativity.

| Population: 4.6 million |
| Nationality: Irish |
| Language: English |
| Location: The island of Ireland is situated in the north west of Europe and lies approximately 20km west of Great Britain |
| Capital city: Dublin |
| Size: 70,282 km² |
| Currency: €uro |
| Climate: Average daily temperatures of 14-16°C in summer 4-7°C in winter |
| Time difference: GMT + 0.00 (Daylight saving +1hr). Ireland is 5 hours ahead of US east coast and 8 hours behind Beijing and Hong Kong |

You’ll be in good company – some companies who have made Ireland their home in Europe.

![Company Logos]
SCHEDULE B: DOING BUSINESS IN NORTHERN IRELAND

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1. WHY NORTHERN IRELAND?

Currently over 700 foreign investors have chosen to locate in Northern Ireland, including:

Key reasons why Global Companies set up in Northern Ireland.....

- Highly skilled young workforce
- Global expertise
- Strong work ethic
- NI offers a low cost, high-value location for investors
- Salary costs up to 30% lower than other EU locations
- Strong Pro-Business climate
- Support packages available for capital investment, employment, interest relief, research and development, training and marketing
- Regional government committed to assisting FDI

Key Sectors that have set up in Northern Ireland include:

- Business Services
- Information & Commination Technologies (ICT)
- Information financial Services
- Renewables
2. NORTHERN IRELAND – STATISTICAL INFORMATION

The economy (taken from DETI Economic Commentary, 2013)

Output

- Independent economic forecasters predict economic growth of around 1.6% for Northern Ireland in 2014.
- Regional Gross Value Added (GVA) is a key measure of regional economic output. Northern Ireland’s GVA for 2012 shows that the region’s GVA increased by 1.2%.

Economy Structure

- Small and medium sized Enterprises (SMEs) account for 99.9% of the number of businesses in Northern Ireland, and accounted for two-fifths of spending on research and development and 32% of exports.
- Of the larger firms, 200 firms with more than 250 people account for 23% of total employment and 26% of turnover. They also deliver 68% of Northern Ireland’s exports.
- In 2013 there were 765 foreign owned companies operating in Northern Ireland.
- There are 75,000 jobs in foreign owned businesses. Production / Manufacturing / Services

Production/Manufacturing/Services

- Overall production output was up by 4.3% in Q3 2013, compared to a 0.6% decline in total UK output.
- NI manufacturing output grew by 4.9% in Q3 2013, compared to a contraction in UK output.
- An increase of around 800 additional manufacturing jobs (1.1%) was recorded in 2013.
- Output in the service sector increased by 1.4% in Q4 2011, compared to 0.8% growth in the UK.

Employment & Labour Costs

- The unemployment rate for Northern Ireland, at 7.3% is slightly higher than the UK average of 7.1% and lower than the European Union (10.9%).
- The numbers claiming unemployment assistance decreased by 5,400 in the past year.
- Northern Ireland has the most competitive labour costs in the UK.

Population

In 2012 it was estimated there were 1.84m people living in Northern Ireland. Over 40% are aged 29 or under, and nearly 60 per cent are under the age of 40. The appeal of Northern Ireland as destination for many multinational concerns has been its young and adaptable work force with a ‘can do’ attitude.

Northern Ireland’s education system has long been recognised as among the best in Europe. Nearly a fifth of public expenditure is on education and Northern Ireland consistently out-performs all other UK regions in academic qualifications. Two world-class universities and an extensive network of further education colleges provide excellent academic and vocational training. Both universities are responsive to business, creating graduates with skills, competency and acumen in business-relevant areas. Over 2,000 people graduate each year with business qualifications in Northern Ireland.
3. WHAT BUSINESS STRUCTURES ARE AVAILABLE IN NORTHERN IRELAND?

The following section outlines the different business structures currently operating in Northern Ireland, starting with a company.

A company is a legal form of business which is a separate legal entity and is therefore separate and distinct from those who run it. In the event of litigation the company is liable (as opposed to the shareholders or owners). The Companies House is the central repository of public statutory information on Northern Irish companies. The Companies Act 2006 regulates the formation and dissolution of companies in Northern Ireland. Its commencement on 1st October 2009 has provided a single company law regime that applies to the whole of the United Kingdom. Companies are UK companies rather than GB or Northern Ireland companies, and the same legislation applies to all. As a consequence, Companies Registry Northern Ireland (CRNI) has integrated with Companies House, under the Department for Business, Innovation and Skills (BIS).

Generally one or more persons are permitted to form a company for any lawful purpose by subscribing to a memorandum of association. A company will not be incorporated unless it appears that the company, when registered, will carry on an activity in Northern Ireland.

Prior to the formation of a company, the Memorandum of Association (sets out the company objectives) and the Articles of Association (regulates the manner in which the affairs of the company are conducted) are required. Once formed, every company is required to keep ‘proper books of account’.

**Limited Company**

The shares of a limited company are owned by its shareholders. The liability of the shareholders is limited to the greater of the amount of the nominal value of the shares or the amount agreed to be paid in respect of the issue of the shares. A limited company can either be a public limited company (plc) or a private company. A plc may seek subscriptions from the public and apply to have its shares quoted on a stock exchange. A private company is prohibited from inviting the public to subscribe for shares in the company. A private company can be limited by shares or guarantee (can be with or without share capital). A Community Interest Company (CIC) is a type of limited company designed for people who want to run a business for the benefit of the community. A Right to Manage (RTM) company is run by leaseholders who have taken on the landlord’s management functions.

**Unlimited Company**

As opposed to a limited company, an unlimited company has no limit on the liability of the members. Therefore the personal assets of the shareholders can be seized by creditors which the company has failed to pay.
Partnership

A partnership is an association of two or more persons wishing to carry on business in common, normally sharing both in management and profits in accordance with a written agreement. A partnership is not a separate legal entity but it is possible to create a partnership in which some members have limited liability for the debts of the firm. A limited partnership must consist of at least one general (liable for the debts of the firm) and one limited partner. The limited partners cannot take part in management. A limited partnership must be registered with the Companies House. Limited liability partnerships must have at least two designated members which the law places extra responsibilities on.

Foreign Companies

A foreign company (those incorporated outside of the UK) may conduct business in Northern Ireland either through a branch or a place of business, depending on the level of independence of the UK operation. It is important that all the taxation and company law implications are considered in making this decision. Both a branch and a place of business operating in the UK must register with the Companies House. A company may operate a Branch in Northern Ireland which is a division of a foreign company trading in Northern Ireland that has the appearance of permanency, has a separate management structure and has a degree of financial independence.

A Place of Business is an office which performs operations ancillary or incidental to the company's business, not being a branch. This would include a share transfer or registration office and an office which undertakes promotional activities for the business of the company.

A Societas Europaea (a SE) or European Company is a type of public limited company which can operate on a European wide basis. The regulations under which it is established require Member States to treat an SE as if it is a public limited company formed in accordance with the law of the Member State in which it has its registered office. The principal advantage of an SE is that it can operate on the basis of a single set of rules and a unified management and reporting system, thereby reducing costs for a network of subsidiaries governed by different national laws. Upon registration an SE has legal personality and the registered office and head offices must be in the same Member State.

A European Economic interest Grouping (EEIG) is an association of businesses and/or individuals from different European Union countries who need to operate together across national borders. It may be set up in any of the member states in the EU and operate in any part of the EU. If the central administration of the EEIG is in the UK, generally registration with the Companies House is required.
4. WHAT ARE THE FILING REQUIREMENTS IN NORTHERN IRELAND?

The filing requirements of both Northern Irish and foreign companies operating in Northern Ireland are summarised in this section. All Northern Irish companies and some foreign companies operating within Northern Ireland are required to file an annual return to the Companies House at least once every twelve months. Depending on the type of company incorporated, accounts may also be required to be filed with the annual return, as outlined below.

Every company must prepare accounts that report on the performance and activities of the company during the financial year. This starts on the day after the previous financial year ended or, in the case of a new company, on the day of incorporation. Financial years are determined by reference to an accounting reference period. The financial period ends on the accounting reference date. Companies have the choice to make up their accounts to the accounting reference date or a date up to seven days either side of it if this is more convenient.

**Northern Irish Companies**

All Northern Irish companies, whether trading or dormant, are required to file an annual return with the Companies House at least once every twelve months. The annual return contains details of the company’s directors, secretary, registered office, shareholders and share capital. The annual return must be filed within 28 days after the anniversary of incorporation of a company or of the anniversary of the made-up date of the last annual return. As outlined below, different types of companies are subject to individual filing requirements but in most cases audited accounts must be filed with the annual return.

**Private Limited** and **Public Companies** are required to file accounts with the annual return. The accounts include a profit and loss account, balance sheet, directors’ report and an auditor’s report and must be audited unless the company is exempt.

**Unlimited companies** need only deliver accounts to the Companies House if at any time during the period covered by the accounts the company was a subsidiary or parent of a limited undertaking, a banking or insurance company (or the parent of either) or each of the company’s members was a limited company, another unlimited company each of whose members was a limited company or a Scottish partnership each of whose members was a limited company. Limited partnerships do have to register with the Companies House but generally don’t have to make an annual return or accounts.
**Limited Liability Partnerships (LLPs)** where all the general partners are limited companies are obliged to make an annual return and file accounts for public record to the Companies House. The partnership regulations will apply to most limited partnerships that have limited companies as their general partners and are registered under the Limited Partnerships Act 1907, as these partnerships must have their principal place of business in Great Britain on registration. The Partnerships Accounts Regulations 2008 require companies which are members of ‘qualifying partnerships’ to prepare and attach accounts of the partnership to their own accounts. The accounts must conform to the requirements of the Companies Act 2006 and related regulations. However, if the LLP qualifies as small or medium it may be entitled to submit abbreviated accounts.

**Small and medium private companies** may be permitted to file abbreviated accounts which provide less information than the annual financial statements prepared for the shareholders. Public companies and certain financial services companies cannot qualify as small companies.

**Parent undertakings** are required to prepare and file consolidated group accounts. A parent company which qualifies as small need not prepare group accounts or submit them to Companies House if the group is small and not ineligible.

**Foreign Companies**

In most cases a foreign company operating a UK establishment must register with the Companies House within one month of opening, when it has some degree of physical presence in the UK (such as a place of business or a branch as discussed above). In most cases foreign companies are required to send accounting documents to the Companies House, depending on whether the company is required to prepare accounts under the law of the country in which the company is incorporated (parent law). An European Economic Area (EEA) company that is required to prepare, disclose and deliver accounting documents under parent law must deliver them to Companies House within 3 months from the date on which the document is required to be disclosed in accordance with its parent law. Some overseas companies may not be required to prepare and disclose accounting documents under parent law. Such companies are still under a duty to prepare, sign and deliver accounts to Companies House. If the foreign company is a credit or financial institution, annual accounts must be prepared and delivered to the Companies House.
5. WHAT ARE THE AUDIT REQUIREMENTS IN NORTHERN IRELAND?

This section documents the requirement for company financial statements to be audited as determined by their size and nature. The majority of Northern Irish companies require an audit by independent accountants, unless they are entitled to claim exemption on the basis of size, as discussed below. An audit is the process of checking that the way an organisation presents information about its financial position is true and fair. True and fair means that in the auditor’s opinion the company’s financial statements offer a true and fair view of its actual financial position and that any assumptions they include are reasonable.

Northern Irish Companies

Accounts of all companies must be audited by independent accountants, unless the company is entitled to claim an audit exemption. Unaudited accounts consist of a balance sheet and the notes to the accounts where applicable and must include an exemption statement. A private limited company which is not a parent or subsidiary may claim an audit exemption, if it qualifies as being small by satisfying all of the following conditions:

- Turnover must not exceed £6.5m
- Balance Sheet total is less than £3.26m
- Average employees must not exceed 50

However, even if a small company meets these criteria, it must still have its accounts audited if a member or members holding at least 10% of the nominal value of issued share capital or holding 10% of any class of shares demands it; or - in the case of a company limited by guarantee - 10% of its members in number. There is no longer a particular category for audit exempt charitable companies in England and Wales or Scotland. They will qualify for audit exemption under company law in the same way as any other company. Charitable companies may also be subject to separate requirements for audit or other scrutiny of their accounts under charity law.

The audit exemption does not grant a company any exemption from the requirement to prepare a full statutory set of accounts which give a “true and fair” view of the state of affairs of the company, and to lay those accounts before the AGM of the company. As a matter of law no public company is eligible for the audit exemption. Any company that is not a private company is by default a public company. A limited company may claim exemption from audit as a ‘dormant company’ if it has not traded during a financial year, and provided it meets certain other criteria. Qualifying dormant companies do not need to appoint auditors. The partnership regulations will apply to most limited partnerships that have limited companies as their general partners and are registered under the Limited Partnerships Act 1907, as these partnerships must have their principal place of business in Great Britain on registration. The partnership must produce audited accounts as if it were a company. The accounts must conform to the requirements of the Companies Act 2006 and related regulations.
6. WHAT ARE THE FINANCIAL REPORTING REQUIREMENTS IN NORTHERN IRELAND?

The financial statements of most Northern Irish companies may be prepared in accordance with either International Financial Reporting Standards (IFRS), as adopted by the EU, or in accordance with generally accepted accounting standards in the UK (UK GAAP) as issued by the Accounting Standards Board (ASB). EU Regulation requires all listed EU groups to prepare their consolidated financial statements in accordance with standards and interpretations issued (or adopted) by the International Accounting Standards Board (IASB) that have been adopted in the EU (EU adopted IFRS).

Future of UK GAAP

In October 2010, the UK Accounting Standards Board (ASB) began setting out proposals for the future of financial reporting in the United Kingdom and Ireland. Revised proposals published at the end of January 2012 propose replacing all extant FRS’s, SSAPs and UITF abstracts in the UK and the Ireland with a single FRS, introducing a reduced disclosure framework for the financial reporting of certain qualifying entities and retaining the ‘Financial Reporting Standard for Smaller Entities’ (FRSSE) with a further consultation on how to update it following the European Commission proposals for the future of financial reporting for small and micro House companies.

The ASB is proposing to adapt IFRS for SME’s into FRS 102 ‘The Financial Reporting Standard applicable in the UK and Ireland’. In this way, the UK and Ireland will operate under one consistent, international accounting framework. The proposals are aligned with the requirements of company law and do not extend the application of EU-adopted IFRS beyond that set out in company law or other relevant Regulations. The proposals are to apply for accounting periods beginning on or after 1 January 2015. Early application is permitted for accounting periods beginning on or after the date of issue of corresponding standards, subject to the additional requirement for a public benefit entity that it must also apply a public benefit entity SORP which has been developed in accordance with those standards.
7. Headline Tax Advantages of Establishing a Northern Ireland (NI) Company

There are some very compelling reasons to establish a company in Northern Ireland. These include:

- Falling corporation tax rates with a main rate of 21% by 1 April 2014 (26% Financial Year (FY) 2011, 24% FY 2012, 23% FY 2013) and a rate of 20% for smaller companies with profits up to £300,000
- Substantial shareholdings exemption on disposals of subsidiaries by NI holding companies
- Tax relief for Foreign Dividends
- Generous tax Reliefs for expenditure on Research and Development
- Patent box rate industry tax reliefs
- Extensive Double Tax Treaty Network
- Generous Income and Capital gains tax incentives and reliefs for entrepreneurial investment
- Maximum 20% withholding tax rate on interest/royalty payments with the potential for a 0% rate
- Industry standard Transfer Pricing Rules
- No withholding tax on Dividends

How NI Companies are Taxed

Corporation Tax

UK Corporation Tax applies to all profits (income and gains), wherever arising of a UK/NI tax resident company. A NI branch or agency of a foreign resident company is also liable to UK Corporation Tax on profits (including gains on assets situated in the UK used for the purposes of that trade) derived from its UK/NI based activity.

Rates of Corporation Tax

- 21% rate applies to all profits and gains in excess of £1,500,000. However, if the company’s profits are between £300,000 and £1,500,000 then marginal relief applies.
- 20% rate applies for small companies whose profits and gains are less than £300,000.

All of the above limits are divided by the number of associated companies. The limits are also apportioned if the company’s accounting period is less than 12 months.

The corporation tax rate will be further reduced to 20% for all companies from 4 April 2015 so the associated rules will no longer impact on the level of corporation tax.

NI Tax Residency

The liability to corporation tax is primarily based on the concept of UK residence. Resident companies are taxable on their worldwide income and gains. Non-resident companies may be subject to UK corporation tax if they have UK/NI source trading income. Non-resident companies that do not trade in the UK/NI are not subject to corporation tax but may be subject to UK income tax at basic rate on UK/NI source income, for example, on rental income from UK/NI property. Non Resident Companies may also be liable to
corporation tax in respect of the disposal of assets used for trading purposes in UK/NI.

A company is considered UK/NI tax resident if it is not incorporated in the UK. If the company is not incorporated in the UK it can still be deemed UK resident if it is centrally managed and controlled in the United Kingdom.

The place of management and control is determined by a number of factors which include the location of directors’ meetings, where negotiation of major contracts is undertaken, where shareholders’ meetings are held and where the majority of directors reside.

Where a company is NI/UK resident under either the incorporation or central management and control test but is also resident in the country of a treaty partner, the terms of any company residence tie-breaker clause in the treaty must be considered to determine where the company is resident.

**Taxable Profits**

In calculating taxable profits of a company, income from various sources is added together. The starting point is generally the profit (before tax) in the statutory accounts (IFRS or GAAP) which is adjusted for tax purposes for certain statutory adjustments. Some of the most common adjustments are:

- Expenditure which is not wholly and exclusively for business purposes is not deductible (expenses are generally tax deductible if they are not of a capital nature and are wholly and exclusively incurred for business purposes);
- Amortisation of capital expenditure is added back and statutory capital allowances deducted instead (see below);
- Certain expenses (e.g. patent royalties) are deducted on an accruals basis against total income;
- General provisions and provisions for contingent losses are added back; and
- Taxation of Intellectual property is based on amortisation in accounts and profits on sales taxed as income.

While depreciation in the accounts is not deductible for tax purposes, a form of tax depreciation (known as capital allowances) is available for certain assets used in the trade of a company. Capital allowances allow the cost of the capital assets to be written-off against the taxable profits of a business and take the place of commercial depreciation charged in accounts.

The Annual Investment Allowance gives a 100% writing down allowance on the first £500,000 (increased from £250,000 from April 2014) spent on general plant and machinery in a period. This is time apportioned where an accounting period is less than 12 months but is available to companies of all sizes.

After this initial allowance, the main rate of capital allowances for general spending on plant and machinery is 18% a year on the reducing balance basis with some 100% enhanced allowances for certain energy and water efficient equipment. Capital allowances at the rate of 8% applies to assets which fall within the special rate pool. This includes assets such as integral features (e.g. lifts, air-conditioning) and cars with high CO2 emissions. Capital allowances are also available on certain intangible assets such as patents, designs, trademarks and know-how.

**Losses**

Trading losses may be utilised in 4 principal ways:

- Against other profits of the same period;
- Against other profits in the prior period;
- Against profits of the same trade in future periods; and
- As group relief in the same accounting periods to other group companies.

Trading losses do not expire but may be lost or restricted if there are changes to the trade or the way in which it is carried on following a change in ownership.

**Groups of Companies**

Members of a group may surrender current year losses, excess charges on income (such as qualifying charitable donations), excess management expenses, excess losses from UK/NI property businesses, excess losses on non-trade Intangible Fixed Assets and excess non-trading deficits on loan relationships. Two companies will be members of a group if one is a 75% subsidiary of the other or both are 75% subsidiaries of a third company. A company is a 75% subsidiary of another company where not less than 75% of the ordinary share capital is owned directly/indirectly by that company, the shares
entitle the shareholder to at least 75% of the available distributable profits and the shares entitle the shareholder to at least 75% of the company’s assets on relationships. Two companies will be members of a group if one is a 75% subsidiary of the other or both are 75% subsidiaries of a third company. A company is a 75% subsidiary of another company where not less than 75% of the ordinary share capital is owned directly/indirectly by that company, the shares entitle the shareholder to at least 75% of the available distributable profits and the shares entitle the shareholder to at least 75% of the company’s assets on a winding up.

Group relief is also available to UK/NI parent companies (or its UK/NI resident subsidiary), subject to certain strict conditions, in respect of trading losses incurred by their non UK subsidiary companies where such a company is resident in the EEA or has incurred a loss in a permanent establishment in the EEA.

Loss relief can also be surrendered by a trading company to members of a consortium. A company is owned by a consortium if:

- At least 75% of its ordinary share capital is owned by companies (known as members of the consortium),
- None of whose shareholding is less than 5%, and
- Each member of the consortium is entitled to at least 5% of any profits for distribution and at least 5% of any assets on a winding up.

The company owned by a consortium can be:

a) a trading company, or
b) a holding company whose business consists of the holding of shares in 90% trading subsidiaries, or
c) a trading company which is a 90% subsidiary of a holding company owned by the consortium and is not a 75% subsidiary of any other company.

The company owned by the consortium may be either a claimant or surrenderer of the relief. The residence of the companies is not relevant in determining if the consortium relationship requirement is satisfied. However, the claimant and surrendering company must be either UK resident or carry on a trade in the UK through a Permanent Establishment. The public sector can also arrange for projects such as roads, public transport, waste management and water services to be undertaken by entering into a Public Private Partnership (PPP) arrangement. These arrangements involve a private sector company (or consortium) agreeing to design, build and, possibly, operate the project in return for annual service charges which are paid by the public sector body. While tax issues surrounding PPPs are often complex, the UK has established tax practices in matters relating to PPPs.

UK tax legislation also prevents the avoidance of corporation tax by pricing goods at an artificial level in order to achieve profits in tax havens or in countries with lower rates of taxation. Accordingly, transactions (including the giving of loans) between ‘associated persons’ (namely, persons who are under common control or who control one another) are treated as transactions taking place at ‘market value’. Transactions between UK companies are also caught by the transfer pricing legislation.

The UK also operates disclosure and anti-avoidance provisions in relation to Controlled Foreign Companies (CFCs). These rules have been subject to major reform from 1 April 2012 with the aim of improving the UK’s competitiveness and making the rules easier to operate.

**Dividends Received**

The basic principle is that all dividends and other income distributions received by UK companies are taxable, regardless of the residence of the payer of the dividend.

However, due to a wide range of exemptions, in practice, both UK and non-UK dividends received on or after 1 July 2009 will be exempt from corporation tax. Note that this change means that all dividends received from non-group companies (whether resident in the UK or not) are classed as Franked Investment Income and must be taken into account when calculating the rate of corporation tax payable by a company.

**Dividends Paid**

There is no withholding tax on payments of dividends from a UK company. Dividends are not tax deductible in the calculation of taxable profits.
Royalties

Payments for patent royalties are tax deductible. A company must deduct income tax at the basic rate (currently 20%) on payments of patent royalties and other forms of annual royalty payments made to UK resident individuals and (depending on the contents of any DTA) from non UK companies.

Interest

Interest on loans used for the company’s trade is generally tax deductible. However, some restrictions are in place on the tax deductibility of interest for example on loans used for non trade purposes. A company must deduct income tax at a basic rate (currently 20%) on payments of annual interest made to UK resident individuals and (depending on the contents of any DTA) from non resident companies.

A UK company also needs to be able to demonstrate that it is adequately capitalised to support a deduction for intragroup interest payable. For accounting periods commencing after 1 January 2010, a ‘debt cap’ will apply. The debt cap limits the tax deduction to the extent that the UK company’s net finance expense exceeds the worldwide group’s gross external finance expense.

Tax Compliance

The UK operates a self-assessment system for the payment and filing of tax returns for companies and branches. In general, there is one corporation tax return filing requirement per accounting year with one payment of corporation tax for smaller companies and four payments of corporation tax for larger companies. Tax returns and payments for companies must be electronically filed online using iXBRL.

EU Interest and Royalties Directive

The above Directive provides for the abolition of withholding tax on business interest and royalty payments made by a company in one Member State/Switzerland to its associated company resident in another Member State/Switzerland. It applies to a payment whether made by a UK resident company or by a company resident in another EU Member State/Switzerland if the payment is made for the purposes of the trade carried on by the company through a permanent establishment in the State. For the purposes of the Directive the claimant and the payer must be 25% associates.

CGT Exemptions on Share Disposals

UK corporation tax at the prevailing rate applies to gains arising on the disposal of shares. The UK operates a substantial shareholdings exemption which exempts gains arising to a UK/NI based holding company on the disposal of qualifying shareholdings in another company. The exemption applies to shareholdings of at least 10% in trading companies or trading groups.

Research and Development Tax Relief

Certain companies incurring research and development expenditure of a specific nature are entitled to claim enhanced R&D tax relief. Companies that are small or medium-sized enterprises (and part of a small or medium sized group) are entitled to an enhanced deduction of 225% of qualifying R&D expenditure. The company must have spent at least £10,000 on qualifying research and development expenditure in the accounting period (there are plans to abolish this
requirement), the limit being scaled down for short accounting periods. Qualifying research and development expenditure is expenditure directly contributing to the research and development activity of the company. Where a company has a ‘surrenderable loss’, it may claim an R&D tax credit. Where the R&D tax credit is claimed, the trading loss carried forward is reduced by the corresponding amount. The R&D tax credit will be paid to the company by HMRC or may be set against any corporation tax liabilities due.

For a large company (i.e. one which exceeds the small and medium-sized enterprise company limits), the relief given is 130% of the qualifying costs. Such companies are not entitled to surrender the amount for tax credits.

The credit is available to companies who are in the charge to UK corporation tax and is therefore available to overseas companies with branches carrying on a trade in the UK/NI.

**Patent Box**

Was introduced on 1 April 2013 and is being phased in up to 2017. Companies who hold qualifying patents can elect to be taxed at the rate of 10% on profits arising from qualifying production expenditure. Where this results in a loss, a company could obtain a payable tax credit of 23% of the UK qualifying production expenditure.

**The Creative Industry Tax Credit**

The creative industry tax relief was introduced with effect from the 1 April 2013. This relief is targeted at companies involved in animation, high-end television and video games. Under the scheme a company can obtain an additional tax relief on UK qualifying production expenditure at a rate of 100%. Where this results in a loss, a company could obtain a payable tax credit of 23% of the UK qualifying production expenditure.

**Extensive Double-tax-Treaty Network**

The UK has signed and fully ratified comprehensive double taxation agreements with 121 countries and is negotiating several new agreements. These agreements cover direct taxes, which in the case of United Kingdom are income tax, corporation tax, inheritance tax and capital gains tax.

The UK’s double taxation agreements contain the following important mechanisms for avoiding double taxation:

- Elimination or reduction of withholding taxes;
- Reduction in territorial scope of taxation of certain forms of income and gains from taxation, in particular by reference to permanent establishments;
- Credit for taxes;
- Residence tie-breaker clauses;
- Procedures for resolution of disputes between two competing claims of tax authorities, typically in transfer pricing situations; and
- Non-discrimination provisions

Where a double taxation agreement is not in place with a particular country, domestic UK tax law provides for unilateral relief against double taxation in respect of certain types of income.

As at April 2014, the United Kingdom had a current comprehensive double taxation treaty with the following territories:

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that apply to
certain types of employee
including employees sent to work in a
business by their employer in a country in the
EEA and employees sent from countries with
which the UK has a Reciprocal Agreement or
Double Contribution Convention.

If an employee comes from a country outside
the EEA and without a Reciprocal Agreement
or Double Contributions Convention and if
certain conditions apply, then no NICs are due
for the first 52 weeks after the employee
arrives in the UK. There are also 52 week
exceptions for certain students and
apprentices. Once the initial period of 52
weeks finishes, NICs should be deducted in the
normal way.

How Individuals are Taxed

Income Tax

In the UK/NI, an individual is generally assessed for income tax for the financial year starting on 6 April in one year and ending on 5 April in the following year in excess of a personal allowance (for the 2014-2015 tax year, the basic allowance is £10,000). The UK personal allowance reduces at the rate of £1 for every £2 of income over £100,000.

Income Tax is payable on UK/NI source income and on income for services performed in the UK/NI.

The most common form of income tax is PAYE (Pay As you Earn) which is salary withholding tax deducted by the employer from the employee’s pay. Income Tax is operated under a progressive tax system which applies tax at rates of 10% (savings income only up to a defined limit), 20%, 40% and 45%.

The system for taxing individuals moving to the United Kingdom is generally unique. An individual’s liability to UK tax not only depends on where they are resident, but also where they are ordinarily resident and domiciled. Current rules regarding UK tax residence are complex, however there is now a Statutory Residence Test.

Broadly, any individual present in the UK/NI for over 183 days in the tax year or over 91 days on average over four consecutive years is classed as UK resident. Additional tests apply for individuals frequently visiting the UK and those with connections to the UK. The term ‘domicile’ is not defined in UK tax law, and is a purely common law concept. Domicile is distinct from nationality, citizenship or residence. In very broad terms, an individual is domiciled where he has his permanent home and where he considers his permanent home to be. If a person is resident and domiciled in the UK, then they will be subject to UK tax on their worldwide income, gains and assets, irrespective of where these are situated. Individuals not domiciled in the UK can elect to be taxed differently, effectively limiting their UK tax liability to their UK source income and gains and foreign source income and gains which they bring to the UK (‘remittance basis’). Legislation provides instances when this election is required. The election has to be made each year in most cases. Individuals not domiciled in the UK might be liable to pay an annual levy of either £30,000 or £50,000 to be taxed under the remittance basis of taxation, depending on the length of time they have been resident in the UK. The levy is payable in addition to their UK tax liability for the year.

Social Security

Employed persons over the age of 16 are compulsorily insured under a State administered scheme of National Insurance Contributions (NICs). Contributions are made by both the employee and the employer on all employment income including certain benefits in kind. The NIC contribution for employers is 13.8% of the salary payments (above the secondary threshold) and is deductible in the calculation of taxable profits. The employee also pays NIC at a rate of 12% (on earnings between the primary threshold and the upper earnings limit) with a further 2% payable on amounts in excess of the upper earnings limit.

If an individual is employed by a company outside the UK/NI and is sent to work in a UK/NI business, the UK/NI business must act as their ‘host employer’ and deduct NICs in the normal way. However, there are exceptions that apply to certain types of employee including employees sent to work in a business by their employer in a country in the EEA and employees sent from countries with
which the UK has a Reciprocal Agreement or
Double Contribution Convention.

Germany, Ghana, Greece, Grenada, Guernsey, Guyana, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Isle of Man, Israel, Portugal, Qatar, Romania, Russian Federation, Saint Kitts & Nevis, Saudi Arabia, Serbia, Singapore, Slovak Republic.
Effective tax rates for income tax and NIC can be summarised as follows in 2014/15:

- A single individual earning a salary of £30,000 will pay an effective rate of 11.5% in tax and national insurance
- A single individual earning a salary of £55,000 will pay an effective rate of 29% in tax and national insurance
- A single individual earning a salary of £200,000 will pay an effective rate of 41.7% in tax and national insurance

**Taxation of Foreign Workers in NI**

A foreign executive coming to work in the UK/NI will be tax resident in the UK/NI if he/she spends 183 days in UK/NI in a tax year or he/she makes substantial annual visits to the UK/NI (visits averaging 91 days or more a year for each of four consecutive years).

It may be possible to relax strict PAYE requirements for employees on short-term business visits to the UK in certain circumstances.

**Conditions**

This arrangement must only be applied where individuals are:

- Resident in a country with which the UK has a Double Taxation Agreement under which the Dependent Personal Services/Income from Employment Article (Article 15 or the equivalent) is likely to be competent.
- Coming to work in the UK for a UK company or the UK branch of an overseas company, or are
- Legally employed by a UK resident employer, but economically employed by a separate non resident entity.
- Expected to stay in the UK for 183 days or less in any twelve month period.

Provided that it can be shown that for specifically named employees whose presence in the UK is 60 days or more, the UK company or branch will not in act ultimately bear the remuneration specified.

Where agreement is reached and in all other aspects the employee fails within the guidelines, then that part of the remuneration not ultimately borne by the UK company or branch can fall within this agreement. These arrangements will not apply where the expense of the remuneration is passed on to another UK company or branch and not recharged overseas.

For those whose presence in the UK is 59 days or less, it is only necessary to show that the employees were paid via a non resident employer’s payroll.

An individual who is not resident is taxed on his/her general earnings in respect of UK duties only. There is no UK income tax on foreign earnings.

Usually, UK tax is payable on employments exercised in the UK/NI even where the employment is under a foreign contact of employment. However, double taxation relief may be available where income is taxed in two countries via either exemption relief, credit relief or expenses/deduction relief.

**Other Taxes**

**Capital Gains Tax**

Capital Gains Tax (CGT) is chargeable on gains arising on the disposal of assets. Most forms of property including an interest in property (for example, a lease) are assets for CGT purposes.

Individuals who are resident or ordinarily resident in the UK are liable to capital gains tax on:

- Worldwide gains – if domiciled in the UK; and
- Gains remitted to the UK – if domiciled elsewhere.

Since 23 June 2010, basic rate taxpayers have been subject to tax on capital gains at 18% and higher and additional rate taxpayers at a rate of 28%. Gains arising prior to this date are subject to a flat rate of 18%. Entrepreneur’s Relief is available in respect of certain disposals of business interests and this reduces the rate of capital gains tax to 10% on lifetime qualifying gains of up to £10 million.

**Stamp Duty**

Stamp Duty is payable on the transfer of most forms of property where such a transfer is executed under a legal document. It is a tax payable on certain transactions, such as the following:
• Transactions in shares - these may be subject to Stamp Duty or Stamp Duty Reserve Tax; and
• Transactions in land and property – these are subject to Stamp Duty Land Tax.

The rate of Stamp Duty depends on the type of transaction and the value. For example, on the purchase of land and property, Stamp Duty Land Tax is payable on the chargeable consideration at a rate of between 0% and 7% with a flat rate of 15% to certain residential property purchased for more than £500k by non natural persons. Transfers of stocks and shares are subject to stamp duty of 0.5%.

Relief from Stamp Duty is available on transfers between associated companies (75% common shareholding) and on transfers of shares and assets under reconstructions and amalgamations where certain conditions are fulfilled. Further changes to stamp duty rates were also announced in Budget 2012.

**Inheritance Tax**

Inheritance tax is charged on individuals, including executors and trustees on death and on certain lifetime chargeable transfers of assets. The rate of inheritance tax on death is 40%. A 36% rate of inheritance tax applies where more than 10% of an estate is left to charity. Chargeable lifetime transfers are charged at 20%. Inheritance tax is not payable on estates valued at less than the nil rate band, currently £325,000. There are a number of reliefs and exemptions that apply to reduce and/or eliminate inheritance tax.

**Value-added Tax**

Value Added Tax (VAT) is a tax on consumer spending. It is collected by VAT-registered traders on their supplies of goods and services within the UK to their customers. Generally, each trader in the chain of supply from manufacturer through to retailer charges VAT on his or her sales and is entitled to deduct from this amount the VAT paid on his or her purchases. For the final consumer, VAT simply forms part of the purchase price. The UK VAT system follows EU VAT directives.

The standard rate of VAT is 20% (this rate applies to most goods and services) but lower rates of 5% (including power, utilities, energy, energy saving and heating) and 0% (including food and drink for human consumption, publications, baby wear, children’s clothes and footwear) also apply.
8. FUNDING AND INCENTIVES

Government Supports through Invest NI

Invest Northern Ireland is the region’s economic development agency. The agency works with international companies to secure new investment into the region and collaborates with existing inward investors in Northern Ireland to help expand and develop their businesses. Its overall goal is to help create wealth for the benefit of the whole community by strengthening the economy and helping it grow by supporting business development, helping to increase export levels, attracting high quality inward investment, and stimulating a culture of entrepreneurship and innovation.

Invest NI also continues to work with investors once located in Northern Ireland to encourage and assist in expanding and developing their businesses.

Invest NI offers a range of services and incentives, including funding and grants. Support is provided for three key areas:

For those starting a business;

- Business start-up advice
- Business start-up finance
- Specialist support

For those already in business;

Tailored solutions are available to help grow a business and focus on long term success. Business development is delivered around four key areas:

- Growing business: developing the infrastructure of a business to ensure it has a sound business strategy, appropriate finance in place, the right people with the right skills and is operationally efficient in terms of premises.
- Maximising Efficiencies: provides support for energy efficiency, waste management, ICT and e-business solutions. Invest NI also provide advice on supply chains and on to review and improve business processes.
- Product Development. A range of supports available for research and development ranging from design development to assistance with technical and intellectual property issues related to product development.
- Selling Outside Northern Ireland. provides assistance in researching, exploring and selling into export markets, marketing and sales and trade visits and exhibitions.

Promotion of Northern Ireland as an investment location for international investors including introduction of potential investors to local industry, government, service providers and research and educational institutions in addition to provision of information and statistics on key business sectors and locations within Northern Ireland.

Invest NI is part of the Department of Enterprise, Trade and Investment and works in partnership with many other organisations throughout Northern Ireland, and internationally. These include local councils, government departments, economic development organisations, further and higher education providers, and sector specific and business development organisations.

A strong and growing network of local Business Angels, Seed Funds and Venture Capitalists (VCs) is in place in Northern Ireland.
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Dungannon, Co Tyrone
BT71 6AP
Tele. 0044 2887750400

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