PART 1: NARRATIVE REPORT

Ireland is in 29th place in the 2020 FSI. This is based on a secrecy score of 48 out of 100 and a market share of 3.46% of the global market for offshore financial services. This is a relatively high market given the comparative size of Ireland's economy, and compared to many other well-known offshore financial centres.

Hiding in Plain Sight

Secrecy has never been a key element of Ireland’s tax offering. This was never a go-to jurisdiction for the proceeds of corruption and money laundering, preferring instead the simple attraction of low (or no) corporation tax. The Irish government is particularly proud of its best in class designation in relation to transparency. The country was designated as “compliant” (the highest rating possible) by the OECD’s Global Forum on Transparency and Exchange of Information in August 2017. To date only Ireland and Jersey have been rated as compliant on all of the ten criteria considered. This ties with the relatively low secrecy score awarded in this report to Ireland.

Despite this, Ireland is regularly listed in reports on tax havens and unfair tax practices. Much to the government’s chagrin, the understanding of what is meant by a tax haven, though still contested and lacking an agreed definition, has moved away from the traditional idea of a secrecy jurisdiction and now, for many, encompasses tax practices carried out in plain sight.

As such, rumblings about Ireland’s corporate tax landscape have not gone away. The EU state aid ruling which found that Apple underpaid Irish tax to the tune of €13 billion rumbles on. The level of foreign direct investment in Ireland belies both the country’s size and the level of economic activity taking place there and international tax reforms are expected to result in cuts in Ireland’s corporation tax take.

Ireland’s Reputation

Since publication of the last FSI, Ireland’s Finance Minister Paschal Donohoe has found himself insisting that Ireland is not a tax haven again¹ and again² and again.³ Where has this criticism come from? In 2018, a paper by Torslov, Wier and Zucman determined that, on the basis of corporate profits artificially shifted there, Ireland was the world's number one tax haven.⁴ While in 2019, the European Parliament passed a resolution⁵ which called on the European Commission to regard a number of EU countries, including Ireland, as tax havens. In addition, the hearing in September 2019, by the General Court of the EU of Apple and Ireland’s appeal against the €13 billion state aid decision, reminded the world of the role played by Ireland in tax avoidance structures, whereby billions of dollars of profits flowed through Irish registered companies but were not subject to tax anywhere.

The official response to the continued criticisms has noted that Ireland’s tax rules have changed. Irish registered companies are now Irish tax resident and so the double Irish structures and structure used by Apple, whereby large profits could be funnelled through an Irish company which was either stateless or resident in a zero-tax jurisdiction, could

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The ranking is based on a combination of its secrecy score and scale weighting.

Full data is available here: http://www.financialsecrecyindex.com/database.

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no longer be set up. In addition, the data used by Torlov, Wier and Zucman only goes up to 2015 and so predates the new, improved Ireland. However, this defence is flimsy. While newly registered Irish companies can no longer be stateless, the double Irish is still working and has another year to run, since an extended winding down period — until the end of 2020 — was granted to those who incorporated an Irish company before the end of 2015. This long extension was “probably too aggressive” according to Pascal Saint-Amans, tax director of the OECD.6

In addition, while some multinationals have unwound their double Irish structure, they were able to do so without increasing the effective tax rates on their Irish legal entities. From 1 January 2015, a restriction which limited the level of taxable income that could be sheltered by tax write offs for intellectual property was removed. The timing of this move to coincide with the winding down of the “Double Irish” is not a coincidence. Opposition TD (member of parliament) Pearse Doherty has revealed that Apple lobbied for the change.7 Despite the prospect of utilising the “Double Irish” for another six years, it appears a number of companies decided to move their intellectual property into an Irish resident company immediately knowing that the related income could be sheltered in full by the resultant allowances. In 2014 the total value of capital allowances claimed on such assets was €2.7 billion, in 2015 it was €29 billion. The transfer of these assets played a key part in the 26% growth in Ireland’s GDP for 2015 which led to economist Paul Krugman to coin the phrase “leprechaun economics” as the apparent growth was not reflected in real economic activity. While the massive “onshoring” of intangible assets is likely to reduce the flow of royalties from Ireland to jurisdictions such as the Netherlands, Bermuda, Luxembourg and Switzerland (see the Christian Aid report for further details) it is not likely to result in any additional tax take for Ireland.

Criticism of this measure resulted in a change which limited the intellectual property relief to 80% of the company’s income in October 2017, but the full relief continues for those who transferred their intangible assets prior to this date. So, while much of the data upon which academics, NGOs and activists label Ireland as a tax haven dates from the height of the double Irish, the reality is that the recent tax figures for the Irish arms of these groups is unlikely to help rehabilitate Ireland’s image.

International Financial Services

Ireland hosts over half of the world’s top 50 banks and half of the top 20 insurance companies; in June 2019 it hosted over 14,100 funds administering some €4.7 trillion in assets; with €2.71 trillion of assets in funds domiciled in Ireland.8 The Irish Stock Exchange hosts about a quarter of international bonds.

Many assets held by funds operating in Ireland’s financial centre are placed in special purpose vehicles referred to as s110 companies. Section 110 refers to the section of the taxes acts which effectively exempts these entities from tax despite allowing them to avail of Ireland’s double taxation network. Amendments were made to s110 during 2017 following a furore about their tax status. However, the amendments relate only to those entities holding Irish assets and so the tax treatment of the majority of s110 companies remains unchanged. A 2017 report by Oxfam9 noted that:

“A Central Bank study of those SPVs not engaged in securitisation activities published in October 2016 shows that despite the fact that Irish non-securitisation SPVs hold €3.8 trillion in assets, these entities actually benefit the Irish economy very little.” It quotes the Central Bank report which states “They are generally designed to be tax neutral and most are established as companies with Irish directors but no dedicated employees”.

Despite concerns about the financial services sector being oversized, Ireland plans to grow the sector further over the coming years.10

Positive Developments

Since the publication of the 2018 FSI report, Ireland has made a number of changes to its laws to strengthen international tax cooperation and improve transparency. In January 2019, the Multilateral Instrument which amends double taxation treaties to reduce opportunities for abuse was ratified. Controlled foreign company (CFC) legislation came into force for the first time in Ireland in 2019 and stronger transfer pricing rules comes into force in 2020. In addition, as required by an EU directive on money laundering, all corporates must now disclose their beneficial owner(s). The key information from the beneficial ownership register will be made public.11 Ireland has had domestic legislation requiring lobbying activities be registered since the end of 2015. The register shows that timing and issues on which key individuals, including the Minister for Finance, are lobbied. This register includes
Ireland remains steadfast in its commitment to the 12.5% headline corporation tax rate, making this the one fixed point in an otherwise uncertain future. As a country that is very reliant on the tax receipts generated by foreign companies, Ireland faces significant tax risks from the ongoing international tax reforms and so, unsurprisingly, has not been to the forefront in advocating for more ambitious changes. In 2018, 45% of Ireland’s corporation tax receipts came from just 10 companies, and it is acknowledged that the ongoing reforms create challenges for Ireland.

The country has complied with the tax reforms arising from the OECD BEPS project and, as noted earlier, is a star performer in the Global Forum on Transparency and Exchange of Information. While Ireland endeavours to attract and retain foreign direct investment, its selling points are incentive rates and tax exemptions which are set out in law, not in secrecy or opaque structures.

The future for Ireland’s corporate tax consists of walking a tightrope between keeping the multinational enterprises who make up a disproportionate element of the Irish economy happy and keeping its partners in the EU and OECD on side by complying with international tax reforms.

*With special thanks to Mary Cosgrove*

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**Further reading:**

- The missing profits of nations [www.nber.org/papers/w24701.pdf](http://www.nber.org/papers/w24701.pdf)
- Christian Aid’s Impossible Structures
- Oxfam’s Myths and Mantras
- Seamus Coffey’s Report on Ireland’s Corporate Tax regime
Endnotes

1. www.thetimes.co.uk/article/we-re-not-a-tax-haven-donohoe-tells-davos-x7bfwlgp; 04.02.2020.


The FSI ranking is based on a combination of a country’s secrecy score and global scale weighting (click here to see our full methodology).

The secrecy score is calculated as an arithmetic average of the 20 Key Financial Secrecy Indicators (KFSIs), listed on the right. Each indicator is explained in more detail in the links accessible by clicking on the name of the KFSI.

A grey tick in the chart above indicates full compliance with the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); colours in between partial compliance.

This report draws on data sources that include regulatory reports, legislation, regulation and news available as of 30 September 2019 (or later in some cases).

Full data is available here: http://www.financialsecrecyindex.com/database.

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