



# European Council: Ireland

Ferdinand Baune  
E-mail: ferdi@ethmun.org

## 1 Introduction and Executive Summary

Ireland is at a crossroads. A looming 'no-deal' Brexit threatens delicate border relationship with North Ireland and even a regulated Brexit would severely affect the Irish economy. The European Commission's efforts to double down on tax avoidance, as well as efforts to reform European monetary policy, may put Ireland's history as a tax haven for US multinationals in Europe to a halt. So far, the Irish government in general and *Taoiseach* Leo Varadkar in particular have answered these issues with firm commitment to Europe, open borders and multilateralism.

As Irish *Taoiseach* Leo Varadkar, you should

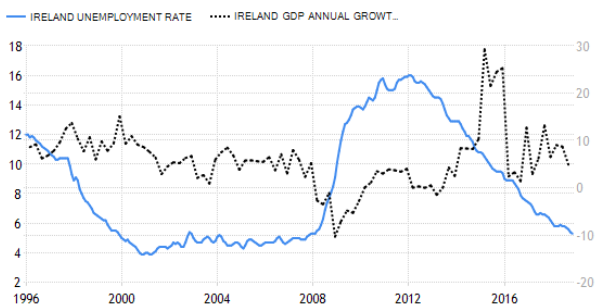
- be liberal and pro Europe,
- prepare Ireland for post-Brexit and
- rescue the Irish corporate tax.

This document provides a quick glance at Irish policy in Europe and serve as a starting point for research. Please especially take a look at the references, as they include a number of very comprehensive articles, data collections and reports.

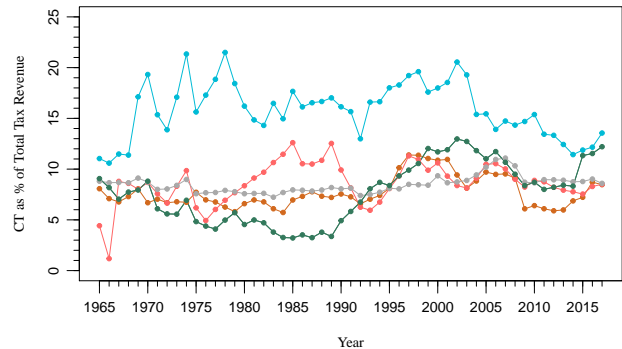
## 2 Societal and Economic History

Having gained independence from the British in 1922 as the Irish Free State, in 1949 Ireland became the republic it is today, ending its membership of the British Commonwealth for good. The Republic of Ireland joined the European Economic Community (EEC)—the EU's predecessor—in 1973.

From the mid-1990's to the late 2000's the Irish economy experienced a period of extensive growth, known as the *Celtic Tiger*, in reference to the rapid industrial expansions of Asian nations, such as South Korea and Singapore. The effects of the *Celtic Tiger* transformed Ireland from one of Western Europe's poorest nations, with unemployment as high as 17.30% in 1985 [1], into one of the world's wealthiest. Growth finally came to a halt in 2008, when Ireland became the first EU member to fall into recession (see Figure 1). The rapid expansion was mainly made possible by a low corporate



**Fig. 1:** Irish annual GDP growth (.....) vs. unemployment rate (—). The Celtic Tiger effects are visible until the 2009 global financial crisis. [1]



**Fig. 2:** Corporate tax revenue as percentage of total tax revenue. Luxembourg (—), Ireland (—), Netherlands (—), United Kingdom (—), OECD average (—). The Irish corporate tax share rose during the *Celtic Tiger* period, which began slowing down in the 2000's. In recent years it reached the level of Luxembourg, and above OECD average, further supporting the accusation as a *tax haven*. [8]

tax rate accompanied with low ECB interest rates, as well as an inadequately regulated financial sector.

The *Celtic Tiger* period was followed by a serious recession with first signs in 2007 and lasting until the end of 2009. After 24 years of continuous growth and rising prices, the property bubble that had accumulated collapsed, coinciding with the general Irish economic downturn as a result of the global financial crisis in 2008. Through governmental coverage of the banking sector's debt, Irish household debt rose to one of the highest in the developed world and making recovery for the Irish government virtually impossible. Fearing a further devaluation of the *Euro*, Ireland had to accept an international rescue package of €85 bln. by the EU and IMF, as well as stricter budgetary supervision from other EU members, such as Germany.

Growth recovery worked generally well, spiking the GDP growth in 2015 to a surprising 26.3% (see Figure 1, [1]), ridiculed by Paul Krugman as "leprechaun economics". The sudden increase was caused by a move by *Apple* to restructure their own tax game. [9] In 2016, the European Commission ruled the Irish corporate tax practices concerning *Apple* as illegal and demanded the recovering of the unpaid taxes for 2003 to 2014 of up to €13 bln., with interest. [12]

## 3 Political Position [10]

The current *Taoiseach*, i.e. Irish head of government, Leo Varadkar (39) of the *Fine Gael* Party is the youngest person to hold the office. Under his tenure Ireland, once considered among the most conservative European states, abolished abortion restrictions in 2018, after allowing same-sex marriage in 2015.

*Fine Gael* is a liberal conservative and Christian democratic party. In the European Parliament, they align with the European People's Party, same as the German CDU/CSU, French Republicans, *Forza Italia*, as well as the Hungarian *Fidesz*. They are considered very pro European and believe "Ireland's future lies at the heart of Europe". [10]

Leo Varadkar and *Fine Gael* have been opposed to changes in the European taxation system, especially with regard to the Common Consolidated Corporate Tax Base (see Section 6). Economically, they plan to diversify and balance the Irish economy, to avoid the economic mismanagement, that eventually led to the Irish housing and banking crisis in the 2000s.

## 4 Foreign Policy

The Republic of Ireland has a long-standing history of both military and political neutrality. It remained neutral during World War II and—although being anti-communist in the Cold War—has not joined NATO since. Since joining the EU in 1973, *Irish neutrality* has often been challenged, especially on matters of a common defence policy (such as PESCO).

Since signing the *Good Friday Agreement* in 1998, Ireland has maintained a stable relationship with the United Kingdom. The agreement settles the status of Northern Ireland (as a part of the UK), Ireland's relationship with North Ireland and Ireland's relationship with the UK. The UK accounts for more than 40% of Irish foreign trade [5], showing the severity of 'no-deal' Brexit.

## 5 Domestic Policy

Historically, Ireland is often considered a very catholic and equally conservative country. Still, the Irish legalised same-sex marriage in 2015.

Ireland has often been blamed by other EU members as a European corporate tax haven and it is true, that a large number of multinational enterprises, mostly from the IT and communications sector, have their European holdings based in Ireland. Corporate taxation has become an integral part of the Irish Economy with foreign multinationals, such as Apple, Google or Facebook, contributing 80% (€ 7.3 bln.) of corporate tax receipts in 2017 [7].

The main distinctive element of the Irish tax system, the general relatively lower rate of 12.5%, evolved as a response to the end of our policy of self-sufficiency, the need to attract inward investment and the later impact of EU rules against preferential tax rates.

OECD data puts Ireland's corporate tax revenue as percentage of total tax revenue close to Luxembourg (which has an arguably high number of letterbox companies), with a very significant increase from 2014 to 2015 (see Figure 2 and [8]). This corresponds very well with the Irish increase in GDP growth. ("Ireland's economics", see Section 2 and [9]).

## 6 Recent Developments

Brexit is currently the most pressing issue for Ireland. A 'no-deal' Brexit with no definite solution of the border situation with Northern Ireland would severely damage the important cross-border trade with the United Kingdom (especially Northern Ireland). Some experts also see Brexit as an opportunity to gain further business, as companies may seek to leave London and potentially relocate to Dublin. In December 2018, the Irish Government released its 'Contingency Action Plan' for a 'no-deal' Brexit (see [6]). In the plan, the Irish Government recognizes the disruptiveness of a 'no-deal' Brexit and reaffirms its commitment to a unified Europe as the best solution for

all.

In October 2016, the European Commission proposed the Common Consolidated Corporate Tax Base (CCCTB), a major overhaul of European corporate taxation. The CCCTB is especially aimed at large multinational corporations and would redistribute tax profits among the member states, where the corporations are most active. Ireland opposes the CCCTB, concerned that "it would undermine the competitiveness of the 12.5% corporate tax rate that has helped make the country a favourite European base for US multinationals." Further, "the impact of the CCCTB would outweigh the risks of Brexit", Seamus Coffey, chief of the Irish Fiscal Advisory Council, said [3].

## 7 References

- 1 Trading Economics: 'Ireland GDP Annual Growth Rate', <https://tradingeconomics.com/ireland/gdp-growth-annual>
- 2 European Council: 'Website of the European Council' <https://www.consilium.europa.eu/en/>
- 3 Irish Independent: 'Shake-up of EU tax rules a 'more serious threat' to Ireland than Brexit', <https://www.independent.ie/business/brexit/shakeup-of-eu-tax-rules-a-more-serious-threat-to-ireland-than-brexit-36130545.html>
- 4 Ben Tonra: 'Irish Foreign Policy', [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1739568](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1739568)
- 5 Central Statistics Office: 'Statistics of Port Traffic', <https://www.cso.ie/en/releasesandpublications/er/spt/statisticsofporttraffic2017>
- 6 Government of Ireland: 'Preparing for the withdrawal of the United Kingdom from the European Union on 29 March 2019', [https://merriestreet.ie/Merriestreet/en/News-Room/Releases/No\\_Deal\\_Brexit\\_Contingency\\_Plan.pdf](https://merriestreet.ie/Merriestreet/en/News-Room/Releases/No_Deal_Brexit_Contingency_Plan.pdf)
- 7 Office of the Revenue Commissioners: 'Corporation Tax', <https://www.revenue.ie/en/corporate/documents/research/ct-analysis-2018.pdf>
- 8 OECD: 'Tax on corporate Profits', <https://data.oecd.org/tax/tax-on-corporate-profits.htm>
- 9 The Guardian: 'Apple may have to repay millions from Irish government tax deal', <https://www.theguardian.com/technology/2014/sep/30/apple-repay-millions-irish-government-tax-deal>
- 10 Fine Gael: 'Taking Ireland Forward Together', [https://www.finegae.ie/app/uploads/2018/11/TakingIrelandForward-RoO2\\_lowres.pdf](https://www.finegae.ie/app/uploads/2018/11/TakingIrelandForward-RoO2_lowres.pdf)
- 11 Ernst & Young: 'The historical development and international context of the Irish corporate tax system', [http://www.budget.gov.ie/Budgets/2015/Documents/EY\\_Historical\\_Dev\\_International\\_Context\\_Irish\\_%20Corporation\\_Tax.pdf](http://www.budget.gov.ie/Budgets/2015/Documents/EY_Historical_Dev_International_Context_Irish_%20Corporation_Tax.pdf)
- 12 European Commission: 'Press release (IP/16/2923)', [http://europa.eu/rapid/press-release\\_IP-16-2923\\_en.htm](http://europa.eu/rapid/press-release_IP-16-2923_en.htm)

