



Irish Tax Implications of Foreign Income & Assets

This document is correct as of June 2009

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Foreign Deposit Accounts

Q.1 *I hold an account with a financial institution outside the State and interest is earned on the monies invested. Is the interest liable to Irish tax?*

A. Yes. Income Tax is payable on foreign deposit interest income. Such tax is payable under Self Assessment within what is known as the *Pay and File* system. For further information on *Pay and File* and guidance for PAYE taxpayers please refer to Appendix 1.

Q.2 *Withholding tax at source is deducted from the foreign interest and I only receive the net amount. Am I entitled to a credit for this withholding tax?*

A. Most of the State's double taxation agreements provide that deposit interest income is only taxable in the country in which an individual is resident. It may be worth asking your financial institution to establish whether the interest on your foreign account can be paid without foreign withholding tax being deducted at source.

If the foreign withholding tax is unavoidable and non-refundable, and Ireland has a double taxation agreement with the country where the account is located which provides that the other country has a right to tax the deposit interest, you will receive credit for the withholding tax suffered. However, where the withholding tax credit exceeds the Irish tax liability on that income, the difference is not refundable by Revenue.

For a list of Ireland's double taxation agreements, please click [here](#).

If no double taxation agreement exists and the withholding tax is non-refundable, a **deduction** will be allowed for the withholding tax and you will only be taxed in Ireland on the net interest earned.

Q.3 *What rate of tax applies in the State on my foreign deposit interest?*

A. This depends on the location of the financial institution. If it is located in another EU country, tax on the gross interest earned is due at the same rate as tax on Irish deposit interest income – 20% up to 31st December 2008, 23% for the period 1st January 2009 to 7th April 2009 and 25% from the 8th April 2009. In order to avail of this treatment, you must make a timely and accurate return of the foreign deposit interest and pay any tax due by the prescribed return filing date for the year concerned.

If the interest is earned from a financial institution outside the EU, tax is due at your marginal (highest) rate of tax.

Prior to 1 January 2005, all foreign deposit interest income, including interest from another EU country, was taxable at the marginal rate – that is, the higher or highest rate at which you pay income tax. Since 1 January 2007 the higher rate of income tax in Ireland has been 41%.

Q.4 What is the EU Savings Directive and how does it impact on deposit interest earned?

- A.** The purpose of the Directive is to ensure that individuals resident in an EU Member State, who receive interest income from another Member State, are taxed in the Member State in which they are resident for tax purposes. To this end, payments of interest made on or after 1 July 2005 are either (1) reportable by paying agents (e.g. financial institutions) in the EU to the tax authorities in that institution's home territory, or (2) subject to withholding tax in those territories which apply withholding tax rather than report the payment.

Most EU Member States exchange information regarding the interest payments made by paying agents in their jurisdiction to individuals resident in another Member State. However, Austria, Belgium and Luxembourg apply withholding tax instead of exchanging information. Some associated and dependent territories, namely, Netherlands Antilles, Jersey, Guernsey, Isle of Man, British Virgin Islands and Turks and Caicos Islands, and certain third countries, namely, Andorra, Liechtenstein, Monaco, San Marino and Switzerland, will also apply a withholding tax.

The rate of withholding tax is currently 20% but this will increase to 35% in July 2011. The rate prior to July 2008 was 15%.

Q.5 Is it possible to apply for exemption from the deduction of EU Savings Directive withholding tax?

- A.** Yes. By providing some basic information to your local Irish tax district a 'Certificate for Non-Deduction of Withholding Tax' will be issued. This certificate should be forwarded to the foreign financial institution and withholding tax should not then be deducted in accordance with the EU Savings Directive provisions.

Q.6 If a 'Certificate for Non-Deduction of Withholding Tax' is not issued can I claim credit for the EU Savings Directive withholding tax?

- A.** Yes. You may claim full credit for the EU Savings Directive tax withheld against your Irish tax liability. If (1) you have no Irish tax liability or (2) the withholding tax exceeds your liability to Irish tax, you are entitled to (1) a full refund of the withholding tax deducted or (2) a refund of the excess, as appropriate.

Q.7 Can foreign deposit interest be subject to both a local withholding tax and the EU Savings Directive withholding tax?

- A.** Interest payments, which are subject to the EU Savings Directive Withholding Tax, may also suffer withholding tax under the domestic law of the country in which the financial institution is resident. In such cases, Irish resident investors may find that two amounts of withholding tax have been deducted from their interest payments - the normal domestic withholding tax and the EU Savings Directive Withholding Tax.

In the case of the domestic withholding tax, the normal tax relief available under a double tax treaty should be allowed in the first instance against

the Irish tax liability on the interest payment. The credit for EU Savings Directive Withholding Tax is then given in full.

Foreign Shares & Dividends

Q.8 *I have shares in a foreign company and am in receipt of dividends from that company. Am I liable to Irish tax on these dividends?*

A. Yes. Income Tax is payable on foreign dividend income. Such tax is payable under Self Assessment within what is known as the *Pay and File* system. For further information on *Pay and File* and guidance for PAYE taxpayers please refer to Appendix 1.

Q.9 *The dividends I received have already been subjected to withholding tax at source. Am I entitled to a credit for the tax withheld at source?*

A. This depends on whether Ireland has a Double Taxation Agreement (DTA) with the country from which the dividend was paid.

Ireland currently has DTAs with 45 countries. Generally, it is Article 10 of these Agreements that deals with the taxation of dividends. For a list of Ireland's double taxation agreements, please click [here](#).

In most cases, the dividend is taxed in the country of which the company paying the dividend is resident. The dividend is also taxable here and, in most cases, it is the net dividend that is taxed with no credit for any withholding tax suffered.

In relation to UK dividends, you are assessable here on the net amount of the dividend received and you are not entitled to any credit for the UK tax (currently 1/9th of the net dividend) deducted at source.

Example:

Net Dividend:	€450
UK Tax Credit:	<u>€ 50</u>
Gross Dividend:	€500

You are assessable here on €450 and there will be no credit given for the €50 tax deducted.

Q.10 *I understand that I may also be entitled to a credit for tax paid by the foreign company on profits out of which the dividends were paid. Is this correct?*

- A. Ireland's [Double Taxation Agreements](#) with several countries allow Irish resident portfolio shareholders to claim, in addition to any foreign tax levied on dividend payments, credit for foreign tax paid in respect of the profits out of which dividends are paid (credit for underlying tax).

Where it is not possible for a portfolio holder to obtain from the company paying the dividends the information necessary to compute the double taxation relief by reference to the actual foreign effective tax rate suffered by dividends, the following aggregate dividend/underlying tax rates may be used instead (with effect from 1/1/2008):

Belgium	44%
France	43%
Germany	28%
Italy	38%
Japan	44%
Luxembourg	34%

Note:

Because of different potential rates of dividend/underlying tax applying in the case of Cyprus, Pakistan, Russia and Zambia, it is not possible to publish a single effective tax rate for them.

Q.11 *I received shares in lieu of dividends from a non-resident quoted company. Do I have a tax liability?*

- A. Yes. Where an individual opts to take the additional share capital rather than the dividend he/she will be assessed on the cash dividend foregone, without credit for tax deducted.

Q.12 *If I sell my shares in a foreign company, am I liable to Capital Gains Tax (CGT) here?*

- A. Yes. You are liable to CGT here on the disposal of foreign shares (see Q. 14 as regards credit for foreign capital gains tax paid).

Q.13 *How do I compute the CGT liability?*

- A. This [hyperlink](#) will bring you a CGT leaflet that explains how to compute you liability.

Q.14 *Am I entitled to a credit/ deduction for CGT paid in the foreign country?*

- A. If provided for in a [Double Taxation Agreement](#), the foreign tax is allowable as a credit against your CGT liability here. Similarly, credit (known as Unilateral Relief) may also be available for tax arising on disposals of shares located in countries with which Ireland has a tax treaty that does not cover taxes on capital gains. These countries are Belgium,

Cyprus, France, Germany, Italy, Japan, Luxembourg, The Netherlands, Pakistan and Zambia.

Otherwise, any foreign tax suffered is allowable as a deduction in computing the chargeable gain.

Q.15 When do I have to pay CGT?

- A. For 2009 onwards, if you dispose of your shares between 1st January and 30th November, you must pay any CGT by 15th December of that year. If you dispose of your shares in December, you must pay any CGT by 31st January in the following year.

Foreign Pensions

Q.16 I have moved to the State on retirement and am in receipt of a pension from my former employer, who is based in the UK. Is the pension liable to tax in Ireland?

A. In general, all UK pensions received by an Irish resident individual are taxable in Ireland. However, if your pension is a Government Service pension or a Local Authority Service pension and you are an UK national, but not an Irish national, the pension may only be taxable in the UK. However, if you are an Irish national and are residing here, such pension is taxable only in the State.

Q.17 What is the position in relation to pensions paid from other countries?

A. Ireland has [Double Taxation Agreements](#) (DTAs) with many countries. The taxation of pensions is generally dealt with under Article 18 of the agreement. It normally provides that a pension arising in the other State is taxable here while the recipient is resident here. In some cases, the source country retains the right to tax the pension. However you should check the relevant DTA to confirm the correct position. The DTA will also clarify the position in relation to pensions arising from government service. In most cases, this follows the same treatment as that of UK pensions.

Q.18 I am in receipt of a social security pension from another country. Is the pension liable to tax here?

A. Generally, the answer to this question is 'Yes'. However you should check whether the State has a [Double Taxation Agreement](#) with the paying country and confirm the correct treatment therein.

Q.19 The foreign pension I am receiving would not have been taxable had I remained resident in the country in which such pension arises. Am I still liable to Irish tax on it?

A. This depends on the type of pension. If the pension is in respect of past services of an office or employment or a type of pension similar to certain Irish social welfare pensions that are taxable in the country of origin had you continued to reside there, it will not be taxable here (Section 200 of the Taxes Consolidation Act 1997 refers).

Q.20 I have just moved to Ireland on retirement. What is my tax position in my year of arrival?

A. If it is your intention to take up permanent residence in Ireland, then you will be assessable here on the amount of the pension and other income receivable after your date of arrival only. Income received prior to arrival is not generally taxable here unless it arose from an Irish source. You will be entitled to full personal tax credits in your year of arrival.

Q.21 Is a person in receipt of a foreign pension entitled to claim the PAYE tax credit against that pension?

- A.** If the pension is a social security pension from another EU country, the Irish resident recipient can claim the PAYE tax credit against that pension (assuming, of course, that the individual's PAYE tax credit has not utilised against other income).

If the pension is an occupational pension, whether from a EU or non-EU country, the Irish resident recipient can claim the PAYE credit where the occupational pension is chargeable to tax in the country in which it arises and is subject to a tax deduction system similar in form to our PAYE system.

Life Assurance Policies

Q.22 I invested monies in a foreign life assurance policy. Am I liable to Irish tax on the proceeds of that policy when it matures?

- A. Yes. There are 2 different taxation regimes that can apply to gains made on the whole or part disposal of foreign life policies. The location of the assurance company, with whom the policy is held, is the determining factor as to which regime will apply. Income tax arises on disposals from policies held in an "offshore state" while capital gains tax arises on disposals of policies held in a foreign country that is not an "offshore state"

Income Tax

"Offshore state" means a State other than Ireland, which is:

- a member State of the European Communities,
- an European Economic Area (EEA) state, or
- a member state of the Organisation for Economic Cooperation and Development (OECD) with which Ireland has a double taxation agreement

The gain on disposal of a foreign policy, if correctly included in a return, is chargeable to income tax at the rate of 28 %.

In relation to foreign policies effected after 1 January 2001, there is a deemed disposal of the policy at the ending of each period of 8 years following the inception of the policy. The income tax rate applicable is 28%.

If the gain (either actual or deemed) is not correctly included in a return, it is liable to capital gains tax – see below.

Note that if the foreign policy is a personal portfolio life policy the income tax rate applicable is $(S + 28) \%$, where S is the standard rate of tax for the year of assessment in which the gain was made. Please refer to Section 730BA of the Taxes Consolidation Act for a definition of a personal portfolio life policy.

Capital Gains Tax (CGT)

Gains on foreign policies, not held in an "offshore state" and taken up on or after 20 May 1993, are fully liable to capital gains tax at 40%. However gains on policies taken up before 20 May 1993 are only liable to CGT in respect of the growth in value of the policy from 20 March 2001.

The chargeable gain is the difference between the amount initially invested and the amount received on termination of the policy or in the case of a policy taken up prior to 20 May 1993, the difference between the value at 20 March 2001 and the amount received on termination. There is no indexation for inflation and the annual CGT allowances do not apply.

Example:

Single premium policy taken out with Isle of Man life assurance company on 1/4/2004. Premium paid was stg£50,000. Policy matured on 31/3/2008 and proceeds of policy amount to stg£60,000.

Proceeds of stg£60,000 yielded: €90,009 (€1 = Stg£0.6666)
Investment of stg£50,000 cost: €63,387 (€1 = Stg£0.7888)
Chargeable gain: €26,622

Tax on chargeable gain at 40%: €10648.80

Q.23 I am in receipt of a payment arising from a foreign life policy but there has been no disposal, in whole or in part, of the policy. Am I liable to tax on this payment?

Yes, income tax is payable if the policy is held in an “offshore state”. The rate of income tax applicable depends on the nature of the payment:

- if the payment is a regularly reoccurring payment and is correctly included in a return, the rate applicable is 25%,
- if the payment is not a regularly reoccurring payment and is correctly included in a return, the rate applicable is 28%, except where the policy is a personal portfolio life policy, in which case the rate applicable is (S + 28)% where S is the standard rate of tax,
- any payment not correctly included in a return is liable to tax at that person’s marginal tax rate, except where the policy is a personal portfolio life policy, in which case the rate applicable is (H + 25)%, where H is the individual’s marginal income tax rate.

If the policy is not held in an “offshore state”, capital gains tax @ 40% is payable on any payment arising from that policy.

Further Information – Contact Details

If you require further information or clarification on any matter, the following hyperlink will provide you with information on how to contact Revenue:

[Revenue Contact Details](#)

Appendix 1 - Self-Assessment Pay and File System

Under the *Pay and File* system, you must, on or before the 31st October of each tax year -

- pay the Preliminary Tax you owe for the current tax year;
- submit your Tax Return for the previous tax year; and
- pay the balance of tax due for the previous tax year.

For more information on tax obligations see Revenue leaflet [IT10, A Guide to Self Assessment](#).

Notwithstanding the Self Assessment *Pay and File* system, where an individual -

- is a PAYE taxpayer (i.e. is in receipt of employment income or a pension which are subject to deductions at source under the PAYE System); and
- is in receipt of assessable non-PAYE income (including rent from foreign properties) of not more than €3,174 in a tax year (but see note)

the tax due on such investment income may be paid by way of a reduction of his/her tax credits and standard rate cut-off point (i.e. the tax credits normally due against the PAYE income are restricted to cover the tax due on the non-PAYE income).

Note: This practice applies only where the gross non-PAYE income does not exceed €50,000 and the net assessable income does not exceed €3,174 in a tax year.

Appendix 2 - Residence, Ordinary Residence and Domicile

Status of individual: is she/he Irish ...			Irish income tax implications: taxable on ...	Irish capital gains tax implications: taxable on ...
Resident	Ordinarily resident	Domiciled		
Yes	Yes	Yes	Worldwide income	Worldwide gains
Yes	No	Yes	All Irish income (see note 1); most foreign income only if remitted (but see note 2 re employment income); offshore fund and offshore trust income taxable whether remitted or not	Worldwide gains
Yes	Yes	No	All Irish income (see note 1); foreign income only if remitted (but see note 2 re employment income)	All Irish gains; other gains only if remitted
Yes	No	No	All Irish income (see note 1); foreign income only if remitted (but see note 2 re employment income)	All Irish gains; other gains only if remitted
No	Yes	Yes	All Irish sourced income; all foreign investment income, other than modest amounts (below €3,810 in total); income from a foreign trade, profession, office or employment if any part of it is carried out/performed in the State (see note 2).	Worldwide gains
No	Yes	No	All Irish sourced income; all foreign investment income, other than modest amounts (below €3,810 in total) but only taxable if remitted (see note 1); income from a foreign trade, profession, office or employment if any part of it is carried out/performed in the State (see note 2).	All Irish gains; other gains only if remitted
No	No	Yes	Irish source income; income from foreign trades/professions carried on in the State; and certain foreign employment income (see note 2)	Gains on Irish specified assets only (land, buildings and minerals in the State; assets of a trade carried on in the State; certain unquoted shares)
No	No	No	Irish source income; income from foreign trades/professions carried on in the State; and certain foreign employment income (see note 2)	Gains on Irish specified assets only (as above)

Note 1: The remittance basis of taxation

The remittance basis applies to foreign sourced income and foreign capital gains. For any tax year during which you are not Irish domiciled, or you are an Irish citizen who is not ordinarily resident in Ireland, you will only be taxable to the extent that you “remit” or bring foreign income into Ireland. If you are not Irish domiciled, your non-Irish gains will only be taxable to the extent that they are remitted or brought into Ireland.

Up to 31 December 2007 the “remittance basis” did not apply to UK income, so for non-ordinarily resident or non-domiciled taxpayers UK income was taxable whether or not it was remitted to Ireland. From 1 January 2008, the remittance basis is extended to UK income.

Up to 19 November 2008 the “remittance basis” did not apply to UK gains so for non-ordinarily resident or non-domiciled taxpayers UK gains were taxable whether or not they were remitted to Ireland. From 20 November 2008, the remittance basis is extended to UK gains.

Note 2: Foreign employments where duties wholly or partly performed in the State

From 1 January 2006, income from a non-Irish sourced employment, attributable to the performance in the State of the duties of that employment, is chargeable to Irish income tax and subject to PAYE deductions at source, whether or not such income is remitted into the State.

Note 3: Double Taxation Agreements.

While the table above outlines your income tax treatment under Irish domestic legislation, you should be aware that the provisions of a **Double Taxation Agreement** will generally take precedence over domestic legislative provisions and may result in a different tax treatment in certain circumstances.

Appendix 3 - PRSI and Health Contribution Levy

Self-Employed Taxpayers

Self-employed taxpayers i.e. those who come within the Pay and File system (see Appendix 1) are liable to PRSI and Health Contribution Levy on offshore income, unless they are excepted self-employed contributors under social welfare legislation or are specifically exempted from the payment of the Health Contribution levy under health contribution legislation (categories of exempted contributors and more detailed information on PRSI and the Health Contribution can be got on the Department of Social Welfare website at www.welfare.ie.)

Taxpayers over the age of 66 are exempt from PRSI and those over the age of 70 are exempt from the Health Contribution levy.

PAYE Taxpayers

PAYE taxpayers (who are not in receipt of income from a trade or profession) are not liable to PRSI on offshore income. However they are liable to the Health Contribution Levy with the exception of those aged 70 or over, who are exempt.

Rates of PRSI and Levies

The rate of PRSI applicable to investment income in both 2008 and 2009 is 3%. The Health Contribution Levy rate for 2008 is 2% of reckonable income up to €100,100 and 2.5% of reckonable income over €100,100. For 2009, the Health Contribution Levy rate is 3.333% of reckonable income up to €75,036, 4% of reckonable income from €75,036 to €100,100, and 4.167% of reckonable income over €100,100.

The following tables sets out the combined rates of PRSI/Levies applicable for 2008 and 2009:

2008			
Class S	Annual Income Band	How much of annual income	Rate of PRSI/Levy
S0	Up to €26,000 inclusive	All	3%
S1 Or	More than €26,000	First €100,100	5%
		Balance	5.5%
S2	More than €26,000	All	3%

2009

Class S	Annual Income Band	How much of annual income	Rate of PRSI/Levy
S0	Up to €26,000 inclusive	All	3%
S1 Or S2	More than €26,000	First €75,036	6.33%
		Next €25,064	7%
		Balance	7.167%
	More than €26,000	All	3%

Income Levy

This levy, which came into effect on 1 January 2009, is payable on gross income before any relief for capital allowances, losses or pension contributions. For more details of this levy please click [here](#).