A review of 2025 and the tax wishlist for the coming Budget cycles

While Budget 2026 delivered on a number of fronts there were topics that did not progress as hoped. With this in mind the panel outlines their wishlists of tax measures for the coming two Budgets under new Minister for Finance Simon Harris. The year in tax is reviewed with the likely fallout from the US move to exempt US multinationals from Pillar 2 rules analysed. Also featuring this month is new OECD guidance around Permanent Establishment which looks to tackle the sticky point of how cross-border 'working from home' arrangements impact PE. Other topics include the UK Budget and its impact on competitiveness relative to Ireland, treasury, auto enrolment and TAC determinations.

Wishlist of Tax Measures for 2026-2027

The December Roundtable Panel consisted of:
Angela Fleming, Partner & Head of Financial Services Tax, BDO; Deirdre Barnicle, partner, McCann FitzGerald; Michelle Adams, Director, Financial Services Tax, BDO.

The new Minister for Finance, Simon Harris has two budgets, the 2027 and the 2028 ones, to make his mark before departing the Department to take up his scheduled appointment as rotating Taoiseach. Can you provide a list of your top priorities? (There have been a few 'wishlist' items left on the table in Budget 2026, as noted in the past two editions of the Irish Tax Monitor and perhaps these could rank amongst your top recommendations for Minister Harris - focussing particularly, we suggest, on Budget 2027.)

Angela Fleming, Partner & Head of Financial Services Tax, BDO: Top of the wishlist is reform of Ireland's interest


Angela Fleming

regime, so the recent publication by the Minister for Finance of the Feedback Statement for Phase One of reform of Ireland's taxation regime for interest is very welcome. The document outlines a strawman for several fundamental reforms to the current interest taxation regime. In brief, these include:

- New interest deductibility rules for corporation tax include the introduction of a "profit motive" test for interest deductibility;
- Retention of the section 247 regime with taxpayers allowed to elect to apply s.247 on qualifying loans instead of the new interest deductibility rules;
- Extension of Transfer Pricing rules to medium-sized enterprises;
- To amend the Interest Limitation Rules to introduce a group-level de minimis threshold of €6 million but also remove the current cliff-edge restriction for interest in excess of €3 million;
- Alignment of tax treatment between trading and passive interest income by moving to an accruals basis of taxation for non-trading interest income; and
- The application of the new interest deductibility rule to "interest equivalents".

This is just Phase One of the Action Plan published in October and we look forward to engaging in the consultation process on this important area of tax legislation.

Finance Act 2024 saw the introduction of a participation exemption for foreign dividends, and the exemption regime is to be further enhanced by the passing of Finance Act 2025 by extending the geographical scope of the exemption. However, to date there has been no sign of a foreign branch exemption. Ireland's current worldwide system of taxation reduces our attractiveness as a location for inward investment due to the complexity and administrative burden of operating the tax and credit model. Thus the introduction of a foreign branch exemption is high up on our wishlist of tax changes for forthcoming budgets.

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Finally, while there has been good progress made on the tax recommendations contained in the Fund Sector 2030 report, with the reduction in exit tax on investment funds, and the introduction of a dividend withholding tax for Investment Limited Partnerships, it is important that momentum continues and further changes are introduced. In particular, further reduction of the exit tax to align it with current rates of Capital Gains Tax, and abolition of the 8-year deemed disposal rule are key wishlist items. While Ireland is a key jurisdiction for asset management, we have incredibly low rates of retail investment by Irish households. These changes, along with the introduction of a Savings and Investment Account (aka an Irish ISA) would help to unlock retail funds that are currently losing money in low-rate deposit accounts and introduce welcome capital into the market for growth.

Deirdre Barnicle, partner, McCann FitzGerald: From an Irish funds sector perspective, we hope to see further implementation of the key provisions recommended by the Department of Finance in the Funds Sector 2030 Report (the 2030 Report). These changes are key to maintaining Ireland's leading position in the asset management and funds servicing industries, as well as increasing


Deirdre Barnicle

competitiveness for local investment. While the Implementation Plan for the 2030 Report shows progress is being made, we hope to see some of its most effective recommendations implemented in the 2027 Budget.

Ireland is a global leader in the management and distribution of funds, yet local investors face one of the highest tax burdens in Europe. A complex and punitive tax regime discourages long-term retail investment in Irish funds. It is important that steps are taken to better align Irish fund taxation with

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international norms.

While we welcome the reduction of the investment undertaking tax (IUT) rate announced in Budget 2026, we agree with the recommendation in the 2030 Report that the IUT rate should be reduced in line with Capital Gains Tax. Accordingly, we hope to see a further reduction of the IUT rate from 38% to 33% in Budget 2027 to better align taxation of collective investments with direct investment. Further, we hope to see the removal of the eight-year "deemed disposal" rule which works to trigger an exit tax for Irish investors on the eighth anniversary of investment in an Irish-authorised fund. The rule is an active disincentive against long-term investment by Irish investors in Irish authorised funds. The Roadmap expected in early 2026 should provide greater clarity on the status of these recommendations, and we hope to see their inclusion in Budget 2027.

Year in Review – 2025

Looking back to the start of 2025 - when the prospects for example, for the OECD BEPS process were rather different than they are today, can you list and briefly comment on the most important overall events and themes that corporate tax planners will have, and will need to be aware of facing into 2026?

Deirdre Barnicle, partner, McCann FitzGerald: More than 55 countries, including Ireland, have implemented the OECD's Pillar 2 Rules establishing a global minimum effective tax rate for large multinational groups. However, following the publication of a "shared understanding" between G7 and the US in June 2025 which sets out an exemption for US-parented companies from the Pillar 2 rules, there is ongoing uncertainty as to the future integrity of the Pillar 2 system.

The "shared understanding" proposes a "side-by-side" system, whereby the US minimum tax rules are recognised as working alongside the Pillar 2 rules within the existing Pillar 2 framework. Broadly, this is intended to preserve the global minimum tax regime but exempt US-parented companies from the Income Inclusion Rule (IIR) and the Undertaxed Payments Rule (UTPR) provisions. The exemption for US-parented companies may significantly impact global consensus on the implementation of the Pillar 2 rules. It is expected that many jurisdictions will wish to reassess their eligibility for a "side-by-side" system, looking to redraft or amend legislation to increase competitiveness. Countries who have not yet implemented Pillar 2 (e.g. China, India and Brazil) will likely seek to reconsider the application of Pillar 2 rules as currently drafted in light of the exemption for US-parented companies. While no amendments are currently expected to the Irish tax position in respect of the Pillar 2 rules, Irish tax advisers will need to monitor global developments closely to ensure they are in a position to advise their clients how to fully comply with their Pillar 2 obligations.

Home Office Permanent Establishment

The OECD recently published updated guidance on the Permanent Establishment (PE) article of the Model Tax Convention, including specific guidance on cross-border working from home or other relevant place and its impact on the PE analysis. Please provide an overview of the guidance and the implications for businesses with employees working remotely from different jurisdictions.

Michelle Adams, Director, Financial Services Tax, BDO: With the rise of remote and cross-border working, determining whether an individual's


Michelle Adams

home or another relevant place outside the enterprise's jurisdiction constitutes a permanent establishment (PE) has become increasingly complex. The key consideration under Article 5(1) of the OECD Model Tax Convention is whether the location can be regarded as a "fixed place of business" of the enterprise. This assessment involves several factors: the permanence of the arrangement, whether the location is effectively "at the disposal" of the enterprise, and the nature and regularity of the business activities performed there. Notably, if an individual works from a particular location for less than 50% of their total working time in a 12-month period, that location is generally not considered a PE. However, if the 50% threshold is met or exceeded, further scrutiny is required.

A critical aspect is the existence of a commercial reason for the individual's

presence in the host country—meaning that the individual's physical location facilitates the business of the enterprise beyond personal convenience or simple cost-saving measures. Examples include engaging directly with local customers, managing supplier relationships, providing real-time support across time zones, accessing local expertise, or fulfilling regulatory requirements.

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Additionally, even if a fixed place of business exists, it will not qualify as a PE if the activities performed are merely preparatory or auxiliary in nature, per Article 5(4). Each situation must be evaluated on its specific facts and circumstances, including the actual conduct of the individual and the commercial necessity for their location.

The guidance includes a number of illustrative examples on the application of paragraph 1 of Article 5 in the context of cross-border working from a home of other relevant place (e.g. holiday home, or home of a friend or relative). For instance, if an employee works from their home in another State for more than 50% of their time and regularly meets or services local clients, a PE may be created due to the permanence and commercial rationale for the arrangement. Conversely, if the same employee works from home only occasionally or interacts with local clients incidentally, a PE is unlikely. If an individual provides real-time support to customers in other time zones and their presence in the other State enables this, a commercial reason can be established, increasing PE risk. However, if remote work is driven solely by personal preference, family reasons, or cost savings, there is generally no PE.

To manage PE risks, enterprises should implement robust policies for tracking employee work locations and time spent, clarify the commercial rationale for any cross-border remote work, and ensure contractual arrangements reflect actual working practices. Regular reviews and clear documentation are essential to demonstrate compliance and mitigate potential tax and regulatory exposures.

The UK Budget & Ireland (ROI)

Taking both Chancellor Reeves' second Budget (delivered on Nov 26th) and her first last year, can you assess the cumulative impact of both on the overall tax competitiveness of Ireland relative to the UK. (Relevant topics might include moves on Non Doms last year in the UK and on inheritance tax, as well as developments this year - e.g. the introduction of a charging tax in Northern Ireland for EVs, which will not, of course, apply south of the border).

Deirdre Barnicle, partner, McCann FitzGerald: The UK's 2024 Autumn Budget included fundamental changes for non-domiciled individuals with the abolishment of the domicile-based system in favour of a residency-based system with effect from 6 April 2025. Previously, a non-domiciled individual (a UK resident who is domiciled outside of the UK for tax purposes) was liable to UK tax only on income earned within the UK.

From April of this year, all UK resident individuals (regardless of domicile) are liable to UK tax on their worldwide income and gains. The changes are part of a commitment by the UK government to address unfairness within the UK tax system and to ensure all long-term UK residents pay their fair share of taxes. To ensure that the new rules do not restrict investment and talent, certain qualifying individuals are able to claim relief from UK tax for any non-UK income and gains arising in the first four years of their UK tax residence.

Separately, UK inheritance tax (IHT) will no longer be determined by reference to domicile status. From 6 April 2025, the test for whether non-UK assets owned by individuals are within the scope of IHT will be whether the individual is a 'long-term resident' i.e. tax resident in the UK for 10 years out of the previous 20 years.

The UK changes in respect of non-domiciled individuals represent a significant divergence in the Irish and UK tax systems, which prior to the changes have been largely aligned on approach to the taxation of non-domiciled individuals. Ireland continues to operate a remittance basis of taxation whereby an Irish tax resident but non-domiciled individual is subject to tax on Irish-source income and gains but may apply the remittance basis of taxation to foreign income and gains. It is not expected that Ireland will follow the UK's lead and amend its remittance basis of taxation for non-domiciled individuals. Accordingly, in certain circumstances, non-domiciled individuals may regard a move to Ireland to be more favourable than a move to the UK, enhancing Ireland's position as a location to attract key talent from abroad.

Notable Tax Determinations at the TAC in 2025

What Determinations of the Tax Appeals Commission stand out as being of particular long term significance in your opinion?

Deirdre Barnicle, partner, McCann FitzGerald: The Tax Appeals Commission determination (58TACD2025) may have long-term significance for claimants of CGT relief in the context of pre-sale share-for-share exchanges. In this case, the taxpayer exchanged shares in a trading company for shares in a newly established personal holding company, in respect of which he claimed CGT relief pursuant to the provisions of section 586 of the Taxes Consolidation Act 1997 (the "Taxes Act"). Shortly after the exchange, the holding company sold its shares in the trading company to a third party.

"The case demonstrates that share-for-share exchanges are facing increased scrutiny from the Revenue Commissioners, particularly in the context of a pre-sale restructuring."

The significance of the decision relates to the Commissioner's application of the anti avoidance test in section 586 of the Taxes Act. To avail of relief under the section, section 586(3)(b) requires that the exchange of shares must be for bona fide commercial reasons and must not be part of an arrangement with a main purpose to avoid tax. The Commissioner accepted that, on the balance of probabilities, the share-for-share exchange was executed for genuine commercial reasons.

On whether the motive of the exchange was tax-driven, the taxpayer argued that, having not been aware of a potential sale of the shares in the trading company at the time of the share-for-share exchange, he could not have had a tax-related motive. The Commissioner agreed that previous knowledge of the upcoming sale was a key factor in determining a tax avoidance objective. The Commissioner found that the taxpayer likely knew about the upcoming sale at the time of the transfer and accordingly determined that the pre-sale share-for-share exchange had a main objective to avoid tax.

It is unclear what the broader implications of this decision will be and whether tax avoidance will always be inferred in such a context. We note that the case has been appealed to the High Court so we may receive further clarity on this in due course. It is interesting to consider whether the taxpayer could have succeeded in arguing that the use of the holding company, while resulting in a deferral of tax for the taxpayer, did not result in an avoidance of tax for the purposes of section 586. The distinction has succeeded in similar UK cases involving share-by-share exchanges but has not been examined by the TAC.

Ultimately, the case demonstrates that share-for-share exchanges are facing increased scrutiny from the Revenue Commissioners, particularly in the context of a pre-sale restructuring. Taxpayers should be mindful of this and seek relevant tax advice before engaging in such an exchange.

Pensions Developments and Auto Enrolment

Various tax reforms to boost pensions and savings are beginning to be recommended in both Ireland and at EU level, and not least in outgoing Finance Minister Paschal Donohoe's last speech referenced in the cover story of the November issue of *Finance Dublin*. Can you comment on the prospects for further desirable developments adding to the Auto Enrolment plan, which kicks in on January 1st?

Deirdre Barnicle, partner, McCann FitzGerald: Ireland's aging population is one of the most significant long-term fiscal challenges faced by the Irish government. The new mandatory retirement savings scheme ("MyFutureFund") is part of a government effort to provide for an expanding retired demographic and reduce reliance on the State Pension. From 1st January 2026, employees aged 23-60 with an annual salary of more than €20,000 who are not already in a pension scheme will be automatically enrolled in the government scheme.

On 20th November 2025, the European Commission adopted a package of proposals aimed at boosting supplementary pensions. The Commission recommends that member states implement auto-enrolment and pension tracking systems to increase supplementary pension participation and awareness. In addition, the Commission proposes to amend existing EU legislation to allow for the better diversification of Occupational Retirement Provisions (IORP) and Pan-European Personal Pension Products (PEPP). The proposals to amend the IORP II Directive and PEPP Regulation are still subject to negotiation and agreement by the European Parliament and the Council, and accordingly it remains to be seen whether the proposals will achieve their intended effect of boosting pensions and savings activity within the EU.

Separately, we note that the first increase of the Standard Fund Threshold (SFT) announced in the 2024 Finance Bill will take effect in January 2026. SFT is the maximum value an individual can accumulate on all retirement benefits before triggering additional tax charges. The threshold of €2,000,000, which has not changed since 2014, will be gradually increased each year starting from 2026. This reduces the risk of high earners and long-term savers limiting pension contributions due to a future Chargeable Excess Tax (CET) at a rate of 40%. The government has committed to reviewing the rate of CET following the recommendation to reduce the rate to 10% in the state-commissioned 2024 SFT report.

Tax & Treasury

"Multi Currency Notional Cash Pooling", is a treasury product that offers multinational companies tax efficiency advantages alongside others, such a zero fx costs, and is seeing strong interest from multinational companies in Ireland. Can you comment on the potentials of this and other treasury products to mitigate tax compliance processes for multinationals operating out of Ireland?

Deirdre Barnicle, partner, McCann FitzGerald: As multinational organisations expand across jurisdictions and currencies, the costs and risks of operating a decentralised treasury increase significantly. Consequently, Ireland has become an attractive hub for cash pooling and treasury management, with many multinationals centralising treasury profits here to take advantage of the low corporate tax rate and favourable withholding tax exemptions.

Multi-currency cash pools work to combine cash balances from different currencies into a single, centralised pool, allowing multi-nationals to optimise their liquidity across entities and regions. Businesses use multi-currency cash pooling to deploy excess cash generated from business operations in one jurisdiction to another, avoiding idle balances and ensuring liquidity is available where needed.

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A notional cash pool means that multi-currency balances are consolidated virtually in a master bank account without any physical movement of funds. The offsetting of balances through a multi-currency balance minimises the risks associated with account transfers, foreign exchange transactions and interest rates.

FX netting is another treasury strategy used by companies to consolidate foreign exchange transactions between entities, allowing the execution of a single net payment per currency. Like cash pooling, netting works to reduce the transaction and conversion costs associated with multiple foreign currency transactions.

In recent years, we have increasingly seen large international organisations based in Ireland employing an in-house banking model, where a specific entity within the organisation takes on the centralised management of treasury functions like cashflow management and liquidity. The treasury entity has clear visibility, access and control over cash of the group, allowing simplified and strategic identification and allocation of group funds.

Due to its favourable taxation regime, Ireland is increasingly becoming a base for such treasury activities, with many international organisations choosing to locate their treasury and cash pooling functions here.