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Ref: PV

Dear Minister Donohoe,

Following on from your invite for feedback in relation to the potential move to a Territorial System of taxation, we are happy to outline our views in relation to the potential change.

Please note that Grant Thornton is involved with other working groups in the making of submissions regarding the proposed move to a Territorial system. We have not sought to repeat comments made through these groups, rather we have focused on key messages which we wished to impart.

Ireland's corporate tax rate has historically been one of our greatest assets in attracting global investment into our country. Whilst the rate is attractive, the rules in relation to the availability of double tax credits can be challenging. Our existing rules ensure that minimal tax arises on overseas income, however greater simplification of these rules would be welcome particularly as the challenges presented by international tax regime changes become greater and more time consuming for taxpayers

We have outlined below some of the key benefits which we believe are applicable to the move to a territoriality regime:

- Most countries with which Ireland has a Double Tax Agreement in place, have tax rates that exceed the rate of corporation tax chargeable in Ireland. The effective rate of overseas tax ensures that Ireland will typically benefit from full relief for the foreign tax incurred up to the amount of the Irish corporation tax on this income. Moving to an exemption method of taxation on qualifying dividends and/or branch income, would remove the burden of tracking the underlying foreign tax paid on such profits, together with the complex double tax relief calculations required, which already ensures minimal Irish tax arises on overseas dividend income.

- Similarly, dividends from overseas trading subsidiaries may benefit from the 12.5% corporation tax rate where certain conditions are satisfied. Consequently, Irish parent companies through the DTR pooling system, can use excess tax credits on higher taxed trading profits to shelter taxation on lower taxed trading sourced dividends. Therefore, a

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de-facto tax exemption is available already, and so a move to a full exemption system would be unlikely to lead to tax leakage in Ireland.

- When calculating the tax credit available, the year-end/assessable period of an overseas jurisdiction may differ to the Irish entities' year end. This along with the need to track foreign sourced profits and taxes can lead to complications and delays in the Irish double tax credit process which could be removed by the introduction of a territoriality system of tax.

- Our double tax relief regime distinguishes between EU sourced dividends and non-EU source for the purposes of computing underlying tax credits under Paragraph 9I, Schedule 24, TCA 1997. This leads to further complications when computing underlying tax credits, which again could be removed by a move to a territoriality regime.

Finally, in addition to the above, we believe that it would be important that there be a form of optionality in the application of any new territoriality rules, as some Irish groups may have a preference for the existing worldwide credit regime due to their current corporate structures, and to enforce a new regime on them without choice might be discriminatory.

We are pleased to make this submission for your consideration. As noted we have been involved in a number of working groups who have made submissions. We are not seeking to reiterate the points as raised by these groups. We are happy to discuss any of the points raised in the above and potential working options that would benefit stakeholders within the Irish tax system.

Yours sincerely

Peter Vale
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