IRELAND AS A LOCATION FOR STRUCTURED FINANCE

With over 2,900 vehicles and assets of almost €970bn, and a workforce of more than 3,650 people, Ireland is the leading European jurisdiction for Special Purpose Vehicles (SPVs).

SPVs are required and used by a cross-section of the international financial services sector. Investment funds, the aircraft leasing sector and insurance companies use SPVs to hold certain types of assets as part of their risk management strategies.

The importance of non-banking funding channels to generate real economic activity, stimulate growth and to make the financial system more resilient is well understood, with the Governor of the Irish Central Bank noting that *"vibrant capital markets are essential for a well-developed and stable financial system"*.

FAVOURABLE TAX REGIME

For over two decades, Ireland has had a tax regime, known as Section 110, designed to ensure that SPVs may be established in a tax neutral manner.

The income arising to the section 110 company is taxable at 25%, however, it is permitted to calculate its taxable profits under trading principles. Broadly, this means that the section 110 company should only be subject to tax on the margin between its interest income and its interest expense. The margins that apply to section 110 companies are typically very low.

Furthermore, unlike standard trading companies, section 110 companies are, subject to certain anti-avoidance measures, able to claim a deduction for interest paid on profit-participating loans (PPLs).

The ability to claim a deduction for PPL interest is restricted where the loans are connected with a "specified property business". This essentially includes Irish property related loans and related assets, but excluding market standard transactions, such as CLO, RMBS and CMBS transactions, and loan origination businesses.

There are a number of conditions that need to be met in order for a company to qualify for the S.110 regime. These include:

- The company must be Irish tax resident
- The company must acquire, hold or manage Qualifying Assets (includes a wide range of financial assets, commodities and plant and machinery)
- The company must carry on a business of holding and/or managing Qualifying Assets, and must not carry on any other activities apart from activities ancillary to that business
- All transactions and arrangements entered into by the company (other than PPLs) must be undertaken on an arm's length basis
- The company is required to notify the Irish tax authorities of its intention to be a section 110 company within a prescribed timeframe, and provide certain information regarding the nature of the securitised assets and the parties to the transaction, and
- The market value of assets acquired must be at least €10m on the day it acquires its first asset.

WHY IRELAND?

Ireland is an extremely attractive location for establishing structured finance vehicles. The key benefits Ireland offers are:

- Stable tax regime which is widely used and internationally regarded
- Access to extensive and expanding double tax treaty network
- Membership of the EU and OECD meaning it is not considered an "offshore" jurisdiction
- A well-established international financial services centre
- Access to an infrastructure of experienced professionals, including corporate administrators, lawyers, auditors and other service providers
- A highly regarded and trusted legal and regulatory system
- Irish securities have access to the EU for public offers and trading on regulated markets
- Access to an efficient listing mechanism via Euronext Dublin.

HOW CAN WE HELP?

BDO currently act as auditors and tax advisors to a large portfolio of securitisation companies. In addition, we have extensive experience in assisting clients develop efficient investment structures.

We have close working relationships with all of the major corporate service providers.

BDO is a member of the Irish Debt Securities Association, with team members sitting on both the Audit Constituency Group and the Tax Committee.

We can assist with the following:

- Development of tax efficient investment structures
- Incorporation and implementation
- Management of ongoing compliance.

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