Ireland

Q&A: How multinationals use Ireland to lower their tax bills

Why and how Dublin has become so attractive to multinationals

Jamie Smyth in Dublin MAY 22, 2013

Why do multinationals choose Ireland to locate?

Dublin has used low corporate tax rates as a magnet to attract multinationals since the late 1950s. It levies a rate of 12.5 per cent on company profits, one of the lowest in the EU. The low tax rate, English-speaking workforce and access to the EU market helps it attract US companies aiming to sell products and services to Europe and the rest of the world.

How many multinationals operate in Ireland?

There are more than 1,000 multinationals with operations in Ireland, employing about 150,000 people. The strength of this sector has helped Ireland to return to modest economic growth following its economic crisis in 2008. Google, Microsoft, Apple and Pfizer are just a few of the companies with significant Irish units.

How does the EU single market benefit multinationals?

They can establish operations in one EU member state and sell to all countries within the EU single market. As long as they can prove the sales were generated by their Irish operation, they pay the Irish rate of corporate tax. This enabled Google to pay just £3.4m in UK corporation tax in 2011. Profits on the $4.9bn of sales to UK customers were made in Ireland, where the company says the sales are executed, and liable to Irish corporate tax.

Is it just the headline tax rate that attracts multinationals?

No. The headline rate of 12.5 per cent is often not paid on all the revenues that flow through thousands of different companies that are incorporated by multinationals in Ireland. Irish company law and loopholes in US taxation legislation combine to enable companies to deploy complex tax avoidance strategies that reduce their overall tax bills.

How does ownership of intellectual property help to cut taxes?

Many of the multinationals with European and global headquarters based in Ireland are technology companies, which generate a significant amount of profit from their intellectual property. To reduce their tax liabilities in Ireland many hold their IP in tax havens such as Bermuda and the Cayman Islands, where there is no corporate tax levied.

What role do Irish incorporated but non tax resident companies play?

In 1988 the UK introduced laws to prevent the use of UK incorporated but non tax resident companies, and in 1999 Ireland did the same. But Irish law gives flexibility to multinationals to continue using Irish incorporated but non tax resident companies. Irish tax law enables Irish incorporated companies to avoid Irish tax if they are centrally managed and controlled outside Ireland as long as they are related to a company with substantive Irish operations. Google, Microsoft and Apple employ thousands of Irish staff enabling them to qualify.

What type of tax avoidance strategies do multinationals use?

The so called "Double Irish" relies on two Irish incorporated companies. The first company, which is generally tax resident in Ireland, pays royalties to use intellectual property, which generates expenses that reduce the amount of tax paid in Ireland. The other company, typically incorporated in Ireland but not tax resident in the country, collects the royalties in a tax haven such as Bermuda or the Caymans, thereby avoiding Irish taxes.

What about the Dutch sandwich?

To avoid having to pay Irish withholding tax on these royalties, the payments made by the Dublin company were previously funnelled through the Netherlands on their way to Bermuda, creating the so called "Dutch sandwich". However, recent changes to the tax system mean companies such as Google now do not have to funnel revenues through the Netherlands, and instead can send them direct to Bermuda.

What about Apple's Irish operations?

The US Senate committee accuses Dublin of being at the centre of a complex tax avoidance strategy that has enabled Apple to save US tax on $44bn in "otherwise taxable offshore income". It alleges Apple used non-tax resident subsidiaries in Ireland, through which the bulk of the company's international profits are funnelled. Investigators claim Apple cut a special deal with Ireland to apply a tax rate of less than 2 per cent on any profits that are taxable in the country, well below the 12.5 per cent Irish corporate tax rate.

These companies – Apple Sales International, Apple Operations Europe and Apple Operations International – are incorporated in Ireland but, according to the US Senate, not tax resident anywhere

Apple has denied that it has used "tax gimmicks" to lower its payments. The Irish government has strenuously denied claims by the US Senate that it cut any sweetheart deal with Apple.

Barry O'Leary, head of IDA Ireland, the country's investment agency, said: "Quite clearly it is very, very important to state that there is no special deal for Apple or any other company. I'm certainly in a position to say that nothing like that has been agreed by the Irish Government. That's definitely not the case," he told Irish radio on Wednesday.

“Just because you heard it yesterday in a Senate committee doesn’t mean to say it’s factually correct. What I’m saying is the question is about the Irish government and the 2 per cent. That is not something that the Irish government did for Apple,” said Mr O’Leary.

Richard Bruton, Ireland’s minister for enterprise, said the Irish government would not apologise for having a competitive tax code.

“We make no apologies for having a regime that’s designed to promote employment in this economy. It’s a regime that we’ve had for close to 50 years to be open to foreign investment and to have a tax code that is sensitive to their needs. Fair and transparent and clear for all to see,” he said.

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