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Comparison of the UK and Republic of Ireland (ROI) tax environment for trading business

The differential in corporation tax rates between ROI and UK is often quoted as being a significant draw for companies to locate from the UK to ROI. Such considerations must be more relevant for businesses in the border region. The comparison of the 12.5% rate in ROI v's 21%/28% in UK seems like a 'no brainer' but there are a multitude of other tax issues at play that need to be compared.

Here we look at some of them. The table shown compares the basic rates applicable and some of the detail is discussed below. The table and the points noted are an oversimplification of the real complexity of the tax system and the multitude of conditions and variations.

	UK	ROI
Corporation Tax	21% / 28%	12.5% / 25%
Income Tax	20% / 40%/ 32.5%	20% / 41%
Employees Social Insurance	11% / 8% (self)	8% / 8% (self)
Employers Social Insurance	12.8%	10.75%
VAT	17.5%	13.5%/21%
Capital Gains Tax	18% / 28%	25%
Tax Reliefs		

Corporation Tax

On the face of it the difference in the corporation tax rate between 12.5% and 28% would seem to be enough for a UK company to consider relocating to ROI. However, most Northern Ireland companies are small companies which qualify for the 21% rate. The small company rate will be reduced to 20% from 1 April 2011. Non trading income and chargeable gains within a company in ROI are taxed at 25% and there is also a potential surcharge on undistributed "passive" income.

The availability of a revenue deduction for capital costs is also a major issue. These deductions are given in the form of capital allowances. In the UK there were up till recently more favourable Annual Investment Allowances (AIA) for small companies and also for intangible property including goodwill. However the general pool allowance rate in the UK has been reduced from 20% to 18% and the AIA limit, although currently at £100,000, will be reduced to £25,000 from April 2012. In ROIthe basic rate is 12.5% but with 100% write off for energy efficient equipment similar to the 100% write off in the UK.

In ROI qualifying start up companies may be exempt from corporation tax in the first 3 years provided the liability does not exceed €40,000. This applies to 2009 and also 2010.

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Certain trades are excluded. In the UK budget it was announced that a corporation tax reform review will take place in Northern Ireland which will consider reducing the rate in Northern Ireland. What changes this will bring (if any) is not clear.

Both economies are trying to maintain jobs in sectors that require high levels of R&D and intellectual property. For companies in both ROI and UK additional deductions are available for R&D costs. For small to medium sized companies (SME's) in the UK, an additional deduction of 75% can be obtained for R&D expenditure. Where the company has no profits to utilise the deduction it can surrender the loss and claim a refund from HMRC of up to 24.5% of the R&D investment.

Similar relief applies in ROI. A tax credit of 25% of the incremental R&D expenditure incurred is allowed. This can be offset against corporation tax due, carried forward against future tax or refunded as cash subject to certain conditions. The overall effect is a 37.5% subsidy on the cost of R&D for a company.

Income Tax

Income tax is due in the state where the person is resident. If tax is paid in one state and the worker is resident in the other state then cross border relief or double taxation relief applies. Residence rules are different in the UK and ROI but in general where a person spends more than 183 days in one state then they are resident there.

Income tax rates are broadly similar at 20%/41% in ROI and 20%/40% in the UK. One significant difference is the treatment of dividend income. In the UK dividend income is taxed at 10% or 32.5% with a 10% deemed input credit. There is also no NIC on dividend payments but at the same time there is no tax deduction available and so corporation tax will arise. Small UK companies will often pay dividends to shareholders as this will be more tax efficient than salary payments. This is not the case in ROI.

National Insurance / Social Insurance Contributions

As well as incurring the costs of wages an employer needs to factor in the costs of employers PRSI & Levies (ROI) and National Insurance Contributions (NIC) in the UK. This is 12.8% in the UK and 10.75% in ROI. Employee's contributions are broadly similar especially since the increases in the ROI budget and the introduction of the Income levy of 2% + on total income.

Some element of social insurance relief is available in both the UK and ROI for companies that take on new staff. A £5,000 employers NIC exemption applies in the UK for each new employee while in ROI a new Employers PRSI Job Incentive scheme has been introduced which gives employers PRSI exemption on new staff for up to 12 months.

VAT

A business that is involved in the supply of vatable services or goods must charge VAT on the supply and is entitled to claim input credits on goods and services supplied to them. The UK VAT rate of 17.5% is increasing to 20% from 4 January 2011. In ROI there are two main VAT rates of 13.5% and 21%. Intra-EU trade rules means that in relation to cross border trade the VAT rates should not be a competitive advantage for one state over another. Of course the VAT rate differential will be relevant to private individuals crossing the border to buy goods and services.

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Capital Gains Tax

With increasing strain on government finances in both the UK and ROI, capital taxes have been identified as ways of generating more tax revenue without raising income taxes any higher. In ROI the CGT rate if now 25%. The exemption limit is still only €1270. Some reliefs apply for business asset sales such as retirement relief but in general gains are subject to tax.

The UK system has been changed substantially in the last few years. The rate is 28% for total income & gains above the basic rate limit and 18% for amounts within the limit. There is a more generous annual exemption of £10,100 and entrepreneurs relief lifetime limit is £5m meaning that on certain business assets, subject to conditions, a 10% rate applies.

An ROI resident is subject to CGT on their worldwide gains and non ROI residents are subject to ROI CGT only on land and property in the state. This is different to the UK position where non UK residents are not subject to UK CGT on UK property.

Tax Reliefs

Tax reliefs are often available to businesses carrying on certain kinds of activity and that have the ability to generate employment.
Both jurisdictions have various tax incentives for start up business and others.

Some of those in ROI are:

Business Expansion Scheme (BES)
Income tax deduction for investment in certain corporate trades

Seed Capital Relief
Income tax refund available as seed capital when monies are invested in certain personally owned companies.

Income tax exemptions
Income may be exempt from tax. For Example, Artists, patent royalties, forestry income,qualifying sports person.

In the UK corporate reliefs are more generous towards external investors, investing in SME companies. Such investors are often known as "business angels" and are similar to "dragons den" type investors. Tax relief is available to investors subject to various conditions under the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT). These can be a very tax efficient way of sourcing equity investment.

Recent rule changes in the UK budget also mean that the requirement for the trade to be wholly or mainly in the UK will be gone and instead the requirement will be to have a permanent establishment in the UK.

There also continues to be accelerated capital allowances available for some property investment in Northern Ireland, subject to various conditions under the Business Premises Renovation Allowance and Flat conversion Allowance. Northern Ireland is deemed to be a disadvantaged area under these schemes.

Summary

The above is a brief comparison of the taxes effecting trading activity in the UK and ROI. Other issues such as domicile may have a major impact on the tax effects of generating profits in either state; however we have not considered those as they are complex and far reaching.

The above comparison gives a good overview of the similarities and the differences and a good understanding of these issues is a key factor for any business in Northern Ireland and the border regions.

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