



IRELAND

OUTLINE

| | |
|-------------------------------|----|
| LIST OF ABBREVIATIONS..... | IV |
| LIST OF LEGAL REFERENCES..... | V |

PART I. IMPLEMENTATION OF THE DIRECTIVE VI

| | |
|--|------|
| 1. INTRODUCTION..... | VI |
| 1.1. GENERAL INFORMATION ON THE IMPLEMENTATION OF THE DIRECTIVE | VI |
| 1.2. TAX TREATMENT OF INTEREST AND ROYALTY PAYMENTS UNDER GENERAL TAX LAW ... | VI |
| 1.2.1. Domestic rules | vi |
| 1.2.2. Treaties | viii |
| 2. SCOPE..... | IX |
| 2.1. PAYMENTS | IX |
| 2.1.1. Concept of interest..... | ix |
| 2.1.2. Concept of royalties | ix |
| 2.2. COMPANIES..... | X |
| 2.2.1. Types of companies benefiting from implementing provisions (Art. 3(a)(i)) | x |
| 2.2.2. Residence requirement (Art. 3(a)(ii))..... | xii |
| 2.2.3. Subject-to-tax requirement (Art. 3(a)(iii))..... | xii |
| 2.2.4. Associated company (Art. 3(b))..... | xii |
| 2.2.5. Beneficial ownership (Art. 1(4)) | xii |
| 2.3. PERMANENT ESTABLISHMENTS | XIII |
| 2.3.1. Definition (Art. 3(c))..... | xiii |
| 2.3.2. Application of source rules (Art. 1(2))..... | xiii |
| 2.3.3. 'Tax-deductible expense' requirement (Art. 1(3))..... | xiii |
| 2.3.4. Beneficial ownership (Art. 1(5)) | xiii |
| 2.3.5. Permanent establishment in a third country (Art. 1(8)) | xiii |
| 3. PROCEDURE | XIV |
| 3.1. MINIMUM HOLDING PERIOD (ART. 1(10)) | XIV |
| 3.1.1. General | xiv |
| 3.1.2. Relief before the holding period requirement is satisfied | xiv |
| 3.1.3. Appeals | xiv |
| 3.2. ATTESTATION (ART. 1(11) AND 1(13)) | XIV |
| 3.2.1. General | xiv |
| 3.2.2. Appeals | xiv |
| 3.2.3. Relief before the holding period requirement is satisfied | xv |
| 3.3. DECISION ON APPLICATION OF THE RELIEF (ART. 1(12)) | XV |
| 3.3.1. General | xv |
| 3.3.2. Supporting documents..... | xv |
| 3.3.3. Appeals | xv |
| 3.4. APPLICATION FOR REFUND (ART. 1(15) AND 1(16))..... | XV |
| 3.4.1. General | xv |
| 3.4.2. Appeals | xv |
| 4. FRAUD AND ABUSE (ART. 5)..... | XVI |
| 4.1. MEASURES UNDER ART. 5(1) OF THE DIRECTIVE..... | XVI |
| 4.1.1. Domestic | xvi |
| 4.1.2. Agreement-based | xvi |
| 4.2. MEASURES UNDER ART. 5(2) OF THE DIRECTIVE..... | XVI |

| | |
|---|--------------|
| 4.3. COMPARISON WITH SIMILAR MEASURES UNDER PARENT-SUBSIDIARY AND MERGER DIRECTIVES | XVI |
| 5. SUMMARY | XVII |
| PART II. THE AGREEMENT | XVIII |
| INTRODUCTION | XVIII |
| 1. SCOPE | XVIII |
| 1.1. PAYMENTS | XVIII |
| 1.1.1. Concept of interest | xviii |
| 1.1.2. Concept of royalties | xviii |
| 1.2. COMPANIES | XVIII |
| 1.2.1. Types of companies benefiting from Art. 15(2) of the Agreement | xviii |
| 1.2.2. 'Affiliated' companies | xviii |
| 1.2.3. Residence requirement | xviii |
| 1.2.4. Subject-to-tax requirement | xviii |
| 2. PROCEDURE | XIX |
| 3. SUMMARY | XIX |
| ANNEX..... | XX |

LIST OF ABBREVIATIONS

| | |
|------------------------------------|--|
| Agreement | Agreement between the European Community and the Swiss Confederation providing for measures equivalent to those laid down in Council Directive 2003/48/EC on taxation of savings income in the form of interest payments |
| FA | Finance Act |
| Directive | Directive 2003/49/EC of 3 June 2003 on a common system of taxation applicable to interest and royalty payment made between associated companies of different Member States |
| Merger Directive | Council Directive 90/434/EEC of 23 July 1990 on the common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different Member States |
| OECD | Organization for Economic Cooperation and Development |
| OECD MC | OECD Model Tax Convention 2003 |
| Parent-Subsidiary Directive | Council Directive 90/435/EEC of 23 July 1990 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States |
| Savings Directive | Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments |
| TCA | Taxes Consolidation Act 1997 |



LIST OF LEGAL REFERENCES

- Taxes Consolidation Act 1997 (30 November 1997).
- Finance Act 2004 (25 March 2004).
- Finance Act 2005 (28 March 2005).

PART I. IMPLEMENTATION OF THE DIRECTIVE

1. INTRODUCTION

1.1. GENERAL INFORMATION ON THE IMPLEMENTATION OF THE DIRECTIVE

The legislation implementing Directive 2003/49/EC of 3 June 2003 on a common system of taxation applicable to interest and royalty payment made between associated companies of different Member States (the "Directive") has been included in Sec. 41 and Schedule 1 of the Finance Act 2004 inserting new sections 267G-267K in the Taxes Consolidation Act 1997 (TCA).

Ireland has implemented the Directive in full with respect to interest and royalties. The exemption on interest under the Irish implementing provisions in most cases will be overridden by the general domestic exemption on interest paid to EU residents. Therefore, in practice implementation provisions will mainly be applied to patent royalty payments to companies resident in other EU Member States that are not exempt under the relevant income tax treaty.

The following table shows the relevant provisions of the national laws implementing the Directive.

| Articles of the Directive | Relevant sections of national laws |
|---------------------------|------------------------------------|
| Art. 1 | Secs. 267G-I TCA |
| Art. 2 | Sec. 267G TCA |
| Art. 3 | Sec. 267G TCA |
| Art. 4 | Sec. 267H TCA |
| Art. 5 | Sec. 267K TCA |
| Art. 7 | Sec. 41 FA 2004 |

1.2. TAX TREATMENT OF INTEREST AND ROYALTY PAYMENTS UNDER GENERAL TAX LAW

1.2.1. Domestic rules

a. Interest

A withholding obligation potentially applies at the standard rate of income tax (currently 20%) in respect of most categories of yearly interest paid by a resident company to residents or non-residents. The withholding tax may, however, be eliminated or reduced under the terms of any relevant tax treaty.

Payments of interest must be made gross if made between members of a 51% group or by a company owned by a consortium to a member of the consortium (Sec. 410 TCA 1997). With effect for accounting periods ending on or after 1 March 2005, this rule applies also to

payments of interest to group companies resident in another EU Member State, so long as those payments are taxable in that state.

However, the withholding obligation is excluded where the interest is paid:

- on quoted eurobonds held in a recognized clearing system or held by a non-resident who has filed a prescribed declaration (Sec. 64(2) TCA);
- to a person whose usual place of abode is outside Ireland by a company based in the International Financial Services Centre (IFSC) or Shannon Free Airport Zone (SFAZ) in the course of a qualifying financial services trade (Secs. 198 and 246(3) TCA); or
- to a company resident in another EU Member State or in a tax treaty state in the ordinary course of the payer's business; the interest must not be received in connection with a trade carried on through an Irish branch. The recipient is also exempt from income tax in respect of such interest (i.e. no theoretical Irish liability arises) (Secs. 246(3) and 198 TCA).

In practice, other than in the case of Switzerland, the provisions of the Directive add little to the existing domestic exemption for interest paid to EU residents. It may be relevant in a case where the paying company cannot demonstrate that the interest is not paid in the ordinary course of a trade or business carried on by it.

Interest treated as a constructive dividend will, instead, be potentially liable to the dividend withholding tax (see *c. Constructive distribution rules* below).

In general, interest is deductible in computing taxable trading income in so far as it is incurred "wholly and exclusively" for the purposes of the trade. Where interest on trade borrowings is paid to a connected person and such interest is not a trading receipt of the connected person, the interest will not be deductible as a trading expense until it has been accounted for as income of the connected person for tax purposes; this treatment will not apply however where the recipient of the interest is neither resident in Ireland nor under the control of Irish residents (Sec. 817B TCA).

There are no rules regarding thin capitalization as such. If the interest on a loan represents more than a reasonable commercial return, the excess interest will generally be treated as a constructive dividend (Sec. 130 TCA; see *c. Constructive distribution rules* below). No guidance is given as to how a "reasonable commercial return" is to be calculated. Interest paid to a non-resident parent or to a non-resident fellow subsidiary may also fall to be treated as a distribution.

Interest income is generally taxable when it is received.

b. Royalties

A withholding obligation applies at the standard rate of income tax (currently 20%) in respect of patent royalties paid by a resident company to residents or non-residents. In addition, the withholding tax must be deducted from the proceeds of sale of an Irish registered patent by a non-resident vendor (Sec. 757(2) TCA). The withholding tax may, however, be eliminated or reduced under the terms of any relevant tax treaty.

Payments of patent royalties must be made gross if made between members of a 51% group or by a company owned by a consortium to a member of the consortium (Sec. 410 TCA 1997). With effect for accounting periods ending on or after 1 March 2005, this rule applies also to payments of interest to group companies resident in another EU Member State, so long as those payments are taxable in that state.

Royalties are generally deductible to the extent that they are incurred wholly and exclusively for the purposes of the company's business (payments to associated companies, particularly

those outside the scope of Irish tax, may be scrutinized more closely in this regard). Patent royalties are, however, generally deducted as a *charge* against total taxable profits rather than as a trading expense.

Most forms of royalty income are taxable as they arise. Patent income received by a company resident in Ireland and not also resident elsewhere in relation to a patent in respect of which the work leading to the underlying invention (apart from incidental activities) was carried out in Ireland is exempt; the income must be payable either by a non-connected person or by a connected person engaged in manufacturing (as defined) and in the latter case, the exemption will not apply to any income paid in excess of a commercial rate (Sec. 234 TCA).

c. Constructive distribution rules

Payments which are treated as constructive dividends include interest within the following categories:

- (a) interest paid on most bonus securities;
- (b) interest on certain unquoted securities or loans convertible into shares or linked with shares;
- (c) interest on securities or loans if the return to the lender is dependent on the results of the company paying the interest; this does not apply where the rate of interest is inversely related to the profitability of the company;
- (d) interest in excess of a normal commercial return; and
- (e) interest paid to a non-resident company if:
 - the borrower is at least 75% subsidiary of the non-resident creditor; or
 - both the borrower and the non-resident creditor are 75% subsidiaries of a third company which is a non-resident; or
 - both the borrower and the non-resident creditor are 75% subsidiaries of a third company which is Irish resident (except if 90% of more of the borrower's ordinary share capital is owned by an Irish resident company) (Sec. 130(d) TCA 1997).

Interest paid under headings (a) and (b) is generally excluded from dividend treatment if the recipient is liable to corporation tax. With effect from 6 February 2003 all interest paid to a company resident in an EU Member State is excluded from heading (e) unless a company previously entitled to elect for such treatment declines to make the election; in effect, such companies may now opt for treatment as a distribution.

From 6 April 2001 interest paid under heading (e) can be optionally excluded from dividend treatment if a company pays trade-related interest to a non-resident parent company or fellow subsidiary resident in an EU Member State or any other state with which Ireland has a tax treaty. In addition, the option applies to reasonable trade-related interest paid by companies in the International Financial Services centre or the Shannon Free Airport Zone to parent companies and fellow subsidiaries resident in non-EU non-treaty states.

1.2.2. Treaties

Ireland has tax treaties with all EU Member States except Malta (see Annex). Ireland is willing to accept zero rates of withholding tax on interest and royalty payments if the treaty partner is prepared to offer reciprocal treatment of payments to Irish residents.

Ireland does not generally seek to include anti-avoidance provisions in the interest and royalty articles of its income tax treaties. However, the Irish-UK tax treaty contains anti-abuse provisions in the interest and royalty articles.

2. SCOPE

2.1. PAYMENTS

2.1.1. Concept of interest

a. Definition

The TCA makes a direct reference to the definition of interest given by Art. 2 of the Directive (Sec. 267G TCA).

b. Exclusion of hybrid financial arrangements (Art. 4(1) b)-d))

Ireland does not apply the Directive only to interest on perpetual loans under Art. 4 (1) d) of the Directive. The exemption does not apply if the underlying debt is not repayable within 50 years from the creation of the debt or where there is no provision for repayment of the principal amount (Sec. 267H TCA).

c. Exclusion of interest reclassified as profit distribution or conflicting arm's length (Art. 4(1) a) and Art. 4(2))

The option has not been not exercised other than in cases of avoidance. The exemption will be denied unless it can be shown that the payments concerned were made for bona fide commercial reasons and do not form part of tax avoidance arrangements (Sec. 267K TCA).

Under certain circumstances interest payments can be treated as constructive dividends under domestic law (see 1.2.1. *c. Constructive distribution rules*). However, constructive dividends paid to companies resident in another EU Member State or a treaty country are not generally subject to dividend withholding tax under domestic law.

There is no domestic provision applicable under the 'special relationship' clause under Art. 4 (2) of the Directive.

2.1.2. Concept of royalties

a. Definition

The TCA makes a direct reference to the definition of royalties given by Art. 2 of the Directive (Sec. 267G TCA).

b. Classification of revenue from leasing and software

The definition of royalties is identical to that given by the Directive and does not provide any additional interpretation to the income from leasing and software, nor there is any guidance published with this respect.

c. Exclusion of royalties reclassified as profit distribution or conflicting arm's length (Art. 4(1) a) and Art. 4(2))

The option has not been not exercised other than in cases of special relationships and/or tax avoidance.

The exemption does not apply to royalty payments exceeding the amount which would have been agreed between independent persons acting at arm's length (Sec. 267H TCA).

For avoidance see 2.1.1. c. *Exclusion of interest reclassified as profit distribution or conflicting arm's length (Art. 4(1) a) and Art. 4(2))* above.

2.2. COMPANIES

2.2.1. Types of companies benefiting from implementing provisions (Art. 3(a)(i))

a. Other types of entities

Ireland limits the benefits under the Directive to entities listed in the Directive, referring to the Directive and its Annex.

As far as interest payments are concerned, the provisions of the Directive add little to the existing domestic exemption for interest paid to EU residents (see 1.2.1. a. *Interest*). The exemption applies irrespective of the form of the company.

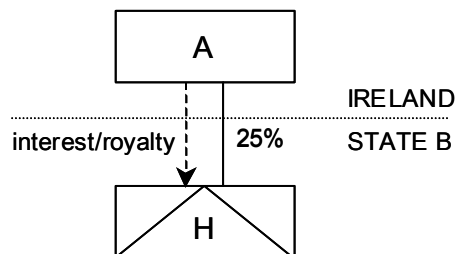
b. Hybrid entities

There are no special rules for hybrid entities. In practice, the courts are likely to look at the characteristics of a foreign entity to determine on a case by case basis whether it has a legal identity separate from its members or founders. Conclusions on the tax treatment of such payments are drawn on the basis of general implementing provisions. The issue of tax treatment of payments in situations involving hybrid entities is considered based on three hypothetical situations described below:

- Case 1: an Irish associated company pays interest and royalties to a hybrid entity H located in Member State B;
- Case 2: an Irish hybrid entity H pays interest and royalties to an associated company in Member State A;
- Case 3: an Irish associated company pays interest and royalties to an associated company through a hybrid entity H, the latter two located in Member State A.

Case 1: Payment to a hybrid entity

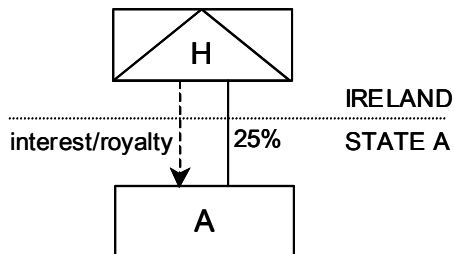
An Irish associated company A pays interest and royalties to a hybrid entity H situated in Member State B. Ireland treats hybrid entity H as a transparent entity.



Ireland has not enacted any special provisions to address this situation. If the hybrid entity is listed in the Directive it is eligible for relief under the Directive.

Case 2: Payment from a hybrid entity

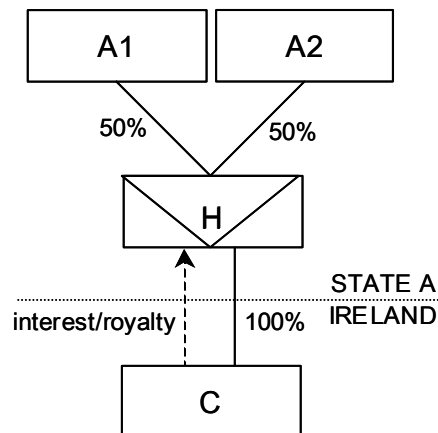
A hybrid entity H in Ireland pays interest or royalties to an associated company A in Member State A.



Ireland has not enacted any special provisions to address this situation. If the hybrid entity is resident in Ireland or the payment relates to an Irish permanent establishment of a non-resident company the payment is eligible for relief under the Directive.

Case 3: Payment through a hybrid entity

Companies A1 and A2 are the members of the hybrid entity H, all located in Member State A. The hybrid entity H holds all the shares in company C, located in Ireland. Ireland treats hybrid entity H as a transparent entity. Company A1 grants a loan to the hybrid entity H and the hybrid entity H grants a loan to the company C. Interest flows from the company C to a member A1 through the hybrid entity H.



Ireland has not enacted any special provisions to address this situation. If the hybrid entity is listed in the Directive it is eligible for relief under the Directive.

2.2.2. Residence requirement (Art. 3(a)(ii))

a. Implementation of the requirement

An EU company is defined by reference to Art. 3 of the Directive (Sec. 267G TCA). The residence requirement is identical to that laid down in Art. 3 (a) (ii) of the Directive.

b. Application of the requirement in dual residence cases

The relief under the Directive is available both if the dual resident company is resident in Ireland or if it is a dual resident of other EU Member States.

2.2.3. Subject-to-tax requirement (Art. 3(a)(iii))

The requirement is implemented by defining a company of a Member State by reference to Art. 3 of the Directive (Sec. 267G TCA). The subject-to-tax requirement is identical to that stated in Art. 3 (a) (iii) of the Directive. There is no further guidance on the interpretation of this requirement.

As far as interest payments are concerned, the provisions of the Directive add little to the existing domestic exemption for interest paid to EU residents, which applies irrespective of whether a company is subject to tax (see 1.2.1. *a. Interest*).

There is no information publicly available on any instances when the Irish tax authority refused to accept assurance by the residence state of the beneficial owner that the latter is subject to tax in its Member State. No special proof is required to demonstrate compliance with the subject-to-tax rule, as the company must only have a certification of residency to apply the benefits.

2.2.4. Associated company (Art. 3(b))

A company is an "associated company" of another company if

- it has a direct minimum holding of 25% of the voting power in the other company; or
- a third company has such a holding in both companies.

Ireland has used the option under Art. 3 (b) of the Directive to replace the criterion of holding in the capital with that of the voting rights. Holdings must involve companies resident in the EU territory only. A minimum holding period of at least 2 years is required (Sec. 267G TCA).

With respect to interest payments, the exemption under domestic law (see 1.2.1. *a. Interest*) applies irrespective of the affiliation with the recipient of income.

2.2.5. Beneficial ownership (Art. 1(4))

The beneficial ownership requirement under Irish implementing provisions is not linked to the subject-to-tax requirement. The person beneficially entitled to the income must be an EU company or a permanent establishment situated in a Member State other than Ireland through which an EU resident company carries on a business in that state (Sec. 267H TCA). No guidance has been issued on the beneficial ownership concept under implementing provisions of the Directive.

2.3. PERMANENT ESTABLISHMENTS

2.3.1. Definition (Art. 3(c))

The definition follows that stated in Art. 3 of the Directive (Sec. 267G TCA) because the implementing law refers directly to the Directive.

2.3.2. Application of source rules (Art. 1(2))

Ireland follows the Directive definition of permanent establishment. There have been no instances reported where Ireland interpreted the term permanent establishment more narrowly than Art. 5 of the OECD MC.

2.3.3. 'Tax-deductible expense' requirement (Art. 1(3))

The relief is available for relevant payments by an EU company which carries on a trade in Ireland through an Irish permanent establishment if the payment is tax deductible in relation to the trade in Ireland (Sec. 267H TCA).

If the payment is not deductible it would potentially be liable to withholding tax. In practice it would be likely that also a non-deductible payment would qualify for exemption under domestic law or a relevant income tax treaty.

There have been no instances publicly reported where another Member State has refused to recognise the payment by a permanent establishment of a qualifying Irish company as a tax-deductible expense and has imposed a withholding tax.

2.3.4. Beneficial ownership (Art. 1(5))

A permanent establishment is treated as being the beneficial owner of the income if:

- the debt-claim, right or asset in respect of which the income arises consists of property or rights used by or held by or for the permanent establishment; and
- the income is taken into account in computing income of the permanent establishment which is subject to tax (Sec. 267G TCA).

It appears that the income for which the relief is sought must be included in income of the permanent establishment which is subject to the relevant tax.

2.3.5. Permanent establishment in a third country (Art. 1(8))

The relief under the Directive does not apply to payments to a company where the debt-claim, right or asset in respect of which the payment is made consists of property or rights used by or held by or for a permanent establishment in a territory other than that of a Member State (Sec. 267H TCA).

3. PROCEDURE

A 2 year holding period and certification of residence status are required. Both exemption at source and refund procedures are available. In practice, the provisions of the Directive add little to the existing domestic exemption for interest paid to EU residents. In practice it is likely to be relevant only to payments of patent royalties that are not treaty exempt.

3.1. MINIMUM HOLDING PERIOD (ART. 1(10))

3.1.1. General

A two-year uninterrupted holding period is required at the time of payment (for details, see 3.2.3. Relief before the holding period requirement is satisfied, below).

3.1.2. Relief before the holding period requirement is satisfied

There is no possibility to apply the relief before the holding period is satisfied.

3.1.3. Appeals

There are no specific appeal procedures but any decision of the tax authority can be challenged under the “judicial review” procedure.

3.2. ATTESTATION (ART. 1(11) AND 1(13))

3.2.1. General

There have been no specific procedures introduced for the application of benefits under the Directive. A certification of residence status issued by the tax authorities of the foreign country is required if a non-resident seeks the benefits of a tax treaty. Permission is normally granted for the reduction or elimination of withholding taxes at source once satisfactory certification has been received.

A standard tax clearance form is used for a wide variety of domestic tax purposes as well as for certain treaty claims. If the non-resident ceases to meet the conditions for exemption it must inform the payer which is then obliged to withhold tax from future payments.

There are no rules requiring to demonstrate compliance with the holding period requirement.

3.2.2. Appeals

There is no statutory procedure but any decision of the tax authority can be challenged under the “judicial review” procedure.

3.2.3. Relief before the holding period requirement is satisfied

Exemption under the implementing provisions applies provided that the holding period requirement is met at the time of payment. There is no possibility to obtain a refund if the holding period requirement is subsequently satisfied.

3.3. DECISION ON APPLICATION OF THE RELIEF (ART. 1(12))

3.3.1. General

A formal decision is not required. Before a payment is made, a certification of residency must be submitted to the tax authorities, which give the permission to apply the exemption. See 3.2.1. General above.

3.3.2. Supporting documents

A copy of the loan agreement may be requested with the claim form. The claim form must include sufficient information to support the claim.

3.3.3. Appeals

There is no statutory procedure but any decision of the tax authority can be challenged under the "judicial review" procedure.

3.4. APPLICATION FOR REFUND (ART. 1(15) AND 1(16))

3.4.1. General

Both exemption at source and refund procedures are available (see 3.2.1. General above). The taxpayer submits a claim for the tax withheld to be refunded. The same information that is required to support a claim to exemption should be supplied. The normal 6 year limitation period applies.

3.4.2. Appeals

There is no specific statutory procedure but the recipient can file an income tax return for the relevant tax year and appeal against the amount of the income tax charged. See also 3.2.1. General above.

4. FRAUD AND ABUSE (Art. 5)

General anti-abuse measures as well as specific measures against abuse of benefits under the Directive may apply.

4.1. MEASURES UNDER ART. 5(1) OF THE DIRECTIVE

4.1.1. Domestic

The exemption will be denied unless it can be shown that the payments concerned were made for bona fide commercial reasons and do not form part of tax avoidance arrangements (Sec. 267K TCA).

4.1.2. Agreement-based

Ireland does not generally seek to include such anti-abuse provisions in its income tax treaties (see 1.2.2. Treaties above).

4.2. MEASURES UNDER ART. 5(2) OF THE DIRECTIVE

Ireland relies on the specific measures noted in 4.1.1. Domestic, above. There is also a general anti-avoidance provision in the domestic legislation (Sec. 811 TCA) but there is no case law on its application. In broad terms, Sec. 811 TCA purports to enable the Revenue Commissioners (or a relevant appellate body) to nullify or re-characterize any transactions (as very widely defined) which are undertaken exclusively or primarily to reduce or avoid tax. The wording of the statute is unclear and its practicality may be doubted. The Revenue have invoked these provisions very rarely.

4.3. COMPARISON WITH SIMILAR MEASURES UNDER PARENT-SUBSIDIARY AND MERGER DIRECTIVES

In the case of the Parent-Subsidiary Directive the exemption may be denied where the majority of voting rights in the immediate parent company are controlled directly or indirectly by non-EU residents (other than residents of a tax treaty state), unless the parent company has been established for bona fide commercial reasons and not as part of any arrangement which has one of its main purposes the avoidance of the withholding tax (Sec. 831 TCA).

In the case of the Merger Directive the reliefs may be denied where the transfer of assets is not carried out for bona fide commercial reasons and forms part of any arrangement which has one of its main purposes the avoidance of tax (Sec. 635 TCA). This anti-avoidance measure is identical to that under the Interest and Royalties Directive.

5. SUMMARY

It appears that the Irish tax authorities have generally implemented the Directive. By virtue of exemptions under domestic law, the implementation provisions will mainly be applied to patent royalty payments to companies resident in other EU Member States that are not exempt under the relevant income tax treaty.

Scope

The concepts of interest and royalties under Irish implementing provisions are identical to that in the Directive. The exemption is not applicable to interest on perpetual loans (Art. 4 (1) (d) of the Directive). The definitions of an associated company of an EU Member State and of a permanent establishment correspond to the wording of the relevant provisions of the Directive. Ireland has used the option under Art. 3 (b) of the Directive to replace the criterion of a minimum holding in the capital with that of the voting rights.

There is no guidance with respect to tax treatment of payments in situation of hybrid entities. Dual residency situations do not entail imposition of withholding tax on interest or royalty paid or received by a dual resident company.

Procedure

Ireland requires a two-year holding period. The exemption is not available before the holding period requirement is met.

There have been no specific procedures introduced for application of benefits under the Directive.

Fraud and abuse

Both general and specific anti-abuse measures potentially apply against abuse of benefits under the Directive.

PART II. THE AGREEMENT

INTRODUCTION

Ireland has implemented Agreement between the European Community and the Swiss Confederation providing for measures equivalent to those laid down in Council Directive 2003/48/EC on taxation of savings income in the form of interest payments (the "Agreement") by means of section 50 Finance Act 2005 inserting section 267L into the Taxes Consolidation Act 1997 with effect from 1 July 2005.

1. SCOPE

1.1. PAYMENTS

1.1.1. Concept of interest

The definition follows that in the Directive.

1.1.2. Concept of royalties

The definition follows that in the Directive.

1.2. COMPANIES

1.2.1. Types of companies benefiting from Art. 15(2) of the Agreement

The definition follows that in the Directive.

1.2.2. 'Affiliated' companies

The definition follows that in the Directive.

1.2.3. Residence requirement

The definition follows that in the Directive.

1.2.4. Subject-to-tax requirement

The definition follows that in the Directive.



2. PROCEDURE

The procedures follow those for the Directive.

3. SUMMARY

It appears that the Irish tax authorities have implemented the Agreement. The implementation provisions follow precisely the concepts and definitions set out in the Directive.

ANNEX

Table of the maximum withholding tax rates on interest and royalty payments under the tax treaties between Ireland and the EU Member States.

| EU Member State | Interest (%) | Royalties (%) |
|-----------------|--------------|---------------|
| Austria | 0 | 0 |
| Belgium | 0/15 <1> | 0 |
| Cyprus | 0 | 0 |
| Czech Republic | 0 | 10 |
| Denmark | 0 | 0 |
| Estonia | 10 | 5/10 <2> |
| Finland | 0 | 0 |
| France | 0 | 0 |
| Germany | 0 | 0 |
| Greece | 5 | 5 |
| Hungary | 0 | 0 |
| Italy | 10 | 0 |
| Latvia | 10 | 5/10 <2> |
| Lithuania | 10 | 5/10 <2> |
| Luxembourg | 0 | 0 |
| Netherlands | 0 | 0 |
| Poland | 10 | 10 |
| Portugal | 0/15 <3> | 10 |
| Slovak Republic | 0 | 10 |
| Slovenia | 5 | 5 |
| Spain | 0 | 5/8/10 <4> |
| Sweden | 0 | 0 |
| United Kingdom | 0 | 0 |

<1> The lower rate applies to interest payments between banks on current accounts and nominal advances and to interest on bank deposits not represented by bearer bonds.

<2> The lower rate applies to royalties for industrial, commercial or scientific equipment.

<3> The lower rate applies if the payer is the government or a local authority.



<4> The 5% rate applies to royalties for copyrights of literary, dramatic, musical or artistic work; the 8% rate applies to copyright royalties on films, etc. and to royalties for industrial, commercial or scientific equipment.