



# The Expatriate Financial Guide to The Republic of Ireland

## Irish Tax Facts

### Introduction

Taxation in the Republic of Ireland is at a national level. The tax system is administered by the Irish Revenue Commissioners.

### Tax Year

1 January to 31 December.

### Assessment Basis

Irish resident domiciled individuals are subject to income tax on their worldwide income, whereas Irish resident non-domiciled individuals are, in general, subject to taxation on Irish source income, foreign employment income (where the duties of employment are carried out in Ireland) and other foreign income to the extent that it is remitted to Ireland.

A self assessment system applies to all individuals except where total income is taxed under the Pay As You Earn (PAYE) system. Married couples may choose to be taxed separately or jointly. All taxpayers require a Personal Public Service (PPS) number which is obtained when the individual registers with the Department of Social and Family Affairs.

### Income Tax

An individual's taxable income includes employment income and benefits in kind, income from a trade or profession, income from property and other investment income.

Income is taxed at progressive rates, with a rate of 20% applied to the standard rate band and a rate of 41% applied to the balance. The standard rate bands are: €36,400 for single individuals, €45,400 for married couples with one income and €72,800 for married couples with two incomes. The amount of €72,800 is transferable between spouses, up to a maximum of €45,400 per spouse. A number of tax credits are available some of which depend on the marital status of the tax payer for example, a single person will receive a credit of €1,830, while a married couple is entitled to a credit of €3,660.

A new income levy applies with effect from 1 January 2009. The levy is payable on gross income before relief for specified capital allowance, losses or pension contributions. The income levy rates originally introduced on 1 January increased from 1 May 2009. With effect from 1 May 2009 the income levy rates which apply to income subject to PAYE are as follows, first €75,036 at 2%, the next €99,944 at 4% and the remainder at 6% ( please note that for 2009 annualised rates apply to non PAYE income). There is an exemption from the levy for social welfare payments and other similar payments, and where an individual's gross income for the year does not exceed €15,028, in order to exempt low-income earners.

In addition, an age-related exemption applies for individuals aged over 65 with a gross income of less than €20,000.

Mortgage interest relief is available. For 2009 in the case of first time buyers the rate at which relief is given is based on a sliding scale: at 25% for years 1 and 2 and 22.5% for years 3, 4 and 5. For years 6 and 7, the rate is 20% subject to annual ceilings. Relief for non first time buyers is limited to 15% subject to an annual ceiling. With effect from 1 May 2009 mortgage interest relief will only be available for the first seven years of a qualifying loan.

Tax relief is given at source at the standard rate for approved medical insurance. Employment income (including benefits in kind) is subject to PAYE, whereby the employer withholds tax from earnings.

## **Taxation of Investment Income**

In general, investment income is included and is taxable with other income when calculating an individual's income tax liability.

Deposit interest retention tax (DIRT) is withheld at source on interest paid by "relevant deposit takers". With effect from 7 April 2009, the rate is 25% (previously 20% moved to 23% in January 2009). Relevant deposit takers are banks, building societies (interest and dividends), Trustee Savings banks, the Agricultural Credit Corporation, the Industrial Credit Corporation and the Post Office Savings Bank.

The tax withheld under the DIRT scheme is deemed to fulfil the taxpayer's tax liability on that item of income, i.e. it is a final tax. However, the health contribution of 4%/5% is payable where applicable (See Social Security Contributions).

From 7 April 2009 personal portfolio life assurance policies are subject to an exit tax of 28% (previously 23%, moved to 26% in January 2009) when the policy is being cashed in. In order to prevent such policies being used as "wrappers" for assets belonging to individual taxpayers, they are, under certain circumstances, charged with an extra exit tax on top of the current tax. This surcharge does not apply to policyholders who are non-resident for tax purposes and not ordinarily resident.

Irish company dividends incur a 20% withholding tax.

## **Wealth Taxes**

There are no wealth taxes in Ireland

## **Capital Gains Tax**

A capital gains tax of 25% is levied on the disposal of assets after 8 April 2009 (22% from 15 October 2008 to 7 April 2009, previously 20%). Losses on assets held for over 12 months can be used to offset gains in the current year, with unused losses being carried forward. The value of an asset can be adjusted for inflation up to 31 December 2002.

There are various exemptions available, including an annual exemption for gains of up to €1,270 for an individual. In addition, gains on the disposal of an individual's principal residence, together with land occupied as its garden or grounds up to a maximum of one acre, are also exempt where certain conditions are fulfilled.

## **Tax on Property Rental Income**

Rental income is included in the calculation of taxable income and taxed at the relevant rate. Various expenses can be deducted in arriving at taxable rental income. Income derived from this source is not taxed through PAYE and individuals must submit a tax return.

A "rent-a-room" scheme allows for annual tax-free income of up to €10,000 (2008-2009) from the renting of a room or rooms in a taxpayer's principal residence. The exemption does not affect the entitlement to mortgage interest relief or relief from capital gains tax on the disposal of a principal private residence.

## **Inheritance and Gift Tax**

A capital acquisition tax (CAT) is levied on transfers of assets on death, or those gifted during an individual's lifetime. The tax is payable by the recipient.

The recipient of the assets is classified into one of three categories depending upon their relationship with the donor. Differing tax-free thresholds apply, depending upon the category into which the recipient falls. For example, gifts or inheritances taken after 8 April 2009 to an individual's child are exempt up to €434,000. Gifts or inheritances taken on or after 5 December 1991 are aggregated with later gifts or inheritances received under the same group threshold in order to arrive at the amount of tax payable.

The rate of tax is 25% for gifts and inheritances taken on after 8 April 2009 (22% from 20 November 2008 to 7 April 2009, previously 20%) and various exemptions apply, including transfers between spouses. The first €3,000 of gifts taken by a donee from any one donor in a calendar year is exempt from tax. Where the beneficiary is gifted or bequeathed property that will become their main residence, the gift or inheritance is exempt from CAT.

## **Regional, Municipal & Property Taxes**

Local authorities levy annual local property taxes on commercial properties, but not dwellings. Rates are payable per €1 rateable valuation of the property. The valuation is based on presumed rental value and is determined by the local authority.

An annual charge of €200 is payable by owners of non-principal private residences to the local authority in whose area the property concerned is located. A person who, on 31 March of each year, is the owner of a non-principal private residence is liable to pay the charge.

## **Stamp Duty**

Stamp duty is charged on certain transactions/documents and the rate varies according to the type of transaction. Transactions include the creation of a lease with annual rentals in excess of €30,000.

Stamp duty applies to the sale of commercial and residential property. In respect of residential property, where the value of the property exceeds €127,000, a rate of 7% applies to the value between €125,000 and €1,000,000 and 9% on the excess over €1,000,000. Owner occupiers purchasing a new property (less than 125m<sup>2</sup>) are exempt from stamp duty.

From 31 March 2007, a first time buyer purchasing a new house or a second hand property as his or her principal private residence is exempt from stamp duty.

## **Sales Tax**

A sales tax (VAT) of 21.5% applies in Ireland and is generally added to the sale price of goods. Some goods are subject to reduced rates of 13.5%, 5.2% or 4.8% and some goods are exempt.

## **Social Security Contributions**

Social security contributions in Ireland are known as Pay Related Social Insurance (PRSI). The employer's contribution is 8.5% where employees earn up to €356 a week and 10.75% where employees earn in excess of €356 a week. Employees pay 4% of their gross salary up to a ceiling of €75,036 (€52,000 between 1 January and 30 April 2009) with the first €127 a week being exempt.

Employees earning less than €352 in any week are not required to pay PRSI in that week. In addition, employees pay a health contribution. With effect from May 2009, the health contribution is applied at a rate of 4% on all earnings up to €75,036 and 5% on any earnings exceeding €75,036 (previously 2% on first 100,100 and remainder at 2.5%). Employees who earn less than €500 in any week exempt from the health contribution for that week.

# Taxation of Expatriates Living in Ireland

The scope of Irish taxes with regard to an expatriate individual living and working in Ireland depends upon the individual's residence, ordinary residence and domicile status. There are a number of tests to determine an individual's residence status in Ireland.

## Residence

An individual's residence status for Irish tax purposes is determined by the number of days he/she is present in Ireland during any given tax year. An individual's residence status in other countries is irrelevant to determining Irish tax residency.

In order to be classified as tax resident in Ireland an individual must satisfy either of the following circumstances:

- Spend 183 days or more in Ireland for any purpose in that tax year; or
- Spend 280 days or more in Ireland for any purpose over a period of two consecutive tax years; they will be regarded as resident in Ireland for the second tax year, provided they spend more than 30 days in Ireland during each tax year.

A person is present in Ireland during a given day if they are in Ireland for any part of the day. Therefore, days of arrival and days of departure are included. Certain exemptions apply where an individual is only present in Ireland for the purposes of a continuing journey and where they remain within an airport or in circumstances where an individual is prevented from leaving Ireland on a particular day due to say, adverse weather conditions or exceptional third party failure or action.

## Ordinary Residence

The term ordinarily resident refers to an individual's pattern of residence over a number of years and is distinct from residence. An individual will become ordinarily resident when he/she has been resident for three consecutive tax years, that is, at the beginning of the fourth tax year of residence. Once acquired, the status of being ordinarily resident is retained until the individual has been non-resident for three consecutive tax years.

An individual who is non-resident for a particular tax year but who is ordinarily resident and domiciled may be chargeable to tax in the same manner as a resident individual but subject to certain exemptions.

## Domicile

Domicile is a concept of general law. It may be broadly interpreted as meaning residence in a particular country with the intention of residing permanently in that country. Every individual acquires a domicile of origin at birth. A domicile of origin will remain with an individual until such time as a new domicile of choice is acquired. However, before a domicile of origin can be changed there has to be clear evidence that the individual has the positive intention of becoming a permanent resident in another country, has abandoned the idea of ever returning to live in their country of birth and has severed connections with that country.

## Extent of liability to Irish tax

The taxation basis applicable to an individual's Irish and foreign source income and gains depends on their residence, ordinary residence and domicile status. An individual who is an Irish resident, is ordinarily resident in Ireland and has an Irish domicile will be taxed on worldwide income and gains. Gift and inheritance tax will be based on the value of their worldwide assets. The table below shows the potential liability to tax.

Individual's residence, ordinary residence and domicile status	Extent of liability to Irish tax	
	Income Tax & investment income	Capital Gains Tax
Resident, ordinary resident and Irish domiciled.	Worldwide income.	Worldwide disposals.
Not resident, ordinary resident and Irish domiciled.	Worldwide income with the exception of: Income earned from duties performed outside Ireland. Other foreign income, e.g. investment income, provided that it does not exceed €3,810 in a tax year.	Worldwide disposals.
Not resident, ordinarily resident and not Irish domiciled.	Irish source income. Employment income the duties of which are carried out in Ireland. Remittance of foreign investment income exceeding €3,810. Remittance of employment income the duties of which are carried on abroad.	Liable on gains arising on the disposal of assets situated in Ireland and on all foreign gains to the extent that those gains are remitted to Ireland.
Resident and ordinarily resident but not Irish domiciled.	Irish source income. Foreign employment income where duties are carried out in Ireland. Remittance of foreign employment and investment income.	Liable on gains arising on the disposal of assets situated in Ireland and on all foreign gains to the extent that those gains are remitted into Ireland.
Resident and domiciled but not ordinarily resident.	Irish source income in full. Foreign employment income where duties are carried out in Ireland. Remittance of foreign investment income.	Worldwide disposals.
Not resident and not ordinarily resident.	All Irish source income in full (including foreign source income earned in respect of duties performed in Ireland).	Gains made on the disposal of certain Irish specified assets (land, buildings and minerals in the State; assets of a trade carried on in the State; certain unquoted shares).

**N.B.** With effect from 1 January 2006 the remittance basis will no longer apply in respect of foreign employment income earned where the duties are performed in Ireland.

The charge to Capital Acquisition Tax (CAT) on gifts or inheritances is residence-based and will generally arise on the entire property received where the donor or the beneficiary is resident or ordinarily resident in Ireland. If neither the donor nor the beneficiary is resident or ordinarily resident in Ireland, the charge is only in respect of property which is situated in Ireland. A non-domiciled individual moving to Ireland will only become liable to CAT on non-Irish property after they have been resident for five years or more.

An individual's liability to social security contributions depends on such factors as the length of assignment to Ireland, the individual's country of origin and the country in which the employer is situated, if different. There are three distinct groups of countries which affect liability to Irish social security contributions. If an individual is posted to Ireland from an European Economic Area (EEA) country there is no liability to pay PRSI if the individual holds a certificate from the social security authorities in their home country confirming that they are still subject to their social security legislation and continue to pay the equivalent contributions in that country. For non-EEA countries with which Ireland has a reciprocal social security agreement, an individual will, in certain circumstances, remain in the social security system of their home country for up to five years, depending on the maximum period provided for in the specific agreement. In respect of any other country, an individual may not be required to pay PRSI for the first 52 weeks after arrival if the individual is working in Ireland temporarily for a non-Irish employer. Full contributions are payable when the 52 week period has expired.

## Expatriate Financial Planning

As a whole, the Irish tax regime is less onerous for expatriates who are not resident, not ordinarily resident or not domiciled in Ireland compared with the regime for individuals who are resident and domiciled in Ireland. Generally, for resident but not domiciled individuals, only Irish income, foreign employment income earned from duties of employment performed in Ireland, remittances of foreign employment income where duties are not performed in Ireland, and remittances of foreign investment income and gains, are subject to Irish tax.

If you are an expatriate currently living in Ireland, you should review your finances with a suitably qualified financial adviser who is either authorised directly by the Irish regulator or is based in another

EU market and recognised by the Irish regulator following prior notification by the adviser under the Insurance Mediation Directive. If you are planning a move to Ireland, you should review your finances with a suitably qualified and experienced financial adviser and/or tax adviser who is familiar with Irish tax matters before making the move.

You may wish to consider offshore investments, including offshore life products, in order to manage your tax liability and/or control when tax charges arise, as well as considering options available for remuneration structures and estate planning.

Whilst the specific benefits of an offshore life product will depend on an individual's circumstances, they do offer a number of potential benefits:

- Investments in an offshore life product grow virtually free of tax throughout the time the product is held, suffering only a small amount of irrecoverable withholding tax on investment funds located in certain countries. Please note that tax may need to be paid on an arising basis in the individual's country of residence.
- They allow, in general, an individual to manage when benefits are taken and potentially to defer the realisation of benefits to a period that may be more advantageous from a taxation perspective.
- Offshore products can offer significant benefits over and above what might be available in the local domestic market, particularly in relation to product features, investment flexibility and investment choice.
- Offshore bonds often feature a range of the life company's own individual offshore funds and managed offshore funds specifically tailored to fit with the spread in clients' attitudes to risk, but also offer access to household name fund managers, including many international and specialist fund managers, which may not be available in local domestic fund and insurance markets. An offshore product has the flexibility to adapt to changes in individual circumstances, including changes in residence status.
- Most companies offering offshore life products are subsidiaries of global financial services companies.
- The offshore life companies are regulated in first class jurisdictions which benefit from strong regulatory controls.

***Your independent financial adviser can help you ensure that you maximise the financial benefits of your expatriate status and help you to assess if offshore life products are right for your individual circumstances.***

***Further information about offshore life products and their use in financial planning please contact your local Blacktower Consultant or email us at [info@blacktowerfm.com](mailto:info@blacktowerfm.com)***

*This document relies on information and technical analysis provided by third party professionally qualified tax advisers. Whilst best endeavours have been used in selecting advisers to ensure the accuracy of the information contained in this document, Blacktower cannot be held responsible for any errors and omissions.*

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