

Ireland as a platform for investment into China

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China is a significant investment location for many multi-national companies (MNC's). With a considerable number of them using Ireland as a base from which to do business in Europe, there are interesting opportunities for MNC's to use their existing Irish operations as a platform for investing into China. Using Ireland in the China investment structure can achieve many benefits.

Challenges

Key structuring challenges for MNC's investing into China include:

- identifying a suitable holding company to make the investment,
- repatriate funds and achieve a tax efficient exit strategy,
- relocating existing group capital to fund the investment without incurring tax costs,
- financing the Chinese investment tax-efficiently, and
- managing the group tax rate in respect of the investment.

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Opportunities

- The Irish tax regime may offer opportunities to help manage these challenges:
 - existing Irish subsidiaries typically retain low taxed reserves, suitable for use as capital for the Chinese investment,
 - direct investment from Ireland to China avoids the need to extract cash from Ireland and possible tax costs.
- Ireland has an extensive treaty network and access to EU directives which reduce/eliminate withholding tax on payments from Ireland.
- Ireland has no CFC, thin capitalization or transfer pricing rules.
- The Irish holding company regime facilitates tax efficient exit planning.
- The Ireland/China treaty provides for particularly favourable treatment of capital gains:
 - possible to avoid both Chinese and Irish capital gains tax on exit.
- Ireland allows for the efficient repatriation of profits from China;
 - dividend withholding tax of 5% under Ireland/China Double tax treaty (provided 25% shareholding),
 - dividends taxed at 12.5% (where paid out of trading profits) however foreign tax credits available for dividend withholding tax and underlying tax suffered thus reducing/eliminating Irish tax arising.
- Ireland's low tax rate (12.5%) facilitates the financing of the Chinese investment:
 - opportunity to reduce Chinese effective tax rate, and
 - improve management of overall group effective rate.
- Existing Irish operations can provide the required infrastructure and expertise to support the execution and management of the new investment.

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