

## 12.5% tax rate - why Ireland is not for turning

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Why the 12.5% tax rate has been a success for Ireland and the EU

A low corporate tax regime has been an essential part of Ireland's economic development strategy since the 1950s and has been a key factor in driving growth in the domestic economy as well as attracting foreign direct investment ("FDI"). It has proved a vital tool in addressing the economic limitations that accompany being a smaller and peripheral EU member state and has resulted in Ireland being the number one global location for FDI jobs per capita.

The introduction of the 12.5% rate effective from 1 January 2003 was critical in retaining existing FDI previously taxed at 10%, helping grow this FDI base further, as well as stimulating the domestic economy. For example, corporate tax revenue increased by some 350% from 1996 (€1.9bn) to 2006 (€6.7bn) and, despite the recent recession, was still double the 1996 level in 2009 (€3.9bn).

Despite the relatively low tax rate, Ireland is not "low tax" in corporate tax revenue terms. As a % of GDP, corporate tax revenue is relatively high by EU standards (2.9% in 2008, versus Germany at 1.1%, and an EU average of 2.7%). So our "low rate" is clearly successful in attracting investment and yielding corporate tax revenue.

Ireland's ability to attract, retain and grow our FDI base has been based largely on the combination of our low corporate tax rate, our flexible skilled labour force and our EU/Eurozone membership. Much of this investment would have otherwise been lost to the EU entirely, as Ireland typically competes with no n-EU low tax locations for such internationally mobile FDI such as Switzerland and Singapore. So what is good for Ireland is in turn good for the EU.



## **Why the 12.5% tax rate will be good for Ireland and the EU in the future**

A low corporate tax rate is more important than ever given our position as a small country on the edge of Europe and the fiscal constraints imposed by the recession and the crisis in our banking sector.

Given the fundamental importance of the 12.5% tax rate in retaining and attracting new FDI (primarily from the US and other non-Eurozone locations), it is not in the interest of Ireland, the Eurozone or the IMF to force a change in the 12.5% tax rate. Anything that weakens Ireland's international competitiveness and stability can only add to sovereign risk and contagion, thus worsening rather than alleviating current economic concerns.

It must also be remembered that there is no guarantee that increasing the 12.5% tax rate will increase Irish tax revenue, as some commentators have suggested. In ranking taxes by their impact on economic growth, recent OECD research has found corporate tax to be the most harmful. Governments seeking additional tax revenues should, therefore, consider increasing other types of tax (property, consumption and income) before increasing corporate taxes. In fact, an

OECD multi country study indicates that a 1% increase in corporation tax rates reduces inward investment by 3.7%.

Finally, internationally mobile investment is very sensitive to any kind of uncertainty. Stability in our corporate tax rate and regime is critical to investors and must be maintained if Ireland is to maintain existing FDI and continue to be in a position to compete with non-EU locations for new investments.

## **The basis for Ireland's 12.5% tax rate**

The 12.5% rate is simply Ireland's statutory corporate tax rate. It is open and transparent and available to FDI investors as well as Irish owned companies in all sectors without discrimination. There is a clear and stable legal basis for Ireland's tax rate and this is solely a matter for Ireland to determine.

The sovereignty of all EU member states in such matters is guaranteed by the Treaty of Rome and "Lisbon II". This is further evidenced, for example, by a German Constitutional Court ruling on Lisbon II which confirmed that there was no transfer of national tax sovereignty to Brussels.

The EU only intervenes in member state's corporate tax

matters where there is discrimination. The 12.5% tax rate is clearly not discriminatory and has been confirmed as being in compliance with the EU Code of Conduct on harmful tax practices. In addition, and notwithstanding some proposals to harmonise corporate tax base computation matters, EU Commissioner Semeta has acknowledged that tax competition is part of the EU Single Market.

The validity and stability of Ireland's corporate tax regime from an international perspective is bolstered by the fact that we have a growing list of tax treaties in place (61 at present), a system of full exchange of tax information, and recently introduced transfer pricing legislation.

## **So, where does the 12.5% rate go from here?**

*The Irish Government has consistently made the retention of the 12.5% tax rate a non-negotiable matter. Increasing the tax rate will not improve Ireland's economic position, but would instead likely seriously damage our ability to retain and grow FDI and, consequently, tax revenues.*

*It is in the interest of Ireland and the EU/Eurozone that our 12.5% tax rate be defended and retained.*

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