Taxation of interest proposals; BEPS 2025 review; Irish EU presidency tax priorities

The Department of Finance's proposals to revamp Ireland's complex taxation of interest regime features with panellists taking the view that aspects of the proposals are wide of the mark when it comes to improving and simplifying the regime for taxpayers. 2025 was a tumultuous year for BEPS Pillar Two, and the panel review the key developments and where the rules now stand. They also make recommendations for taxation priorities under Ireland's EU Presidency in H2 2026. The new guidance on the territorial scope of VAT groups also features as does the public consultation on eWHT and the latest developments in the area of tax technology.

The taxation of interest in Ireland

The Department of Finance has published a 'Strawman' proposal setting out an alternative approach to the taxation and deductibility of interest in Ireland.

What is your assessment of the proposal? Does it sufficiently address stakeholders' primary concerns?

The Department in the Feedback Statement identified these as including: "(1) The alignment of tax treatment between trading and passive interest income for income tax and corporation tax purposes, including a move to an accruals basis of assessment for interest income under Case III and Case IV of Schedule D; (2) The introduction of a renewed and simplified test for the deductibility of interest, which would align the treatment between trading and passive interest expenses for the purposes of computing corporation tax. (3) The widening of the scope of interest deductibility to include 'interest equivalent' amounts, which are economically equivalent to interest expenses".

Angela Fleming, Partner & Head of Financial Services Tax, BDO: Reform of Ireland's interest regime has been top of the wishlist for a number of years, in particular since the introduction of interest limitation rules in 2022. The need for reform is borne out of the fact that the existing regime contains vast restrictions on the availability of interest deductibility. The principle behind reform of the rules is to introduce a new regime that is best in class internationally, simplified, and with greater clarity for taxpayers. Unfortunately, the feedback

Angela Fleming

The February Roundtable Panel consisted of:
Angela Fleming, Partner & Head of Financial Services Tax, BDO; Paraic Burke, Head of Tax, PwC Ireland; Joe Walsh, Director, Financial Services Tax, Forvis Mazars; Deirdre Barnicle, Partner, McCann FitzGerald; Khatuna Baratashvili, Manager, Financial Services Tax, Forvis Mazars; Michael Tansley, Tax Director, Walkers (Ireland) LLP; Emilie Sibi, Senior Manager, International Tax, Forvis Mazars; Mark Woodhouse, Senior Manager, International Tax, Forvis Mazars; Emma Galvin, VAT Director, BDO; Kathryn Hogan, Senior Manager, International Tax, Forvis Mazars.

statement published does not appear to have delivered on this promise.

The main issue with the proposed reform centres around the proposed new interest deductibility rule. In responses to previous consultations, calls were made for the introduction of a commercial business purpose test that would apply to all interest deductions regardless of the business activity supported by the borrowing and regardless of whether the borrowing is trade-related or not. However, the feedback statement outlines that detailed consideration was given to this proposal, but that further analysis of the terms "commercial" and "business purpose" indicated that these terms are open to different interpretations and may be construed very widely. Thus the Strawman puts forward an alternative approach referred to as the "profit motive test". The intention is to link the deduction of interest to the realisation of profits. While on the face of it this may seem a noble principle, digging into the details of the proposal it would appear to create a cumbersome requirement on taxpayers to look at both the intention and the actual application of funds, and to do so on an ongoing basis. Furthermore, linking to a profit motive, rather than commercial business purpose may mean that interest deductibility may be denied in situations where debt financing is applied for genuine business purposes.

That said it is greatly encouraging to see that the Department of Finance is considering substantially broadening the availability of interest deductions in non-trading situations. This is a necessary improvement to our current regime where deductibility for interest in non-trading situations is extremely limited.

> **"Digging into the details of the proposal it would appear to create a cumbersome requirement on taxpayers to look at both the intention and the actual application of funds, and to do so on an ongoing basis."**

It is clear that there has been a significant investment made by the Department of Finance to get to this point. Hopefully, with further engagement with businesses and their representatives, the next stage of the process will reflect a regime that is aligned with the stated objective of enhancing Ireland's competitive offering by providing greater simplicity for taxpayers.

Paraic Burke, Head of Tax, PwC Ireland: The Strawman's proposed new approach to the taxation and deductibility of interest does not strengthen Ireland's competitive position relative to other international business locations. Nor does it significantly change the existing interest regime; instead, it risks adding further complexity and introducing new areas of uncertainty. Although the Minister's stated aim is

Paraic Burke

administrative simplification and greater certainty for Irish businesses, this objective does not appear to be achieved in the Strawman, given how subjective and restrictive the proposed drafting is.

A move to assessing interest income under Schedule D Case III and Case IV on an accruals basis is likely to create difficulties for taxpayers, as they would have to account for tax before actually receiving the cash. The issue is acute for preliminary corporation tax, which may need to be paid on estimated interest accruals that have not yet arisen or been received. This is particularly harsh for investors funding start-ups via loans, where interest may not be payable for years; requiring preliminary tax in year one on interest potentially only receivable in five years seems unreasonable.

Under an accruals basis, foreign source interest income may be assessed under Case III and become chargeable to Irish tax before any corresponding foreign tax is paid. The suggested approach in the Strawman – claiming double tax relief in the accrual period by later amending the return once foreign tax is suffered – would require frequent return amendments, creating an unnecessary administrative burden and undermining the aim of simplifying the taxation of interest.

> **"The introduction of a 'profit motive' test, does not simplify the basis for claiming an interest deduction."**

The proposed new interest deductibility rule, including the introduction of a "profit motive" test, does not simplify the basis for claiming an interest deduction. The interpretation of a "profit motive" test is subjective, with a very limited body of relevant case law or experience to rely on. It is likely to add very significant and unnecessary complexity to the interest regime as taxpayers, advisers and the Revenue begin to understand and consider how the Courts will interpret this new test. Annual testing of "intention" and evidencing "purpose" is likely to be onerous, adding complexity versus the status quo.

The proposed widening of the scope to include "interest equivalent" is a positive step from a Case III perspective. Nonetheless, it could be further enhanced by the introduction of a deduction for other operating costs associated with operating the company in question, subject to the well-established principles of Section 81 TCA 1997.

On balance, given the uncertainty that would likely accompany the implementation of most of the measures in the Strawman, retaining the status quo would be less damaging to Ireland's competitiveness than adopting those measures.

Joe Walsh, Director, Financial Services Tax, Forvis Mazars: The proposal makes welcome progress in several areas. Moving non-trading interest income to an accruals basis aligns with international best practice and the inclusion of "interest equivalent" amounts to ensure consistency with interest limitation rules. A five-year transitional period for existing arrangements is also pragmatic. However, significant challenges remain.

Joe Walsh

The suggested "profit motive" test for deductibility is commercially unrealistic. Businesses often borrow for strategic reasons that do not immediately boost profits and tracking profit impact on a loan-by-loan basis would impose a heavy compliance burden. Retaining the well-understood "wholly and exclusively" test for trading entities, with minor anti-avoidance refinements, would provide greater certainty.

The main issue which the project should focus on is non-trading interest deductibility. Currently, the Section 247 regime is overly complex, Qualifying Financing Companies can only be used in limited circumstances and the absence of a fit-for-purpose finance company regime forces reliance on Section 110 structures beyond their intended scope. The Strawman proposal goes some way towards addressing these issues but does not fully address stakeholders' primary concerns. The proposed "profit motive" test should be replaced with a "commercial motive" test as initially requested by stakeholders in the Interest Consultation held in early 2025. Additionally, the Strawman only contemplates minor updates to Case iii loss provisions to allow for the carry forward of losses; however, consideration should be given to extending loss relief under Case iii and iv to allow for relief against other income and group relief, as is currently available under the Section 247 regime.

Finally, extending transfer pricing documentation requirements to SMEs undermines the reform's stated goal of simplification, imposing disproportionate compliance costs on smaller businesses.

> **"While the Strawman addresses alignment and modernisation, its approach to deductibility and SME compliance needs to be rethought."**

While the Strawman addresses alignment and modernisation, its approach to deductibility and SME compliance needs to be rethought. Simplification, not additional complexity, should remain the guiding principle.

Deirdre Barnicle, Partner, McCann FitzGerald: A reform of Ireland's complex taxation regime for interest would be welcome and is long overdue. However, while there are some welcome proposals for amendments in the Strawman proposal contained in the Feedback Statement, some of the proposed amendments give rise to concern and, in many instances, will add even further complexity for taxpayers.

The suggestion that passive interest income should be subject to corporation tax and income tax on an accruals basis is certainly a positive development; the use of a receipts basis for non-trading interest created confusion and added complexity e.g. through addbacks and deductions.

> **"The Department's contention that the terms 'commercial' and 'business purpose' could be construed too widely is not convincing when one reviews the test's existing application in a range of other OECD jurisdictions."**

However, the potential introduction of a 'profit motive' test is of significant concern. Under the new test, interest will be deductible only where money is borrowed for the purpose of generating profits/gains that would be subject to Irish tax. It had been hoped that a 'commercial' or 'business purpose' test would be introduced, which would have applied to all interest deductions irrespective of the business activity funded by the borrowing and regardless of whether the borrowing was trade related. The Department's contention that the terms 'commercial' and 'business purpose' could be construed too widely is not convincing when one reviews the test's existing application in a range of other OECD jurisdictions. This is especially so considering the interpretation difficulties that will arise from using 'intention' as the guide in the proposed test.

Not only is the 'business purpose' test the international norm, but it also aligns more closely with accounting principles and Pillar Two rules. The test would be centred on whether borrowing under Cases I or III served a bona fide commercial purpose for the company as a whole. Conversely, the 'profit motive' test will impose a large administrative burden on businesses by requiring forensic tracking of the application of all borrowed monies. This extra onus is particularly unnecessary when one considers protections against aggressive tax planning such as GAAR and anti-hybrid rules that are already in place. It is hoped that the Department will revise its plans and instead make proposals for the introduction of a 'business purpose' test as requested by key stakeholders.

BEPS – review and outlook

This past year - 2025 - has been a watershed year for the OECD's BEPS project, and some might say even a terminal year. Can you summarise the main developments providing your assessment of its prospects in 2026, and what it might mean for large Irish corporate taxpayers in particular?

Paraic Burke, Head of Tax, PwC Ireland: In 2025, international tax policy was dominated by US actions that significantly disrupted Pillar Two, the OECD's Global Minimum Tax initiative. The Executive Orders issued by the new US administration withdrawing support for the Pillar Two framework created considerable uncertainty for jurisdictions. Central to the US stance was its demand that US headquartered groups be exempted from the Pillar Two rules. A key threat arose from the US proposed Section 899 "revenge tax", should the United States' demands with respect to Pillar Two not be met. Throughout 2025, concern grew that if the OECD failed to develop a viable solution, that the US might initiate these retaliatory tax measures, potentially causing countries to react in kind, and resulting in a disorderly dismantling of the Pillar Two regime.

> **"Although a disorderly breakdown of Pillar Two has been avoided for now, the presence of five safe harbours highlights ongoing instability within the framework."**

The announcement of the G7 agreement in June 2025 to implement a "side-by-side" ("SbS") agreement was critical in averting US threats, and aimed to preserve Pillar Two's operational integrity. To implement this agreement, the OECD issued a new package of administrative guidance on 5 January 2026. This guidance formally introduced the SbS "system" as part of a broader set of safe harbours. Under the SBS system, two distinct safe harbours are made available to MNE groups headquartered in jurisdictions that the Inclusive Framework recognises as having an eligible tax regime. Consistent with the G7 agreement, the SbS approach ensures that the US domestic minimum tax regime sits alongside the Pillar Two Global Minimum Tax, with both systems operating in parallel to achieve the agreed minimum tax outcomes. The US is currently the only jurisdiction identified as meeting the eligibility criteria.

Agreement to these safe harbours by the OECD BEPS Inclusive Framework was likely necessary to prevent further fracturing of the regime, as domestic implementation of the Pillar Two Global Minimum Tax slowed rapidly in the latter half of 2025, amid fears of US retaliation to countries if they continued to proceed with implementation of the UTPR and increasing calls from industry groups and politicians for pauses and re-evaluations of the rules.

While other countries may seek to demonstrate they too qualify for the safe harbours, the reality is that only the US has qualified initially, and further qualifications may be contentious.

The January OECD side-by-side package also provides for a future stocktake by 2029 to assess any competitive distortions between companies or jurisdictions. QDMTTs remain unaffected by the overall SbS package and these SbS safe harbours. Large Irish corporate taxpayers will still need to prepare detailed GloBE filings for jurisdictions that have already enacted the GloBE rules in 2024 and 2025. Compliance costs are expected to be significant.

Although a disorderly breakdown of Pillar Two has been avoided for now, the presence of five safe harbours highlights ongoing instability within the framework. It is unlikely this will be the last call for safe harbours and further changes, so stability of the Global Minimum Tax is not guaranteed.

Deirdre Barnicle, Partner, McCann FitzGerald: The events of 2025 cast significant doubt over the future of Pillar Two. In the summer of 2021, 130 countries in the OECD/G20 Inclusive Framework (IF) on BEPS agreed a new framework for the reform of international tax rules; the object of Pillar Two of this plan was to ensure the effective tax rate of entities did not fall below 15%.


Deirdre Barnicle

However, under a proposed provision (section 899) of the US 'One Big Beautiful Bill', retaliatory taxes were threatened against countries who applied 'unfair' taxes on US MNEs (i.e. those countries imposing certain Pillar Two rules). Following an agreement made by G7 leaders as the Bill made its way through the Senate, OECD Pillar Two taxes would no longer apply to US companies and as a result, section 899 was dropped. However, the provisional US-G7 deal still needed to be formally adopted by the OECD.

On 5 January 2026, a landmark 'Side-by-Side' package was agreed between more than 145 countries which formalises the US MNE exemption. There had been delays reaching the final text of the agreement, but some reluctant European countries lifted their objections once reassurances were received that the agreement would be reviewed regularly to ensure a level playing field. The first review of the Side-by-Side system will take place in 2029, and this will be accompanied by a Commission assessment of the system's effect on EU competitiveness. Moreover, a review clause allows other countries to access the same exemptions as the US if they have implemented a global minimum tax by 2027. Initial commentary is mixed as to whether this is a strategic success for the OECD or a resounding defeat for the BEPS project. The development is welcome for any Irish MNEs with US subsidiaries, who will no longer be hit by Pillar Two taxes.

> **"Initial commentary is mixed as to whether this is a strategic success for the OECD or a resounding defeat for the BEPS project. The development is welcome for any Irish MNEs with US subsidiaries, who will no longer be hit by Pillar Two taxes."**

On a further positive note, the agreement contains simplification measures which should reduce administrative burdens for both MNEs and tax authorities. Similarly, exemptions now exist to allow countries to offer certain tax incentives to attract MNEs, where the measures are "strongly connected to economic substance". Views are mixed as to whether an updated Directive would need to be agreed to give effect to the changes in the Side-by-Side package. However, the European Commission was reported to have indicated that such an agreement would not require any amendment to Council Directive 2022/2523 and in its 5 January statement on the matter (in which the Commission welcomed the OECD's agreement on the package), no mention was made of legislative amendments.

Pillar 1 of the BEPS plan sought to close tax loopholes for Big Tech groups and multinationals. This portion is yet to be enacted, and given the current economic and political climate, many have observed that this is unlikely to change.

For large Irish corporate taxpayers without US income sources who will not benefit from the exemptions, the original Pillar Two registration deadline (for groups with a fiscal year of 1 January to 31 December 2024) was extended from 31 December 2025 to 28 February 2026. This allowed for ROS updates to ensure more complex groups could complete the step-by-step registration process. While the first Pillar Two tax returns and payments are due by 30 June 2026, further Revenue guidance is expected in advance of this deadline e.g. for companies transitioning between MNE groups. Furthermore, close attention should be paid to see what impact the Side-by-Side Package will have on Pillar Two payments in the future. It has been suggested that it is more likely that the Commission will seek to adjust Pillar Two through guidance rather than a formal legislative procedure.

Khatuna Baratashvili, Manager, Financial Services Tax, Forvis Mazars: After years of negotiations, the OECD/G20 Base Erosion and Profit Shifting (BEPS) project has made progress with the "Two-Pillar" solution. This includes Pillar One, which focuses on reallocating taxing rights, and Pillar Two, which establishes a global minimum tax. 2025 marked a significant step in the initiative that has lasted a decade.


Khatuna Baratashvili

The work on Pillar One, which involves Amount A and Amount B, is still ongoing and implementation is not yet complete. By early 2025, the OECD announced that the text for Amount A in the Multilateral Convention was mostly finished and stable. However, it did not open for signing as planned and it failed to secure sufficient support for ratification. The United States withdrew its political support in January 2025, making ratification practically impossible.

Amount B has progressed further. There was a general agreement on a more straightforward transfer pricing approach for basic distribution activities. However, there was no full agreement on pricing details or safe harbour outcomes. As a result, Amount B is optional, has limited scope and is not adopted consistently.

Pillar Two has been implemented in over 60 jurisdictions, with the EU Minimum Tax Directive applied uniformly across Member States. Ireland has fully adopted the Qualified Domestic Top-Up Tax (QDTT), Income Inclusion Rule (IIR) and a registration and penalties regime. The Pillar Two registration platform in Ireland launched in August 2025, with mandatory registration initially due by 31 December 2025, later extended to 28 February 2026. Non-compliance incurs a €10,000 penalty, marking the shift from policy debate to compliance.

In late 2025, the OECD/G7 introduced the "Side-by-Side Package", which was agreed in January 2026 and negotiated throughout 2025. It included new permanent and transitional safe harbours, formal accommodation of the US minimum tax regime and continued emphasis on QDTTs. This package prevented Pillar Two's collapse amid US opposition and will be reviewed in 2029 to ensure it meets its global minimum tax objectives.

Irish multinationals with a turnover of €750 million or more must comply with several key requirements: registering and filing the GloBE information return (GIR), the QDTT return and/or IIR returns. These requirements can lead to significant compliance costs and advisory fees.

While Ireland's headline corporate tax rate of 12.5% remains unchanged for domestic purposes, the introduction of Pillar Two mandates a minimum effective tax rate of 15% for large groups, achieved through top-ups. Initially, this change may increase revenue for the Irish Government; however, over time, Ireland's attractiveness for foreign direct investment (FDI) could diminish if other elements, such as Pillar One reallocations, reduce the effective tax advantage.

> **"The OECD has indicated that jurisdictions attracting a disproportionate amount of FDI may initially experience revenue increases from Pillar Two top-ups."**

The administrative burden for large Irish businesses increases due to the need for expanded reporting, modelling, and global coordination. In theory, a global minimum tax rate helps mitigate the risk of a "race to the bottom," and contributes to the stabilisation of global tax norms. However, for a country like Ireland, this situation could lead to less differentiation in attracting FDI based solely on tax incentives.

The OECD has indicated that jurisdictions attracting a disproportionate amount of FDI may initially experience revenue increases from Pillar Two top-ups. However, the long-term impacts will depend on the dynamics of global tax competition. The BEPS initiative is now entering a mature implementation phase, focusing on balancing political compromises, such as side-by-side tax regimes, with practical compliance frameworks. For Irish corporate taxpayers, key themes to monitor in 2026 include managing compliance with Pillar Two, understanding the impact on effective tax rates, and adapting to ongoing global tax reform trends.

On 5 January 2026 the OECD/G20 Inclusive Framework on BEPS announced that agreement had been reached on a package of measures designed to chart a course forward for the global minimum tax project. Can you briefly summarise the main elements of the agreed package especially those elements designed to address US concerns around the global minimum tax project, any safeguards included and what it might mean for large Irish corporate taxpayers in particular?

Michael Tansley, Tax Director, Walkers (Ireland) LLP: The January 2026 package of measures follows a period of intense negotiations which commenced following agreement being reached at a G7 level in June 2025 that a side-by-side solution could preserve the gains made by jurisdictions in the Inclusive Framework and provide greater stability and certainty in the international tax system going forward. Under the G7 side by side solution US parented groups will be exempt from the Income Inclusion Rule ("IIR") and the Undertaxed Profits Rule ("UTPR") in recognition of the existing US minimum tax rules to which they are subject. The package of measures takes the form of Administrative Guidance which is to be incorporated into the Commentary to the GloBE Model Rules and comprises of the below elements:

a) Side-by-Side System to facilitate existing qualifying minimum tax regimes
b) Simplification measures
c) Alignment of substance-based tax incentives

Michael Tansley

The Side-by-Side System (SbS System) addresses US concerns with respect to the global minimum tax project and will only be available to an MNE Group that has its ultimate parent entity (UPE) located in a jurisdiction which has both an eligible domestic tax regime and an eligible worldwide regime. Where the SbS System safe harbour applies, the top up tax shall be deemed to be zero for the purposes of the IIR and the UTPR. An election for this SbS System safe harbour can be made for fiscal years commencing on or after 1 January 2026 or a later year as listed in the Central Record (the Central Record records all jurisdictions with qualified SbS regimes and currently includes the US only as having such a regime). Additionally, the Inclusive Framework also agreed a safe harbour for jurisdictions with regimes that only meet the domestic part of the eligibility criteria and this UPE safe harbour will provide a safe harbour with respect to domestic profits of MNE Groups headquartered in jurisdictions which have a pre-existing eligible domestic tax regime. The UPE safe harbour applies for fiscal years commencing on or after 1 January 2026 and effectively replaces the transitional UTPR safe harbour which expired at the end of 2025. It is important to note that all MNE Groups (including those eligible for the SbS System safe harbour or the UPE safe harbour) remain subject to the Qualified Domestic Minimum Top-up Taxes (QDMTT) in all QDMTT jurisdictions in which they operate and in order for a jurisdiction to be considered to have a qualified SbS regime it must, as one of the qualifying conditions, provide a foreign tax credit for QDMTTs on the same terms as any other creditable Covered Tax. In terms of safeguards the SbS System is underpinned by a commitment to ensure that any substantial risks that might be identified are addressed to preserve the common policy objectives and to this end the Inclusive Framework will undertake a stocktake to be agreed and concluded by 2029. The stocktake will also be accompanied by an assessment by the European Commission on the implementation and effects of the SbS System and its impact on EU competitiveness. Action will be taken to address any substantial risks identified.

"The withdrawal of US support undermined the goals and credibility of the OECD global minimum tax project, however the SbS system allows the US minimum tax system to co-exist with the OECD global minimum tax system."

In addition to the above the package of measures also includes simplification measures in the form of the introduction of a permanent Simplified ETR safe harbour, an extension of the Transitional CbCR safe harbour for one year and a work programme for additional simplifications. Provision is also made for the Substance-based Tax Incentive safe harbour to allow an MNE Group to treat certain qualifying tax incentives as an addition to Covered Taxes so that MNE Groups can benefit from qualifying tax incentives that are strongly connected to economic substance in a jurisdiction.

In practical terms, the SbS System is a solution to accommodate the US which is otherwise not part of the OECD global minimum tax system. The withdrawal of US support undermined the goals and credibility of the OECD global minimum tax project, however the SbS system allows the US minimum tax system to co-exist with the OECD global minimum tax system. The SbS System will naturally be relevant for Ireland where a number of in-scope subsidiaries are part of US-parented groups. MNE Groups should review the OECD package measures to determine their impact (if any). These OECD measures will additionally need to be implemented across the EU and developments in this regard should be kept under review as matters progress throughout 2026. On 12 January 2026 the European Commission published a notice in the Official Journal of the European Union acknowledging the OECD package measures and confirming its application in the context of Council Directive (EU) 2022/2523 (the Pillar Two Directive).

Ireland's EU Presidency & taxation at an EU level

From an EU taxation perspective, what would you like to see Ireland prioritising in 2026, with its upcoming EU Presidency in the second half of 2026 in mind?

Paraic Burke, Head of Tax, PwC Ireland: As holder of the EU Council Presidency in the second half of 2026, Ireland should concentrate on a legislative and policy agenda that bolsters Europe's competitive edge, advances sustainability, and streamlines the regulatory framework. The emphasis must move from high-level statements into practical delivery across industrial transformation, tax simplification, and better, more proportionate regulation.

Ireland should prioritise the simplification of the Anti-Tax Avoidance Directive (ATAD), particularly the Controlled Foreign Company (CFC) and Interest Limitation Rules (ILR), which remain disproportionately complex for SMEs and cross-border corporate groups. In parallel, progressing reforms on the Directive on Administrative Co-operation

including enhanced data exchange and reporting standards, would strengthen transparency and enforcement. Together, these measures would improve the functioning of the single market and underscore Ireland's commitment to practical, business friendly solutions.

Ireland's Presidency should accelerate implementation of the Net-Zero Industry Act to speed deployment of clean-tech manufacturing across Europe, particularly in batteries, hydrogen and solar. Ireland should also ensure a smooth Carbon Border Adjustment Mechanism rollout by tackling SME compliance challenges, preparing for its extension to additional sectors, and promoting consistent data requirements across regimes – for example, aligning CBAM emissions data with sustainability reporting and with obligations under the EUDR (EU Deforestation Regulation). Following through on the Critical Raw Materials Act will be essential to secure supply chains, with measures such as ambitious recycling targets and strategic stockpiles. Depending on progress under the Cypriot Presidency, the Government may need to work to secure Council agreement on the Energy Taxation Directive to drive industrial decarbonisation and competitiveness across the EU. Finally, tightening the Industrial Emissions Directive for heavy industry, coupled with innovation funding, would help balance environmental ambition with competitiveness.

"Mandating administrative burden evaluations for all new legislative initiatives including those under the EU Digital Act and the VAT in the Digital Age (VIDA), would help ensure that measures are proportionate and practical."

Mandating administrative burden evaluations for all new legislative initiatives including those under the EU Digital Act and the VAT in the Digital Age (VIDA), would help ensure that measures are proportionate and practical. In turn, these reforms would foster a regulatory landscape that promotes innovation and competitiveness while strengthening trust in EU governance.

Deirdre Barnicle, Partner, McCann FitzGerald: In an increasingly competitive global environment, Ireland should focus on prioritising measures which increase efficiency and create greater certainty for businesses. In particular, in light of the EU Presidency in H2 of 2026, Ireland should focus on the European Council's stated aim to simplify tax legislation with a view to reducing the reporting burdens for both tax authorities and taxpayers, eliminating outdated and overlapping tax rules, and streamlining the application of tax procedures and reporting requirements. Simplification proposals in relation to the Directive on Administrative Cooperation (DAC) are underway and are expected to be published in the second quarter of 2026.

"The taxation omnibus... will certainly still be on the agenda in the second half of 2026 and represents an opportunity for the Irish government to show its continued focus on improving the EU's competitiveness and business environment within the bloc by simplifying the taxation system."

Separately, as mentioned above, the OECD Side-by-Side Package will necessitate further guidance on the EU Directive that deals with Pillar Two. To increase certainty for businesses, Ireland should prioritise the drafting of this guidance so that companies' obligations into the future are not in doubt.

Finally, on the topic of tax and decarbonisation, Ireland should push for greater alignment of taxes and price relief schemes on electricity and natural gas consumption e.g. through the introduction of a common maximum level of surcharges across the EU. While a 2003 EU Directive set harmonised minimum rates of excise duty for all energy products used for heating, transport and electricity, these rules contain many anomalies and require modernisation.

Emilie Sibi, Senior Manager, International Tax, Forvis Mazars: The EU presidency is always an excellent opportunity to put increased attention at the EU level on topics that matter to the country leading for six months. While issues related to the environment and climate change continue to impact all, it seems unlikely that taxation to support a green transition will be championed while Ireland holds the presidency. It is a shame to see a topic so closely linked to the EU's energy independence and sustainability be relegated, however, in the current international and domestic contexts, it does not seem to be a priority.

The taxation omnibus, which aims to streamline and modernise existing EU frameworks, is planned for discussion in Q2 2026. This will certainly still be on the agenda in the second half of 2026 and represents an opportunity for the Irish government to show its continued focus on improving the EU's competitiveness and business environment within the bloc by simplifying the taxation system, especially for cross-border transactions. This omnibus also aims to increase transparency and the exchange of information within the EU. Championing this legislation would send the message that Ireland is dedicated to the highest standards of transparency and to the development of efficient exchange of information systems. This, in turn, could help move away from the low tax jurisdiction's etiquette still associated with the country at times.

Emilie Sibi

Withholding Tax

The Department of Finance and the Revenue Commissioners have launched a joint public consultation on eWHT. What are the key aspects of the proposed changes? What impact will they have on taxpayers? Please refer to any points you or your firm have made in response to the consultation.

Mark Woodhouse, Senior Manager, International Tax, Forvis Mazars: As detailed by the then Minister for Finance, Mr Paschal Donohoe TD, in his Budget speech on 7 October 2025, a joint Department of Finance and Revenue public consultation has been launched to look at the modernisation and expansion of withholding taxes. This will look at the modernisation of PSWT and RCT, the expansion of a withholding tax to the platform economy and the introduction of Personalised Deduction Rates (PDR) in a new withholding tax regime for self-employed workers. The

Mark Woodhouse

aim of the updates is twofold: to reduce compliance costs and provide efficiencies for businesses, and to enable seamless tax collection by Revenue.

"eWHT proposes a move towards real-time taxation, 'right tax at the right time' for businesses subject to withholding..."

When it comes to RCT and PSWT, most businesses find the compliance requirements associated with these to be manual and time-consuming, and if dealing with both systems, must engage with two different withholding and reporting systems. eWHT proposes a move towards real-time taxation, "right tax at the right time" for businesses subject to withholding, including businesses providing services via an online platform. Revenue will engage with software providers to develop a real-time data exchange process between Revenue's systems and taxpayers' systems, ensuring that tax withheld will be automatically credited against preliminary tax liabilities of the taxpayer. This information will also be prepopulated in tax returns.

A new lower flat rate of withholding will apply to corporate and non-corporate entities (non-individuals). A Personalised Deduction Rate (PDR) will be calculated by Revenue for self-employed individuals. The PDR will be applied to each payment and will ensure that the amounts withheld on each payment are more reflective of the actual tax liability due on that payment. The aim of introducing the PDR is to improve cash flow management and to give self-employed individuals a simplified way to meet their preliminary tax obligations, rather than a large payment being due on filing the prior year income tax return. The deadline for submissions is 30 January.

Deirdre Barnicle, Partner, McCann FitzGerald: The proposed changes in relation to eWHT aim to simplify the tax obligations of self-employed persons. Normally, self-employed persons must save throughout the year so that, when they estimate their preliminary tax obligations at year end, they are in a position to pay the liability due. The current system imposes a significant burden on self-employed persons; the process is time-consuming, creates uncertainty and can cause cash flow problems where the estimated liability has been incorrectly calculated.

Under the proposed system, new technologies will allow data to flow between Revenue, Specified Persons (i.e. providers of services in construction, forestry, and meat processing, currently subject to RCT; providers of professional services to accountable persons, currently subject to PSWT; and providers of services via an online platform), and Designated Withholders (i.e. current principal contractors for RCT; accountable persons for PSWT; and platform operators). Revenue will calculate a Personalised Deduction Rate (PDR) for self-employed persons, which will be applied each time a payment is made to those persons. Self-employed individuals can provide data to Revenue on a voluntary basis to improve the accuracy of the PDR calculation; again, this exchange of data will take place by way of the new technologies employed by Revenue. The tax withheld throughout the year will then be credited against the preliminary tax liabilities of the taxpayer, and the income tax returns of self-employed individuals will be pre-populated based on all of the data provided to Revenue. In addition, it is proposed that a lower flat rate of withholding will apply to corporate and non-corporate entities.

"The proposed changes would emulate the ease experienced by PAYE workers for self-employed persons. In the same way that Revenue's systems are linked to those of employers, Revenue would now be linked with the business systems of RCT principal contractors and PSWT accountable persons."

The proposed changes would emulate the ease experienced by PAYE workers for self-employed persons. In the same way that Revenue's systems are linked to those of employers, Revenue would now be linked with the business systems of RCT principal contractors and PSWT accountable persons. The PDR, which is similar to the Revenue Payroll Notification in the PAYE system, will ensure that a more accurate tax liability is calculated on each payment; self-employed persons should find the end of the tax year less stressful and burdensome as a result, because there is less likelihood for over or underpayments of preliminary tax. The automatic prepayment system should also reduce the administrative burden for self-employed persons, by making it more certain that the correct amount of tax is paid at the right time.

Paraic Burke, Head of Tax, PwC Ireland: It is positive that there is a recognition that the current Professional Services Withholding Tax (PSWT) and Relevant Contracts Tax (RCT) withholding tax systems are in need of change and modernisation. However, any modernisation needs to address significant current issues with the schemes. Unless designed with a proper consideration of business operations, further reform may risk imposing material cash-flow strain, constraining supply, and raising compliance costs. This could in effect put viable companies out of business due to cash flow impacts, and add unmanageable compliance burdens which are likely to deter participation in the Irish market.


Paraic Burke

Strong caution is warranted against expanding scope of the taxes as part of this modernisation, as this would risk bringing many more taxpayers into scope of withholding, which is not warranted in our backdrop of strong tax compliance nationally. Assumptions outlined in the consultation that technology will deliver seamless compliance are potentially unrealistic, particularly for smaller businesses, and for businesses who use bespoke or non-Irish financial systems. Crucially, the current RCT penalty regime needs review and modernisation, as it is unworkable and unjustly punitive, exacerbating risk aversion and discouraging voluntary self-correction.

RCT and PSWT currently produce poor cash-flow outcomes and in our experience are deterring foreign specialist suppliers from Irish opportunities, particularly in the renewables and construction sectors. Inconsistent interpretations by Revenue have also led to significant confusion, impacting activity in essential sectors such as housing delivery.

Modernisation should prioritise de minimis thresholds, carve-outs and 0% rates including for entities not ultimately taxable in Ireland, as well as rapid in-year refund mechanisms to neutralise cash impact. A phased implementation to allow taxpayers to address changes to business systems and processes will be key, with manual filing options retained as well as automation options introduced. It is imperative that Revenue and the Department of Finance maintain strong and ongoing engagement with businesses to ensure there are no unforeseen negative impacts of the eWHT reforms.

With respect to the third element of the e-WHT consultation, the key focus appears to be a proposal for the introduction of a brand new WHT obligation which would arise on payments to self-employed individuals providing services via a digital platform.

The obligation to operationalise and collect the WHT would fall on the platform operators. Whilst it is appreciated that the policy intent of the proposal might be one of simplification for self-employed workers, in reality, this proposal raises a number of practical issues and would appear to introduce added complexity and an increased compliance burden for in-scope businesses. The increase in obligations for platform companies, coupled with the associated tax risk with this proposal, could mean that platform companies see the risks and obligations of operating in the Irish market as outweighing the benefits.

VAT

The Revenue Commissioners have released new guidance on the territorial scope of VAT groups. Can you review the most relevant points for taxpayers of new guidance and any implications for taxpayers?

Emma Galvin, VAT Director, BDO: On 19 November 2025, the Revenue released a Tax and Duty Manual, "Territorial Scope of VAT Groups", which sets out a major change in the territorial scope of VAT Groups in Ireland, bringing its interpretation in line with the Skandia (C 7/13) and Danske Bank (C-812/19) principles.


Emma Galvin

Prior to its release, the Revenue took a broad interpretation of the Irish VAT Grouping rules for head offices and branches, and as outlined in published non-statutory Revenue guidance viewed the whole entity as being a member of the Irish VAT Group i.e., including any overseas head office or branches (if applicable), and not just the Irish establishment, commonly referred to as the "whole entity" approach.

The consequence of this interpretation was that any transactions between the overseas establishment/s and members of the Irish VAT Group were not considered supplies for VAT purposes (subject to the normal VAT Group exceptions).

As a result of continuing to apply the "whole entity" approach, the Revenue had not implemented the Skandia (C 7/13) and Danske Bank (C-812/19) principles.

However, effective immediately for any VAT Groups formed from 19 November 2025, and effective from 1 January 2027 for any existing VAT Groups as of 19 November 2025, Irish VAT Grouping will only be available to Irish establishments.

This means that non-Irish head offices or branches may not be members of an Irish VAT Group and therefore supplies between such non-Irish establishments and an Irish VAT Group cannot be disregarded and should be within the scope of VAT (subject to the normal VAT rules).

This represents a significant change in the VAT treatment applicable to the receipt of services by Irish VAT Groups from the VAT Group members' non-Irish establishments – see some examples set out below.

Example 1 - an Irish company and an Irish branch of a French company form an Irish VAT Group. The French head office supplies services to the Irish VAT Group. The supply of the services may now fall within the scope of VAT, and the VAT Group may be obliged to account for VAT on the reverse charge basis (subject to the services being taxable services).

Example 2 - a Luxembourg company is a member of a VAT Group in Luxembourg. The Luxembourg company has a branch in Ireland. The Luxembourg head office supplies services to the Irish branch. The supply of the services may now fall within the scope of VAT, and the Irish branch may be obliged to account for VAT on the reverse charge basis (subject to the services being taxable services).

It should be highlighted however that there should be no change to the VAT treatment applicable to supplies between head offices and branches where neither the head office nor the relevant branch is a member of VAT Groups in Ireland or in another EU Member State.

Businesses that have its head office or a branch in Ireland and where the business's head office and/or branches are members of a VAT Group in Ireland or in another EU Member State need to immediately assess the impact of this change, in particular, those with restricted VAT recovery entitlement e.g., funds, banks, insurance companies etc., as this change could have a real bottom line cost for such businesses.

"There may also be scope for VAT recovery rates potentially increasing because of transactions that were previously disregarded for VAT purposes now coming within the scope of VAT."

There may also be scope for VAT recovery rates potentially increasing because of transactions that were previously disregarded for VAT purposes now coming within the scope of VAT.

Deirdre Barnicle, Partner, McCann FitzGerald: As a result of the new Revenue guidance on the territorial scope for VAT groups, Irish VAT will now apply to many cross-border businesses where they form part of an Irish or other EU-country VAT group. This change will take effect immediately for new VAT Groups formed from 19 November and from 1 January 2027 for all other VAT Groups. While some businesses will benefit from increased VAT recoverability, those companies whose VAT recovery entitlements are restricted (e.g. insurance providers, banks and funds) could suffer from increased VAT leakage.


Deirdre Barnicle

Previously, services supplied between a VAT grouped Irish establishment and its establishments abroad were disregarded under Irish VAT Grouping rules. Irish Revenue took a 'whole entity' approach to VAT groupings; this meant that any Irish VAT Group would include the Irish establishment as well as its overseas head office or branches. As a result, supplies between the different branches of the one legal entity were not considered VAT-able. This was the case even though the foreign branches were not members of the Irish VAT Group.

However, with effect from 19 November 2025 (in the case of new VAT Groups), the only establishments allowed to form part of an Irish VAT Group will now be those located in Ireland. This development has several consequences and will increase VAT leakage for some while improving VAT recoverability for others. Where, for instance, an Irish company and the Irish branch of a company headquartered in Germany form part of an Irish VAT Group, and the German HQ supplies services to the Irish VAT group, Irish VAT will now be applicable (to the extent those supplies are taxable) and the VAT group must account for Irish VAT on a reverse-charge basis. Equally, where, for example, a business forms part of a VAT Group in France, and the French HQ provides supplies to its Irish branch, this supply could now be subject to Irish VAT (to the extent those supplies are taxable) and the Irish branch may have to account for VAT on a reverse charge basis. Even though the French HQ and Irish branch are the one legal entity, by virtue of the French HQ joining a VAT Group in France, two separate taxable persons have been created. The new approach means that insurance providers, banks and funds (which are only entitled to limited VAT recovery) and other businesses providing VAT exempt services will likely see increased VAT leakage.

"There will be businesses whose intra-group dealings with overseas branches are now taxable; the recovery rates of these entities will improve, and the change represents an economic opportunity for them."

On the other hand, there will be businesses whose intra-group dealings with overseas branches are now taxable; the recovery rates of these entities will improve, and the change represents an economic opportunity for them. For example, where an Irish branch supplies services to an overseas establishment, the Irish branch can now recover VAT where the overseas branch forms part of a VAT Group in another EU country. Previously, these transactions would have been disregarded for VAT purposes. Where branches of a company are based in different EU countries and no VAT Group is in place, supplies between these businesses will continue to be disregarded.

While new VAT Groups are subject to the change with immediate effect, VAT Groups established before 19 November 2025 have until 1 January 2027 to prepare. Companies operating in several EU countries should consider their existing structures to determine what effect Irish Revenue's 'local establishment' approach will have on intra-group transactions. Either VAT de-grouping or the creation of a new VAT Group might be advantageous depending on the circumstances.

Michael Tansley, Tax Director, Walkers (Ireland) LLP : The key change confirmed in the new guidance is that VAT grouping is only available to establishments located within Ireland. This new approach in interpretation aligns with the CJEU decisions in Skandia America Corp (C-7/13) and Danske Bank (C-812/19) and the position adopted in other EU Member States where the VAT group rules restrict membership to establishments in that EU Member State. The new guidance essentially means that foreign establishments (e.g. foreign branch) of the same legal entity are excluded from an Irish VAT group. Additionally, membership of a VAT group in another EU Member State can also potentially impact the Irish VAT analysis.

Michael Tansley

It is important to note that the guidance has immediate effect for any VAT groups established after the publication of the guidance (publication occurred on 19 November 2025) whereas existing VAT groups are required to implement the guidance by 31 December 2026.

Taxpayers should review their existing VAT grouping arrangements (both within and outside of Ireland) to determine whether they may be impacted by the new guidance and whether any restructuring alternatives exist. Those taxpayers potentially most impacted by the change in interpretation are those that do not have a full entitlement to VAT recovery such as asset managers, banks and insurers engaged in VAT exempt financial services.

Paraic Burke, Head of Tax, PwC Ireland: On 19 November 2025, Revenue published updated guidance on the territorial scope of VAT groups. This new guidance implements recent EU case-law and brings Ireland in line with the approach taken in most other EU Member States that have a VAT grouping regime. The new approach to the territorial scope of VAT groups was effective immediately from 19 November 2025 for new VAT groups and will be effective from 1 January 2027 for existing VAT groups.

This new guidance is of relevance to businesses with an Irish establishment (head office / branch) which is in an Irish VAT group, and which is engaged in intra-entity supplies with non-Irish establishments (head office / branch).

The change is that services purchased by the VAT-grouped Irish establishment from its head office or foreign branch may now be regarded as transactions between two entirely separate establishments for VAT purposes. This could lead to additional VAT costs, as these intra-entity services, which were previously disregarded for VAT purposes, may now be subject to reverse charge VAT in Ireland.

Impacted businesses should review how the new rules affect services between Irish establishments and overseas branches, identify transactions that were previously disregarded and determine whether they now fall within the scope of Irish VAT. This assessment is critical for businesses with complex structures or multiple VAT groups across jurisdictions.

Tax Technology

Would you comment on significant developments in the area of tax technology in 2025, focusing on applications of AI in applied tax practice in particular?

Deirdre Barnicle, Partner, McCann FitzGerald: As the pace of technology continues to accelerate, 2025 opened up new possibilities for improving the efficiency of tax practitioners and the Revenue Commissioners alike; the eWHT proposal (discussed above) is one of many instances where tax technology can help to increase compliance.

The possibility of employing 'agentic AI' was discussed for the first time in 2025 i.e. using an advanced form of AI focused on autonomous decision-making and action. Some have suggested that this form of technology could be particularly helpful in European jurisdictions where near-real-time tax processing is becoming the norm.

Much like other professional areas, AI can assist tax teams in basic tasks such as drafting emails, summarising information and carrying out initial research. However, as many of the professional resources we rely upon to inform our tax practice are behind paywalls and being cognisant of the fact that AI can regularly pull information

from publicly available resources from other jurisdictions, it can be of limited use in particular tasks and always requires careful review on the part of practitioners.

One area of tax practice where AI has the potential to bring significant efficiencies is that of data entry in tax compliance work. For example, when reviewing invoices for tax returns, what can be a time consuming and tedious exercise could be transformed by the correct AI tool. Employing AI in this area would also reduce the risk of human error. Again, tax practitioners must remain vigilant and cautious when engaging AI to assist them in their work, because a tool developed without the appropriate safeguards risks the exposure of sensitive client data; client confidentiality must always remain paramount.

"What distinguishes 2025 for tax functions is maturity over novelty. Deployments are becoming narrower, better governed and tied to outcomes: faster close, fewer errors, stronger audit results and clearer control evidence."

On this topic, it is likely that new roles will be created in tax practices to manage these technologies e.g. tax AI-specialists. Proper training to current taxpractitioners will also be required.

Paraic Burke, Head of Tax, PwC Ireland: In 2025, AI adoption is shifting from pilots to scaled production. Investment and performance have improved, and clearer regulation gives organisations confidence to embed AI. Surveys show productivity gains; cost savings lag where data and integration are weak. Ad hoc experiments rarely scale and durable impact comes from strong data, platform integration and robust governance.

The digitisation of tax compliance is becoming more standard as electronic mandates and AI redefine obligations. E-filing, APIs and Europe's move to near real-time VAT and eInvoicing set the pace, while the first full year of Pillar Two raises the bar for data, controls and disclosure. Enterprise AI is now regulated, and production grade is compressing timelines and lifting expectations for accuracy, auditability and agility.

Leading groups are scaling where it matters. For Pillar Two, they're transitioning to end-to-end GloBE calculations with transparent data lineage, automated classification of book–tax differences, and anomaly detection before period close. From an indirect tax viewpoint, AI embedded in determination validates invoices, infers appropriate VAT treatments from contracts and purchase orders, and flags misclassifications up front, boosting First Time Right processes and reduces remediation.

The direction of travel is simple: standardise data, codify rules, automate the routine and focus humans on judgement. That shifts tax from constraint to an enabler, meeting new obligations at speed while informing deals, supply chains and operating models.

Compliance copilots are now more mainstream in tax return preparation and provision technology platforms. Using secure retrieval from libraries of guidance and law, they can draft workpapers, explain calculations and link to authorities for review, shortening cycle times while maintaining defensibility. In transfer pricing and controversy readiness, AI can accelerate screening of comparables, check consistency across intercompany agreements, invoices and customs data, and assemble master and local files. As part of the audit procedures, analytics can prioritise requests and anticipate focus areas from historical patterns, with oversight to avoid overreliance on probabilistic outputs. Across processes, foundation models can extract tax-relevant attributes from unstructured sources such as contracts, invoices, and customs forms.

What distinguishes 2025 for tax functions is maturity over novelty. Deployments are becoming narrower, better governed and tied to outcomes: faster close, fewer errors, stronger audit results and clearer control evidence. Successful implementations start with well mapped data, integrated systems and controls aligned to evolving regulations. As AI becomes built into tax operations through 2026, the differentiator will be professional judgement applied to better, faster information, supported by governance that keeps models current and compliant. The technology reached an appropriate level to deploy on scale; value now depends on disciplined execution and the human expertise that directs it.

Kathryn Hogan, Senior Manager, International Tax, Forvis Mazars: New technology constantly presents opportunities for process reinvention, for example, by digitising existing work. Artificial Intelligence (AI), however, is more than that. AI reshapes the work itself. AI-driven solutions can provide faster tax insights, greater accuracy, and forward-looking decision support to tax professionals across our global organisations.

Kathryn Hogan

AI is replacing repetitive tasks within tax compliance and planning with the introduction of AI-assisted tax preparation tools. AI is accelerating tax data extraction and analysis, scanning documents for relevant figures, classifying transactions for tax treatment, and even identifying applicable deductions or credits. AI can help prepare tax filings by assembling data into the proper formats and checking against regulations.

AI can continuously scan global regulatory databases and legal texts to summarise new laws, deadlines and changes, promptly altering tax teams and enabling them to adapt their strategies accordingly. Providing tax advisors with knowledge of tax developments and industry trends frees us up to spend more time interpreting and advising our clients.

"AI is accelerating tax data extraction and analysis, scanning documents for relevant figures, classifying transactions for tax treatment, and even identifying applicable deductions or credits."

AI tax advisory tools that have been developed can project future tax outcomes under different scenarios, e.g. what-if analyses for new investments. This allows us, as tax advisors, to offer more strategic tax planning by using predictive analytics to advise on the tax impact of decisions. It can detect patterns and trends in tax data to uncover risks and optimise transactions.

The future of AI in tax technology isn't a distant horizon it is unfolding and accelerating now. It will reshape how we work, combining human judgement and caution with automation, whilst meeting clients' rising expectations for digital service. The adoption of AI must be strategic, secure, and compliant with evolving regulations to effectively modernise tax compliance, drive efficiency, and enhance accuracy.