

Chapter 7

Other taxes

Employee taxes

Employee income taxes are generally collected under a payroll withholding system known as "pay as you earn" (PAYE). Each employee on commencing employment notifies the tax authorities and is then issued with a certificate showing the amount of individual tax credit available to that person, together with the rates of tax to be applied to various levels of salary. The income tax year runs from 1 January to 31 December.

The amount of an employee's credits and the rate of tax applying to income will depend on individual circumstances. The rates of individual income tax and the available credits are contained in the most recent edition of our publication **Tax Facts**.

Expatriates

Expatriate employees seconded to Ireland will generally be regarded as resident but not domiciled in Ireland. The extent to which they fall within the charge to Irish income tax will depend on the type and source of the income. With regard to employment income, where such employees are engaged under a non-Irish and non-UK contract of employment and they are paid from outside Ireland and the UK they will be taxable on their employment income only to the extent that such income is remitted to Ireland (the "remittance basis"). It is possible to minimise exposure to Irish personal tax by arranging for living expenses in Ireland to be funded from capital sources while salary is paid and retained outside Ireland. For example, tax-free remittances could be made from accumulated savings or the proceeds from the sale of a principle private residence.

The remittance basis is also available to Irish nationals who have been working overseas and who have ceased to be ordinarily resident in Ireland. Such individuals who are returning to Ireland can avail of the remittance basis for

a period of up to three years, where they are engaged under a non-Irish and non-UK contract of employment and are paid from outside Ireland and the UK.

Value added tax

In common with all EU countries, Ireland operates a consumption tax known as value added tax (VAT). VAT is charged on the supply of most goods and services. Businesses that carry on activities that are chargeable to VAT are required to register with the tax authorities and account for VAT at the appropriate rate in respect of revenues derived from the supply of goods and services.

In practice, VAT is not a cost for most businesses since the VAT may be passed on to customers. Furthermore, taxable businesses can recover the VAT suffered on the purchase of goods and services (with exceptions as outlined below) from the tax authorities through their bi-monthly VAT return. Thus, there will be no net tax cost to a business whose activities are fully taxable. For this reason, VAT is generally described as a consumption tax since the ultimate cost rests with a non-business user or a business user whose activities are exempt from VAT. Exempt businesses (such as banking and insurance) are not required to account for VAT on supplies of services but cannot recover VAT incurred on purchase of goods and services.

A reclaim of VAT incurred on the following items is, however, specifically prohibited:

- cars (including lease payments) and petrol (except where cars are considered inventory)
- entertainment, food, drink, accommodation and other personal services.

Sales of goods from Ireland to other EU businesses and to non-EU countries are zero rated.

Companies predominantly involved in the export of goods find themselves in a permanent VAT refund position (ie VAT on costs consistently exceeds VAT on their sales). In order to eliminate this cash flow cost, Ireland provides a unique regime for businesses where 75% of their revenues are derived from the supply of goods to VAT registered customers in the EU or to customers outside the EU. Such businesses may obtain authorisation from the tax authorities to purchase most goods and services free of VAT. On receipt of the authorisation ("13A Authorisation"), the business supplies a copy of this document to its suppliers and these suppliers are then permitted to apply 0% VAT to all supplies irrespective of the rate that could otherwise apply. The authorisation is available only to companies whose primary business activity is the supply of goods (as defined for VAT purposes). Companies whose primary activity is the supply of services do not qualify for this facility.

A business that is not established or registered for VAT in Ireland but which incurs Irish VAT may recover that VAT by filing a claim with the Irish Revenue authorities (EU based businesses may claim under the EU Eighth Directive while non-EU based businesses may claim under the EU Thirteenth Directive). A refund of VAT on the specific non-deductible items as outlined above is prohibited.

Details of the current VAT rates are available in the most recent edition of our publication **Tax Facts**.

Sales of goods from Ireland to other EU businesses and to non-EU countries are zero rated.

Customs and excise duties

Customs duties are an EU tax collected and administered by the tax authorities in the various Member States on behalf of the EU Commission. The duties are payable on importation into Ireland or another EU Member State of goods from outside the EU. Once the customs duties, if applicable, are paid in Ireland or in another EU Member State, the goods can then circulate freely within the EU without further customs duties. One of the

great benefits of the EU is the Single Market for trade in goods. Its key feature is that no customs duties are levied on goods between the Member States and there are no intra-EU border customs controls, provided goods originate in the EU or, if they originate from outside the EU, are in "free circulation" ie the duty, if applicable, was paid when they were first imported into the EU. In Ireland, the majority of goods are cleared through Customs using an import clearance agent.

Customs duties are charged on the "customs value" or "transaction value" of the goods, which is normally the price paid, together with insurance costs and costs of freight to the point of entry into the EU. The standard rates of duty vary between 0% and 16% depending on their classification but higher rates can apply to some products. Reduced rates of duty, or in some cases total elimination of duty, are available where the goods are imported from a country with which the EU has a preferential trading agreement.

Duties are due at the time goods are imported but payment can be deferred for up to 45 days through a special deferred payment scheme. Payment can be further deferred by storing goods in a customs ("bonded") warehouse or in premises based in a Customs Free Zone.

Relief from duties is also available where a business imports goods into Ireland for the purposes of further manufacture or processing and subsequently exports these out of the EU. A manufacturer can also opt to pay duties at the rate applying to the manufactured product where the amount of duty is lower than the duty on the imported raw materials. This duty relief was formerly only available to products in the high tech sector.

Goods imported from and exported to other EU Member States are not normally subject to formal border controls (though Customs retain the right to exercise preventative checks for anti-smuggling purposes). However, the statistical information relating to intra-EU trade has to be provided on a periodic basis by traders in compliance with statistical reporting requirements closely associated with the intra-EU VAT system.

Customs duties, in contrast with VAT, represent a real cost to business and careful planning is required in order to minimise potential costs.

Products manufactured or assembled in Ireland may qualify for reduced or duty free access to a number of African and Middle Eastern countries which have preferential trade agreements with the EU.

Agricultural commodities and processed agricultural products may qualify for "export refunds" or "bounty" payments on export from Ireland to non-EU markets. The payments are made under the EU's Common Agricultural Policy (CAP) and are aimed at compensating exporters for lower world market prices of agricultural goods.

Excise duties apply to a limited range of goods including hydrocarbon oils (such as gasoline and diesel), alcoholic drinks and tobacco products. These duties apply regardless of whether the goods are manufactured in Ireland or imported from EU or non-EU countries and are payable in addition to customs duties and VAT in the country of consumption.

Special "bonding" arrangements are available to store excise goods duty free pending release for consumption in Ireland. The duty is due when goods are released for consumption but payment can be deferred for up to 60 days, with the exception of payment in relation to hydrocarbon oils.

Excise duties are not payable on goods exported from Ireland. Special control arrangements apply to excise goods moving between EU countries which ensures that the duty is collected in the country of consumption at the appropriate rates applying in that country.

Vehicle registration tax (VRT)

Vehicle registration tax (VRT) is payable on the first time registration of road vehicles in Ireland, regardless of the origin of the vehicle. In respect of cars, the tax is charged on the open market selling price (OMSP) of the car in Ireland which equates to the normal retail price of the car. The application rate of VRT is determined by the size of the engine.

The VRT rates for 2004 are as follows:

Engine capacity	Rate
Up to 1400cc	22.5% of the OMSP
1401cc to 1900cc	25% of the OMSP
Greater than 1900cc	30% of the OMSP

Hybrid vehicles (combustion engine/electrically propelled) are eligible for a reduction of 50% VRT payable.

Other vehicles are liable to VRT at varying rates depending on the vehicle.

There are various exemptions from VRT and all are subject to qualifying conditions. The main exemptions apply to:

- individuals who bring their car to Ireland when they transfer their residence here
- non-Irish residents who are in Ireland for a temporary period, usually less than one year
- overseas students who bring their car to Ireland for the duration of their certified study course.

Capital gains tax

Capital gains tax may apply to gains on the realisation of all forms of property, stocks and shares, land and buildings, goodwill, some debts, options and currency other than euro.

Persons (companies and individuals) resident in Ireland are generally liable to capital gains tax on their world-wide capital gains. However, if an individual is not domiciled in Ireland the exposure to Irish capital gains tax is limited to Irish and UK gains and any other gains to the extent that the sales proceeds are remitted to Ireland.

Non-residents, both companies and individuals, are subject to Irish capital gains tax only in relation to gains arising on specified Irish assets. These assets include Irish land, buildings, mineral rights and exploration rights in the Irish continental shelf, together with unquoted shares the greater part of whose value is derived from these assets.

Gains on the realisation of assets used at any time in a business by an Irish branch of a non-resident company are also subject to capital gains tax.

Capital gains are computed by deducting the cost of the asset (as adjusted to reflect inflation only up to 31 December 2002) from sales proceeds. If the asset was acquired before 6 April 1974, the deductible cost is the market value of the asset at 6 April 1974, as indexed for inflation (up to 31 December 2002). Special rules apply in the case of disposals of land with development value. The standard rate of capital gains tax is 20% with the exception of some foreign life assurance products.

Irish capital gains tax legislation facilitates corporate reorganisations on a tax free basis in situations where there is a share for share exchange.

Stamp duty on transfers of property

Stamp duty is payable on the transfer of most forms of property where such transfer is effected by way of a written document; in the absence of a written document no charge will generally arise.

Duty of 1% applies on the transfer of common stock or marketable securities of an Irish company. Transfers of most other forms of property, including intangibles but excluding residential property, attract duty at 9%, where the consideration exceeds €150,000. Reduced rates are available where the consideration is less than €150,000.

Special provisions and rate bands apply to transfers of residential property where rates of up to 9% also apply.

Stamp duty relief is available for transfers arising from corporate reorganisations and reconstructions. In addition, no duty arises on transfers between associated companies (90% direct or indirect relationships). Other exemptions are available, including for transfers of intellectual property and financial instruments.

Capital duty on issue of shares

A duty of 0.5% is payable on amounts subscribed for the issue of shares in Irish limited liability companies. The duty arises only on issue of the shares and there is no annual tax on company capital.

Taxes on business property

Property taxes, known as rates, are imposed by local authorities (city corporations, urban and county councils) on the owners or occupiers of land and buildings used for business purposes. The rates are based on the size (floor area) of the building and the level of the rates is fixed annually by reference to the budgetary requirements of the relevant local authority for facilities such as sanitation, public lighting, road maintenance etc.

All commercial enterprises are charged water rates. Water usage is normally metered for larger companies and a charge made per 1,000 litres of water used. The charge varies from local authority to local authority. Some smaller companies may be charged on a fixed basis rather than a metered basis.