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US businesses urge Irish to keep low tax

By Ed Crooks in New York
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Google's European headquarters in Dublin. US companies in Ireland employ more than 100,000 people

US companies with investments in Ireland have urged the country to stand firm on its low corporate tax rate, warning that even a small increase would undermine its attractiveness as a location for their operations.

American companies, which have invested heavily in Ireland in the past decade, have welcomed Dublin's four-year plan to stabilise finances, which included a commitment to retain the 12.5 per cent corporate tax rate.

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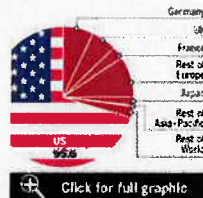
But businesses such as Intel, Pfizer, and Microsoft say Ireland must resist pressure from France and Germany to raise the rate, arguing that any move would send a damaging signal about the government's commitment to favourable conditions for inward investment.

"It really comes down to a reputation and trust issue," said Paul Duffy, vice-president for manufacturing in Ireland and Singapore at Pfizer, the American pharmaceuticals group.

"Once you say you are going to change the tax rate, companies will ask: 'is the rate going to be 12.5 per cent, or 15 per cent, or 36 per cent?' The question will be whether they can trust anything that is said to them."

Neil Boyle, the managing director of MSD Ireland, part of Merck, another US-owned pharmaceutical company, said it was vital for the government to retain an "indefatigable" focus on international competitiveness if it was to steer the Irish economy out of the crisis.

"The corporation tax rate is a signal in terms of the government having a positive agenda for inward investment," he said.



The combination of low corporate taxes, a well educated English-speaking workforce, access to the markets of the European Union, relatively low costs before the boom, and a welcoming political climate made Ireland an exceptionally attractive location for US companies in particular. The US accounted for more than half of all the inward investment into Ireland over the past five years, according to Ernst & Young.

Ireland is heavily dependent on the US: the 600-plus American businesses there employ more than 100,000 people, about 70 per cent of all the jobs created by companies supported by the Industrial Development Agency, which promotes inward investment.

But the relationship is also important for the US: its companies have invested \$165bn in Ireland, more than in Brazil, Russia, India and China put together.

Much of the US investment has been by high-tech companies in the software and pharmaceutical sectors, which can create tax benefits by locating their intellectual property in Ireland, encouraging them to carry out their research and development there.

The practice has led to disputes with the US Internal Revenue Service, which has challenged the

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allocation of R&D costs to the Irish subsidiary, but has helped Ireland develop strengths in higher value-added activities, factories and service centres.

Christian Ketels, an expert in international competitiveness at Harvard Business School and the Stockholm School of Economics, said the fundamental characteristics of the Irish economy remained attractive.

Ireland was the only country in the eurozone where unit labour costs fell last year, increasing its appeal, and manufacturing production and exports have been growing strongly. But there have been signs that the financial turmoil is beginning to affect investors' confidence.

The IDA reports that there were 63 investment commitments in the first half of the year, but only seven since then. However, there may be more that have not been announced. That suggests the total for the year may fall short of last year's 125.

Danny McCoy, director-general of the Irish Business and Employers Confederation, said: "International head offices are asking: 'what's going on in Ireland? Is it the certainty that we have been used to?'"

The four-year plan with its commitment to defending the 12.5 per cent corporate tax rate was a vital part of restoring that certainty, the American Chamber of Commerce in Ireland said on Thursday.

There is a widespread agreement among politicians and businesses that, as Mr Ketels put it: "To tackle the public finance problem, Ireland needs to grow, and the only way it can do that is by sustaining its international competitiveness."

But Mr Boyle of MSD observed: "We need to get out there and make our case. There is a need to be selling Ireland at the moment."

Additional reporting by Vanessa Houlder in London

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