SQUIRE PATTON BOGGS

Irish Tax Considerations for Private Equity Acquisitions

Structuring for Efficiency and Future Growth

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Ireland's Corporate Tax Landscape for Private Equity

Ireland's 12.5% corporation tax rate on trading income has long been a cornerstone of its appeal for Private Equity (PE) investments. However, recent legislative changes including both the Interest Limitation Rules (ILR) and the Pillar Two global minimum tax rules, which sets a minimum corporate tax rate of 15% for affected entities, means that careful structuring is required to preserve tax efficiency. Non-trading income, such as dividends and rental income, are taxed at a rate of 25%, while capital gains are taxed at 33%. For PE firms, balancing these rates with withholding tax, interest deductibility and exit mechanisms is of the utmost importance in order to maximise their return on investment.

Funding Structures: Debt vs. Equity Optimisation

While Ireland does not currently have thin capitalisation rules, the ILR implemented under the EU's Anti-Tax Avoidance Directive (ATAD), limits the net interest deductions a taxpayer can claim to 30% of earnings before interest, taxes, depreciation and amortisation (EBITDA) or €3 million, whichever is higher. The ILR significantly impacts leveraged buyouts (LBOs), where debt traditionally constitutes 60%-80% of the purchase price, meaning PE purchasers must model cash flows to ensure EBITDA growth outpaces interest obligations to avoid disallowances.

Interest on debt used to acquire shares in trading companies, or a holding company of trading companies may qualify as a tax-deductible "charge" against total profits under very specific conditions. However, the ILR overrides this relief if the 30% EBITDA threshold is breached, again emphasising the need to optimise debt-to-equity ratios.

Cash Extraction Mechanisms: Balancing Efficiency and Compliance

- **Dividends and Withholding Taxes**

  As standard, dividend distributions from Irish companies incur a 25% Dividend Withholding Tax (DWT). However, in addition to a wide range of domestic exemptions, additional exemptions and relief from DWT are also available under the EU parent-subsidiary directive and Double Tax Agreements (DTA). Structuring acquisitions through an Irish or EU holding company can mitigate DWT, preserving cash flows for reinvestment.

  Regarding the receipt of foreign dividends by an Irish resident company, this income is subject to tax at a rate of 25%, however, dividends paid from foreign trading profits may qualify for the 12.5% rate, reducing effective tax liabilities.

  Ireland, furthermore, introduced a participation exemption for foreign dividends, effective from 1 January 2025, which a taxpayer can elect to apply to its foreign dividend receipts. Subject to certain requirements, the exemption will apply to qualifying dividends received from companies' resident in the European Economic Area (EEA), or jurisdictions with which Ireland has a double tax treaty such as the UK and the US.

- **Shareholder Loans sale and Liquidation Strategies**

  Interest-free loans to non-resident shareholders risk reclassification as distributions, triggering dividend withholding tax (DWT) and income tax liabilities. Furthermore, unless specific exemptions apply, these arrangements would need to comply with the Irish transfer pricing rules, requiring an arm's length interest rate to be charged to the shareholder.

  Alternatively, where the PE purchasing entity uses debt to acquire the shares in an Irish target company resulting in tax losses being generated, these losses can be surrendered to the Irish target entity in return for compensating payments. These payments are not subject to withholding tax, nor is the receipt thereof subject to corporate tax.

  The sale of shares would in most instances be the easiest and most tax efficient method to extract cash and exit an investment for a PE firm. Where the seller entity is not tax resident in Ireland, it would only be subject to Irish CGT where the shares being sold derive the majority of their value (>50%) from Irish land or buildings or certain rights associated with Irish land. Where the seller entity is Irish tax resident it could benefit from a full exemption from Irish CGT where the requirements of the Participation Exemption regime are met (i.e. minimum shareholding of 5% held for a continuous period of 12 months in the two years prior to the disposal).

- **Withholding Tax Nuances and Treaty Networks**

  Ireland's extensive double tax treaty network (over 70 countries) minimises withholding taxes on cross-border interest and royalty payments. However, interest payments to non-treaty jurisdictions may face 20% withholding unless structured through qualifying financial institutions, as such PE purchasers should prioritise treaty-compliant jurisdictions for debt issuance to optimise interest flows. Furthermore, where interest is paid to a jurisdiction with which Ireland has a double tax treaty in place, the interest payments could qualify for a full exemption from withholding tax under the domestically legislated exemptions, provided certain conditions are met.

Structuring for Future Bolt-on Acquisitions

The Irish holding company regime facilitates bolt-on acquisitions through tax-neutral mergers and participation exemptions. The 12.5% rate applies to dividends paid to holding companies out of the trading income from subsidiaries, while domestic exemptions and the EU Parent-Subsidiary Directive eliminates withholding taxes on intra-EU dividends and interest payments.

Post-acquisition debt pushdown into target entities requires ILR compliance, as interest deductions are capped at 30% of each entity's EBITDA. Centralising debt at the holding company level may aggregate EBITDA across subsidiaries, maximising deductibility. However, Pillar Two's 15% global minimum tax (effective 2024) necessitates cross-jurisdictional modelling to avoid top-up taxes.

Conclusion: Strategic Imperatives in a Shifting Landscape

Ireland's corporate tax regime remains favourable for PE acquisitions, but success hinges on among other things, the proactive adaptation to ILR and Pillar Two. Key recommendations include:

- **Debt structuring** – Prioritise EBITDA growth to maintain interest deductibility under ILR thresholds.
- **HoldCo jurisdiction** – Utilise EU holding companies to leverage DWT exemptions and treaty benefits.
- **Exit planning** – Align cash extraction methods with long-term exit strategies to optimise capital gains treatment.
- **Bolt-on readiness** – Implement scalable holding structures to accommodate future acquisitions.

As global tax transparency intensifies, PE purchasers must embed flexibility into Irish platforms, ensuring compliance while maximising returns in an increasingly regulated environment.

At Squire Patton Boggs Ireland, we pride ourselves on our deep expertise, comprehensive knowledge and unwavering passion for helping our clients to thrive. Our team is dedicated to providing the strategic guidance and practical solutions needed to drive growth and maximise value. With a proven track record and a commitment to excellence, we are here to support our clients in every step of their journey, ensuring that your tax strategy aligns seamlessly with your business objectives and growth aspirations.

Please contact our Head of Tax for Ireland, Andre Vermeulen, to discuss any queries you may have in relation to the application of Irish taxes.