Ireland will remain a destination of choice for US FDI with smart policy decisions

by Regina O'Connor

This year, AmCham celebrated its 60th anniversary. However, the presence of US multinationals operating in Ireland predates our founding. Since the early 1900's, US companies have increasingly chosen Ireland as a place to do business. Over the years, these companies have made significant contributions to the Irish economy, and US FDI has shown incredible resilience in the face of significant changes.

Global commentators have made much of the Irish Government's recent decision to sign up to the OECD Global Tax reforms, which include imposing a minimum corporate tax rate of 15% on 1500 multinationals in Ireland. However, the spotlight will fade, and when it does, these commentators may be surprised to observe that far from an out-flow, multinationals will remain and continue to invest in Ireland, once Ireland continues with its smart policy decisions

A Track Record of Resilience

A decade ago, the financial crisis created record unemployment levels and sent Ireland's deficit and debt spiralling. Slowly but surely, we recovered, and before the pandemic, our economy was thriving. FDI played a central role as part of the backbone of the recovery, helping Ireland to move forward and transform its economy for future investment. Today, Ireland is home to the world's top five global software companies, 14 of the globe's 15 top med-tech companies and all the top pharma companies. In 2011, US companies employed around 100,000 people in Ireland, and today employ 180,000 directly and support an additional 148,000 jobs in the wider economy, accounting for 20% of all private sector employment. US companies spend almost €10bn on payroll, more than €6.3bn on goods and services and invest €5.3bn on capital expenditure each year.

The FDI investment pipeline has been resilient in the face of recessions, Brexit and even the Covid-19 pandemic. There is no doubt that Government's recent decision to sign up to the OECD Global Tax Reform is a seismic shift for our economic and industrial policy. However, if Ireland chooses to make smart policy decisions and moves at speed, every indication suggests Ireland can attract the next wave of inward investment.

Certainty, Stability and Credibility

AmCham has always been steadfast in its support of current and previous Governments' robust defence of our corporate tax regime. Tax competition within guardrails is a legitimate and necessary tool for small open economies, and it is important that smaller nations maintain sovereignty over their tax affairs. Ireland has presented this argument with distinction during the OECD negotiations.

Ireland's track record of success in attracting inward investment has been driven partly by the certainty provided to those who choose to invest and create jobs in Ireland. The 12.5% rate has been a cornerstone of our international offering, but much of what made Ireland attractive for FDI, was the certainty that the rate provided for businesses.

Ireland's clear-headed engagement in the OECD process so far has demonstrated that Government still aims to provide businesses with certainty. Minister for Finance Paschal Donohoe's decision to withhold agreement in July while he sought clarity about the details of the proposed reforms was an important one. The removal of words "at least" from the proposals and the assurance that the European Commission will "faithfully transpose" OECD text into the European Directive provides predictability, stability, and certainty for multinational employers. The Irish Government's approach to the OECD negotiations—including a public consultation to understand stakeholder concerns—has enabled confidence in the process while ensuring there will not be rate-increase creep facilitating greater confidence on Ireland's future offering. AmCham would make the point that the clarity gleaned has made the agreement a better one for each signatory.

Road to Travel

With its high level of sign up, the OECD agreement is likely to be implemented, provided it can be passed through national parliaments, the EU institutions and the US Congress, which may be challenging. However, as AmCham has previously noted, the implementation timeline set out by the OECD—with plans for Pillar I to be implemented by November—is ambitious at best and possibly unrealistic at worst.

We strongly believe that the Irish Revenue Authority needs to be given the necessary resources, skills, and expertise to navigate these proposals should they be implemented, and implementation also affords Ireland the opportunity to reform and enhance our tax policy framework to reflect the modern global economy fully.

Time to Enhance

Implementing the OECD proposals will require a major overhaul of the Irish tax system and Ireland should take advantage of this opportunity to enhance its tax offerings and simplify its existing tax regime so that it can retain a best-in-class tax policy that is innovative, competitive and aligns with the new global tax agreement. Other countries will be re-evaluating their tax regimes and implementing new tax policies that make them more attractive for FDI—Ireland must do the same or risk falling behind in terms of competitiveness.

Possibilities for enhancing Ireland's domestic offerings include exploring changes to the Double Tax Treaty network, participation exemption, passive tax rates and Capital Gains Tax rates for disposal of business assets. Ireland must also ensure that cutting-edge research, development, and innovation continues to occur in-country. T

o do so, AmCham believes that Government must reform and enhance the nation's R&D tax credit so that it remains competitive with other countries. As R&D continues to evolve, so should the tax credit.

Time to Refocus

With Ireland agreeing to sign up to an agreed 15% corporate tax rate for companies in scope, the competition for investment and talent internationally will be even more intense. Competitor countries are continuously improving their offerings to attract and grow inward investment. Ireland must remain agile and take a proactive approach to ensuring that it remains a place where talent wants to live, and businesses want to locate.

Globally, 2021 marked the first time that employees were considered more important for a company's long-term success than its shareholders, customers, or operating locations. Talent is crucial for the future of business. However, the shift to remote working brought on by the Covid-19 pandemic has also shown that the future of business – and by extension the future of FDI—will be as much about where people want to live as where companies want to locate.

That means that Ireland must focus on improving quality of life outcomes and the lifestyle available to those who choose to base themselves and their families here. In a world where people can increasingly choose to work from anywhere, we have to move faster to solve the problems that are holding us back. While AmCham welcomes the ambition set out in the Housing For All Strategy and the National Development Plan, their successes will be determined by their speed of implementation and delivery.

Amcham particularly welcomes the commitment in Budget 2022 to allocate €11.1 billion to the National Development Plan next year, with €3.4 billion of this being provided for investment in transport. The 330K travelling to work today must know that the proposals made on road development and improvement are not a wish-list but are commitments that will be delivered with speed. In the context of infrastructure, we also need to ensure that the roll-out of the National Broadband Plan is prioritised and that investment in the energy grid is sufficient so that we meet both our power needs and sustainability targets.

Similar to the National Development Plan, AmCham commends the scale and ambition of the Housing for All Plan, in particular the commitment to spend €20bn over the next five years to build 160,000 houses. But the accommodation challenge both for purchase and rental directly impacts our campaign for talent. We have welcomed the further commitment from the Government, as part of Budget 2022, including the introduction of a new Zoned Land Tax of 3% to work to increase the supply of residential accommodation.

Our emergence from the pandemic has accelerated the level of choice for top talent, and it brings into sharper focus the areas where Ireland compares unfavourably, including our personal tax regime. 93% of our members call out personal tax as a barrier to attracting/retaining talent, while 40% see it as a barrier to further investment and expansion. While we welcome the direction of travel by the Government in Budget 2022, AmCham believes that there must be a commitment to not increase personal taxation into the future to further enhance Ireland's competitiveness.

Time to build on our track record

As has been demonstrated by the Covid crisis, the Irish operations of US multinationals have the capability to deliver lifesaving and enhancing products and services to those that need them. Ireland with only 0.06% of the world's population, is the world's 5th largest producer of Covid-related products from medicines to ventilators. This incredible impact is a reflection of the momentous success harnessed by US companies over the past 60 years.

Despite the challenges faced by the global economy during this period FDI in Ireland has continued to thrive in 2020. For example, IDA Ireland won 246 new investments and 20,123 new jobs. 52% of these projects were won in regional locations, a shining example of how FDI impacts every community up and down the country.

Looking forward, The IDA has set a target of 50,000 jobs by 2024, and with 94% of our members recently saying that their corporate headquarters have a positive view of Ireland as a place for future investment, Ireland has every reason to be optimistic.

Regina O'Connor,

Director of Public Affairs and Advocacy at the American Chamber of Commerce Ireland

Regina O'Connor is the Director of Public Affairs and Advocacy at the American Chamber of Commerce in Ireland (AmCham). Regina is a solicitor with 12 years of EU institutions' public affairs and policy experience, followed by 8 years as Global Head of Government Affairs Regulatory Policy with a global insurer.