

Investing in Ireland



Issue 9

March 2011

Welcome to the ninth edition of PwC's newsletter on foreign direct investment ("FDI") in Ireland.

This issue goes to print as Ireland's newly formed coalition Government takes power with a sizable majority in Parliament. The new regime's programme for Government reiterates the commitment to maintaining the 12.5% rate of corporation tax and maintaining an attractive business environment for investors.

This edition includes recent investment announcements, details of Finance Act 2011 and other FDI updates. Remember to visit our FDI website for previous editions and more detailed information (<http://www.pwc.com/ie/fdi>).

Should any of the topics covered in this newsletter be of particular interest to you, please do not hesitate to contact me, any member of our team, or your usual PwC Ireland contact. If any of your colleagues would like to be included on our mailing list, please let us know.

Finally, I would like to take this opportunity to wish you a 'Happy St. Patrick's Day'!

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Finance Act 2011

Some key tax measures contained in Finance Act 2011 of interest to MNCs are summarised below:

12.5% tax rate

Finance Act 2011 contains no changes to Ireland's 12.5% corporate tax rate, or indeed no broad changes to Ireland's general corporate tax regime.

Start-up tax exemption

The Act confirms that the existing corporate tax exemption for start-up companies is extended to companies that begin trading in 2011. This relief is now linked to the amount of employer's social insurance ("PRSI") paid by the company and is capped at €40,000 per year. This relief applies for three years from the commencement of the trade.

"Section 110" companies

A number of changes have been made to the special regime for "Section 110" qualifying companies engaged in specified financial transactions. While such companies are subject to corporate tax at the passive rate of 25%, they are entitled to tax deductions for certain payments, including interest on profit participating loans ("PPLs") not otherwise available.

These companies were originally limited to investing in "financial assets". However, this requirement is now relaxed to allow investment in commodities, carbon offsets and leased plant and machinery (including aircraft). These are very welcome changes given the Government's recently announced plans to develop a **Green IFSC** ("International Financial Services Centre") hub for trading in carbon credits and commodities such as gold.

In addition, the extension of the Section 110 regime benefits to **aircraft leasing** should help further strengthen Ireland's position as the preferred global destination for aircraft finance and leasing activities.

The Finance Act also enacts new provisions restricting the deduction for Section 110 companies for **interest payments** made under PPLs (and swap arrangements) in certain circumstances.

However, "grandfathering" provisions will protect interest paid on securities and swap agreements issued prior to January 21, 2011. In addition, there are a number of other exemptions from these new restrictions.



Did you know...
that the fingerprint and eye scanner technology used by US airport immigration was developed by an Irish company, Daon?

"Trading" interest

The Act introduces new restrictions on tax deductions for interest on funds borrowed from a connected company where those funds are used to acquire assets, other than trading stock and qualifying intangible assets, from another connected company. This provision applies to loans made on or after January 21, 2011, with "grandfathering" for pre-existing loan arrangements.

Tax relief for "trading" interest is still available where funds borrowed from a connected company are used to acquire a trade which was previously carried on by a company not within the charge to Irish tax. Relief is available up to the amount of profits or gains of the acquired trade that are taxable as "trading" income.

"Section 247" interest

The Act introduces significant changes to the tax deductibility of interest on non-trading "Section 247" loans applied in lending to, or acquiring shares in, other companies.

These changes are targeted at certain intra-group financing arrangements and apply to transactions entered into after January 21, 2011.

Other taxation measures of interest implemented by the Act include:

- Confirmation of the announced Budget 2011 changes for income tax, the introduction of a "Universal Social Charge" and amendments to the PRSI system.
- Significant changes to the operation of Relevant Contracts Tax ("RCT") system.
- Confirmation of the patent royalty exemption abolishment effective from November 24, 2010, which had been highlighted in earlier Budget announcements.



Ireland is the largest net exporter of pharmaceuticals in the world

(World Trade Organisation Time Series Trade Statistics)

Ireland – Location of choice for funds investment

Ireland is the largest hedge fund administrator in the world with almost half of all global alternative investment funds administered here. Over \$1.71 trillion of funds are administered from Ireland.

Ireland, already a centre of excellence for UCITS funds is expected to go from strength to strength with the introduction of UCITS IV. With its very attractive tax regime, Ireland is widely recognised as being the location of choice for the establishment of UCITS Management Companies.

Finance Act 2010 introduced tax benefits in relation to UCITS IV Management Companies. If an Irish Management Company is managing a non-Irish UCITS, it will not be regarded as a branch or agency of the non-Irish UCITS. The Act also extended Irish stamp duty relief on the transfer of fund assets under fund mergers and reorganisations. Given that two of the key areas under UCITS IV are in relation to Management Companies and Master/Feeder structures, these changes will ensure that Ireland is the country of choice for the domicile of UCITS and UCITS Management Companies.

Tax treaty update

Ireland has signed comprehensive double taxation agreements with 62 countries, of which 54 are in effect.

New agreements with Georgia, Moldova, Serbia, Turkey and Hong Kong have now come into force. These treaties will be effective January 1, 2011 with the Hong Kong treaty being effective January 1, 2012.

Legal procedures to bring the new agreements with Albania, Kuwait, Montenegro, Morocco, Singapore and the United Arab Emirates into force were completed by Ireland in February 2011.

Negotiations for new agreements with Armenia, Panama, Saudi Arabia and Thailand have also been concluded and are expected to be signed shortly, while negotiations for new agreements are ongoing with Argentina, Azerbaijan, Egypt, Tunisia and Ukraine.



Nanotechnology news

A team of scientists at Cork-based Tyndall National Institute have made the world's first junctionless transistor even smaller. The breakthrough has sparked off huge interest amongst the leading semiconductor manufacturers around the globe.

A 2009 review by Science Foundation Ireland found that with regard to nanoscience, Ireland ranked Ireland 6th in the world for impact and 6th in the world for output normalised for capita.

Ireland – Game on!

Some of the biggest games in the world including 'Call of Duty 4 – Modern Warfare' and 'Halo 3' use technology from Irish companies.

In recent years, Irish companies have gone from strength to strength on the global gaming stage. This has resulted in a number of high profile acquisitions and collaborations involving Irish companies such as Havok and Demonware.

Ireland is positioning itself as a 'digital island' and international gaming hub, as emphasised by the new Government's 'National Recovery Plan 2011-2016'.

The Plan aims to support IT and technology jobs in Ireland, to improve tax reliefs for R&D and to establish a network of Technology Research Centres. The plan also outlines the development of an International Content Services Centre to make Ireland a world leader in IP content management and delivery.

A nation of scholars

- Ireland has the third highest proportion of maths, science and computer graduates in the 20-29 age group in the EU (Eurostat Yearbook 2010)
- Numbers commencing undergraduate language courses are up 50% since 2007 (IDA Ireland – ICT newsletter Spring 2011)
- Numbers commencing undergraduate computer/software courses in Ireland are up 40% since 2007, while numbers commencing electronic engineering courses are up 20% (IDA Ireland – ICT newsletter Spring 2011)

Green IFSC update

A Green IFSC is proposed to replicate Dublin's IFSC (International Financial Services Centre) as a hub for green business to set up and operate in Ireland.

The new Irish Government has outlined plans to establish Ireland as a renewable manufacturing hub and aims to position Ireland as a leading player in the global carbon market.

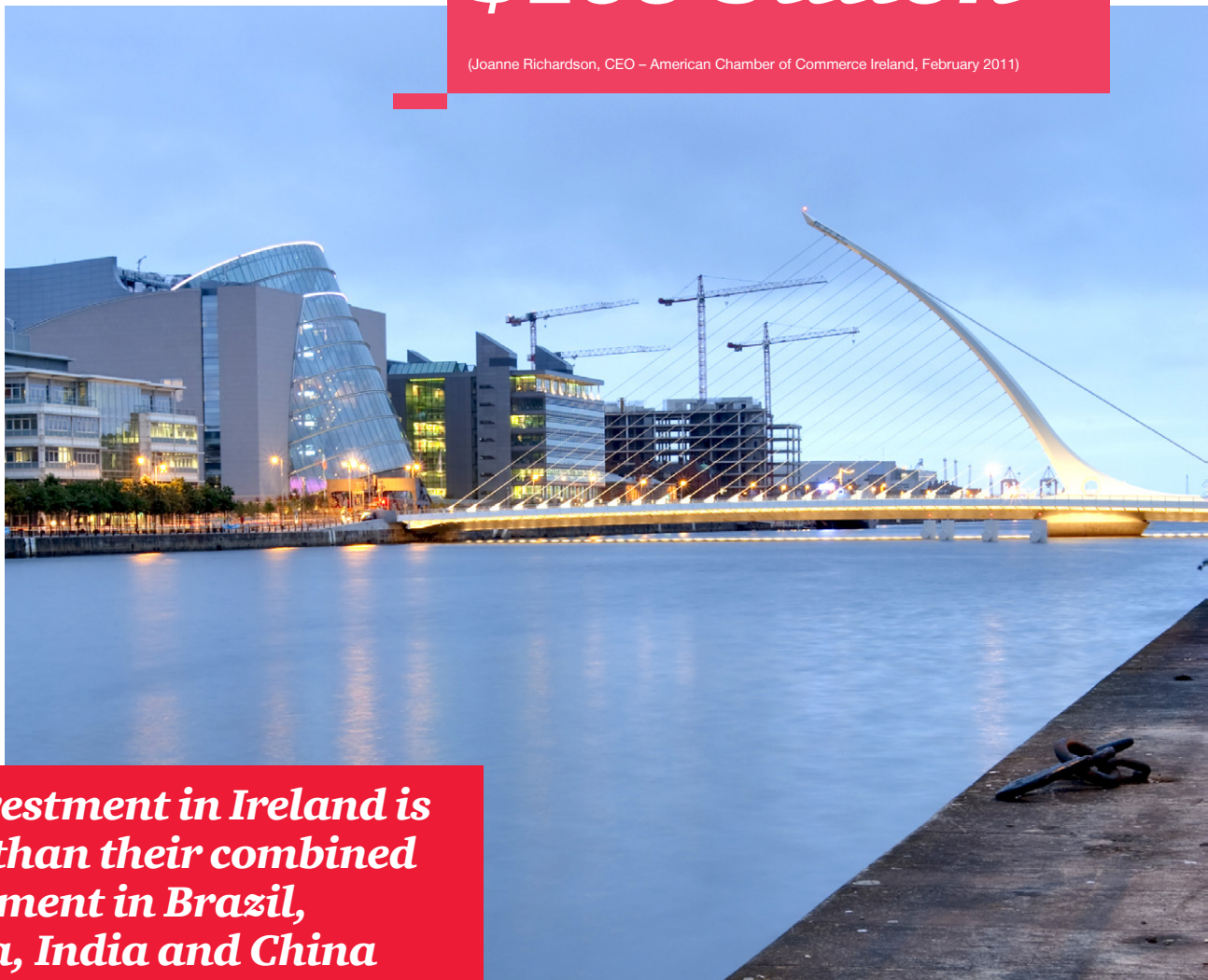
US investment in Ireland now exceeds

\$165 billion

(Joanne Richardson, CEO – American Chamber of Commerce Ireland, February 2011)

US investment in Ireland is more than their combined investment in Brazil, Russia, India and China

(Joanne Richardson, CEO – American Chamber of Commerce Ireland, February 2011)



A selection of recent announcements...

“Ireland was chosen due to the significant presence of other software technology companies; the high quality infrastructure; the availability of experienced and highly qualified professionals, multilingual talent and a pro-business environment”

Doug Garn, President and CEO of Quest Software



- **Quest Software**, a US company involved in enterprise systems and network management software products, expanded its Irish presence by establishing a shared services centre in Cork. The company expects to grow the Cork operation to 150 employees by 2013.
- Internet search giant **Google** acquired landmark Montevetro office building in Dublin for €99.9m to provide more space for existing operations and capacity for future growth.
- **Kelcourt Plastics**, Inc, a component supplier to the medical device industry headquartered in California, announced that it is establishing a new medical tubing manufacturing operation in Offaly.
- The Dublin shared services facility of pharmaceutical giant **MSD (Merck Sharpe Dohme)**, which officially opened in early February, is already looking to exceed its initial jobs target in Leopardstown.
- **American Medical Systems**, the leading supplier of medical devices to treat urological and pelvic health conditions, announced that it is to establish a manufacturing operation in Athlone with the creation of 50 jobs and plans for future expansion. The new operation will involve an investment of €4.6 million.
- **PayPal**, the leading online payments provider, announced 150 new jobs at its European operations and customer service headquarters in Dublin.
- **Fidelity Investments**, one of the world's largest providers of financial services, announced that it will add 100 new positions at its facilities in Galway and Dublin. The initiative represents an investment of €11 million by Fidelity over three years.
- **Allergan**, one of the world's leading Medical Aesthetics companies, announced that it is to locate the manufacture of its newest medical technology at its manufacturing facility in Mayo.
- **FullTilt.com**, the world's second largest online poker company, is to create 100 new jobs in Dublin.
- **Xilinx**, the US multinational technology corporation, reaffirmed its commitment to R&D operations in Ireland as it hosted a major conference of Irish and international researchers and industry partners at its EMEA headquarters in Dublin.
- **Valeo**, one of the world's leading automotive suppliers, has announced that it is embarking on a major expansion and RD&I programme in Galway, with an investment of €17m and the creation up to 100 new high-skilled positions over the next 3 years.
- **PopCap Games**, creators of the popular 'Plants vs Zombies' computer game, has said it will double its workforce in Ireland to 110 over the next three years.
- **Intel**, a world leader in silicon innovation, is to begin a substantial new \$500 million construction project at its Leixlip technology campus to add to its existing \$7 billion investment in Ireland. The company will create 200 new jobs as a result of this technology upgrade.
- **Murex**, the French financial software systems developer, announced it is to expand its Dublin operation with the creation of 30 new high value jobs.
- **Polaris Venture Partners**, a leading US venture capital firm, will open a Dogpatch Labs facility in Dublin which will be its first such facility outside of the United States.
- **Zeus**, the US headquartered medical device company, is investing €10m in a 40,000sq ft expansion and creating 75 new manufacturing jobs over 3 years in Donegal.
- **Goodman Medical Ireland Ltd**, a subsidiary of Japan based medical device manufacturer Goodman Co.Ltd, is to create up to 115 new jobs over 5 years and invest €1.1m at its facility in Galway.
- **HP**, announced that it is adding 105 new highly skilled jobs within the Global IT organization in Galway.



Ireland is the largest exporter of Infant formula in the world and one in five babies in the world will be fed on Irish-produced infant milk formula when the new €50 million investment by Danone Baby Nutrition comes on stream in Cork.

Ireland provides for Murex a pool of highly-skilled people from which to choose our workforce, an excellent environment for Research and Development and a reputation for success in software development

Francois Pourprix, Managing Director, Murex

Did you know?

Ireland is ranked....

- **1st** in Europe for economic freedom
(Heritage Foundation - 2011 Index of Economic Freedom)
- **1st** in the world for most highly employable graduates
(European Commission – ‘Study on the efficiency and effectiveness of public spending on tertiary education’)
- **1st** in Europe for most competitive location for R&D Investment
(Mazars – ‘Review of Global R&D Tax Incentives’ study)
- **1st** in Europe for youngest workforce
(IDA Ireland)
- **1st** in Euro-zone of best countries for business
(Forbes 2010)
- **1st** for investment incentives
(IMD World Competitiveness Yearbook 2009/2010)
- **1st** for immigration laws which do not prevent companies from employing foreign labour
(IMD World Competitiveness Yearbook 2009/2010)
- Ireland moves to **2nd** place globally ahead of Singapore, Denmark and Switzerland, taking its place as the 2nd most globalised economy in the world, moving up one place on last year’s rankings
(Ernst and Young Globalisation 2010 Index Rankings)
- Ireland retained **2nd** place globally for attractiveness to FDI when adjusted for economy size
(National Irish Bank / fDi Intelligence Inward Investment Performance Monitor for 2010)

Ireland regains its competitive edge

Irish competitiveness improved significantly in 2010. Business costs including energy, rents, services, construction and labour have all become more competitive. Both gas and electricity prices are now below the EU average, and the cost of living has also fallen.

Office rents costs are down by up to 50% on 2007, whilst the EU has forecast that from 2008 to 2012, Ireland's labour costs will have improved 13% relative to the EU (27) average. The cost of hiring new staff is also down 25% since 2008. The improvement in competitiveness is a major factor in the recent increase in the level of FDI into Ireland.

Cloud Computing

According to a report commissioned by Microsoft Ireland, Ireland has the opportunity to create jobs and help restore competitiveness if it moves quickly to establish Ireland as a Global Cloud Computing Centre of Excellence.

The report found that Cloud Computing is a major evolving industry that has the potential to create €9.5 billion in annual sales per annum by 2014, providing 8,600 jobs. In addition, because Cloud Computing lowers costs to businesses, by migrating to the cloud the report estimates the establishment of an additional 2,000 new non-IT small and medium businesses employing 11,000 people. Early adoption of Cloud Computing by Irish users will take costs of €0.5 billion per annum out of Irish organisations.

Would you like to know more?

Should any of the topics covered in this newsletter be of particular interest to you, please do not hesitate to contact any member of the Inward Investment team, or your usual PwC Ireland contact. If any of your colleagues would like to be included on our mailing list, please let us know.

Please click on our website www.pwc.com/ie/fdi for information on various topics of interest for investors, including:

- Why Ireland?
- Establishing in Ireland – how PwC can help
- Generating cash from Irish R&D activities
- Ireland as a centre for IP management
- Grants regime for inward investors
- International mobile employees
- Company law and other legal updates
- Doing business and investing in Ireland
- Tax facts
- The National Recovery Plan
- Finance Act 2011



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