Former Presidents, fellow Council Members, and members, I'm delighted and honoured to take up this chain of office as President of the Institute. I think I'm the first President to have come from a manufacturing industry background. I hope that gives me a perspective that is of value to the Institute, and I certainly will do all I can to serve you well over the coming year.

I will be ably assisted by my fellow Council members, Aoife Lavan as Deputy President and Shane Wallace as Vice President. Congratulations to you both on your appointments today and I look forward to working with you in the year ahead.

I also want to congratulate Colm on his very active and successful presidency. You oversaw the return of the full calendar of Institute events in the wake of Covid 19 and you did it with style and gusto.

You also had a very busy year on the policy front with the publication of the Commission on Taxation and Welfare and the staggering number of submissions going from the Institute to government, the EU and the OECD. You had a great year at the helm, Colm, and I want to thank you, on behalf of all members for a job well done.

Work Underway

There is a lot of work in progress in the Institute at present:

- On the domestic front, we've had good engagement with the Minister for Finance on our proposals for the enhancement of the suite of tax incentives for SMEs and we hope that he will deliver on his commitment at our Annual Dinner to examine how they can be simplified and made more effective in promoting innovation and investment in our small businesses. Minister McGrath's review is timely because we have been dropping down the global rankings on innovation and every day, we hear about the difficulties our entrepreneurs are experiencing in raising finance.

- Another important workstream is the review of our work in promoting a career in tax. As you know, the Institute undertook a research project on the attitude of graduates and recently qualified CTAs to a career in Tax and the findings have produced some fascinating insights that will shape our promotional work and the educational courses the Institute will offer into the future. That medium-term project is now underway, and members will be kept informed of the progress.

- And then, there's Pillar Two

Pillar Two

The coming year brings the culmination, at least in part, of the global tax reform that has been in motion now for over a decade. Two years on from the conclusion of the historic OECD agreement, legislation to give effect to the EU Pillar Two Directive is close to being finalised and the 15% global minimum Tax rate will come into effect on the 1st of January next.

That much, at least is certain and the large multinational businesses who will now have an effective rate of at least 15% - have had time to adjust to that prospect. But beyond that, there is little clarity on how this exceptionally complex and untested reform will work.

To be fair, the Institute and other stakeholders have been working in close consultation with the Department of Finance and Revenue on the legislation. And additional guidance and clarification is still coming from the OECD, so there are still many moving parts.

But this 15% global minimum rate comes into effect in 15 weeks and until the legislation is published, it is impossible to understand how this once in a century transformation of our corporate tax system is going to work or how it will impact the large multinationals that play such an important part in the Irish economy.

Danger of disputes

The one thing we can be sure of is that there will be disputes and complexity and a lot of work for tax advisers. The problem is that a number of countries, including China and India have yet to make provisions in their tax systems in preparation for the implementation of the new global rate. With large economies such as these not yet aligning to the new global rules, disputes and Revenue audits are inevitable.

Most worrying for Ireland - given the large number of US multinationals headquartered here – is the failure of the Biden administration to get Congress to incorporate the OECD reforms into US tax law and the increasingly bitter exchanges between both sides on Capitol Hill suggest the chances of implementing the deal in the US are dwindling.

In these circumstances, it will be important that any additional tax paid in Ireland under a qualified domestic top-up tax mechanism by affected US multinationals based here, can qualify as a creditable tax for US tax purposes.

Administrative Burden

The cost of complying with Pillar Two will be significant and in that context, it is important that there is a phased introduction of the rules, and that Revenue shows forbearance as they bed down.

A huge amount of data points will have to be extracted and interrogated by companies' accounting and HR systems to meet the reporting requirements. The Institute is calling for the transition arrangements recently recommended by the OECD to simplify the application of the rules and reduce compliance burdens, to be fully adopted by Revenue.

Territorial System of Tax

It is also crucial that Ireland moves to a territorial system of taxation that allows a participation exemption for foreign dividends. The Institute has been making the case for this change for the last six years. As we all know, the availability of foreign tax credits means that the yield to the exchequer from Revenue's assessment of the foreign earnings of multinational companies is negligible, but the burden it imposes on the affected businesses is onerous.

Furthermore, the Pillar Two rules are designed around the assumption that a participation exemption applies to foreign dividends. So, it really is imperative that the Government moves to reform this antiquated approach in tandem with the implementation of Pillar Two. Otherwise, it is giving large businesses located here reason to question their continued investment.

And we shouldn't be deluded: in a globalised, digitised world where remote working is now commonplace, it is easy for a business to move location. Ireland is now the only country in the EU that doesn't offer a participation exemption for foreign dividends and the Institute is aware that competitor countries are drawing attention to this gap in our system as they seek to woo large multinational businesses.

The Minister for Finance, Michael McGrath has said he will make a significant statement on corporation tax in advance of the budget and the expectation is that he will address this. It's fair to say that that his statement is eagerly awaited in the tax functions of our multinational sector.

Tax Simplification

The implementation of Pillar Two makes the case for a wholesale simplification of our corporate tax code all the more compelling. In a world where competition on rate is no longer an option, a strong focus on tax simplification and reducing compliance complexity would greatly enhance Ireland's ability to offer tax certainty and consistency to both domestic and multinational businesses.

Conclusion

As I said earlier, Pillar Two is only one part of the Institute's work and it doesn't apply to our indigenous sector which is, after all the backbone of our economy. Nonetheless, how it is to be implemented could have serious consequences for our economic model.

We have travelled a long distance over the last two years and multinational companies based here have reacted well to Ireland's decision to sign up to the OECD Two Pillar Solution.

But as they make plans to structure their businesses in a post-Pillar Two era, they are watching to see how Ireland will implement the new rules because, as we all know, complex and burdensome rules are the enemy of trade and investment. And from the beginning of next year, we will no longer have our low corporation tax rate to fall back on.