An Phríomh-Oifig Staidrimh
Central Statistics Office

information
notice

Redomiciled PLCs[1] in the Irish Balance of Payments

(Updated October 2016)

Background

Beginning in 2008, possibly as a reaction to proposed changes to corporate tax rules internationally, a number of multinational corporations relocated their group headquarters to Ireland.

Many of these companies conduct little manufacturing or service activity in Ireland, but hold substantial investments overseas. By locating their headquarters in Ireland, the profits on these overseas investments are payable to the company in Ireland, even though under double taxation agreements their tax liability arises in other jurisdictions. These profit inflows are retained in Ireland with a corresponding outflow only arising when a dividend is paid to the foreign shareholders. Illustrative examples of how these practices affect the balance of payments are offered in the study published by the Office of National Statistics (2016).

Treatment

The standard statistical treatment of profit inflows and outflows is adhered to. Direct investors are entitled, in proportion to their equity share, to the profit generated by their subsidiaries, associates and branches. This is irrespective of whether the income is distributed in the form of dividends (or branch profits) or retained as reinvested earnings. Reinvested earnings are calculated as the difference between the company's net profit and distributed dividends. Profits of the overseas subsidiaries are recorded as 'direct investment – income on equity – inflows'. The effect of these profits on the Primary Income of the Irish Balance of Payments is shown in Table 1 (below).

Table 1: Net Income of Redomiciled PLCs

By prior domicile location (€ Million)

	2009	2010	2011	2012	2013	2014	2015
US & BM*	503	3,352	3,312	3,947	4,674	4,635	3,290
GB & Other	1,091	1,908	2,236	3,155	1,803	2,220	1,467
Total	1,594	5,260	5,548	7,102	6,477	6,855	4,757

*BM is primarily composed of US entities redomiciled to Ireland from Bermuda

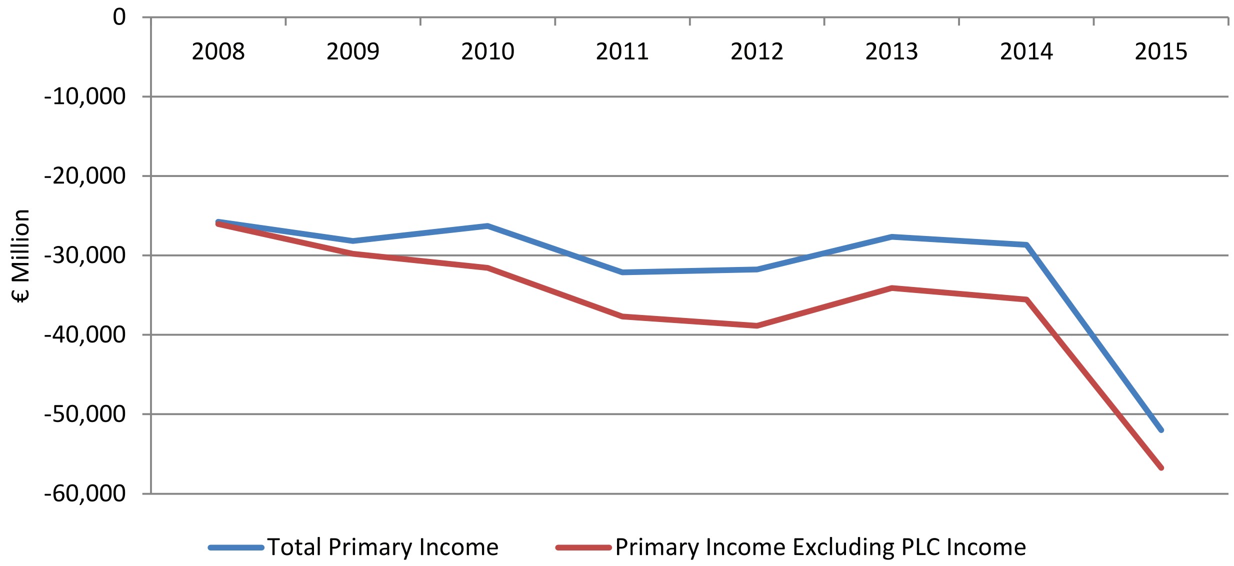
In this updated note, an indication of the location from which the companies have redomiciled is offered. As company relocations can be complex operations, caution should be exercised with this expanded classification. Many of the entities that moved to Ireland from Bermuda had in turn, recently moved to Bermuda from the United States. We have combined the Bermuda category and the United States category for analytical purposes.

The significant decrease in the net income of redomiciled PLCs in 2015 is due to global losses incurred by these companies which are headquartered in Ireland. Just like the profits in previous years, these global losses are returned to Ireland as the headquarters of the global operation.

[1] Also known as Corporate Inversions (BEA, 2015)

The transition from GDP to GNP is shown in the National Accounts as Net Factor Income, which is also commonly called 'repatriated profits' of multinationals based in Ireland. This Net Factor Income[2], is very close to primary income from the Balance of Payments. The evolution of primary income, with and without the income of redomiciled PLCs, is shown in Figure 1 (below). The difference between these series is the net income inflows accruing to these redomiciled companies. These flows have a net positive effect on Primary Income, Net Factor Income, GNP and GNI. In 2015, we also saw a substantial increase in profit outflows by companies other than redomiciled PLCs.

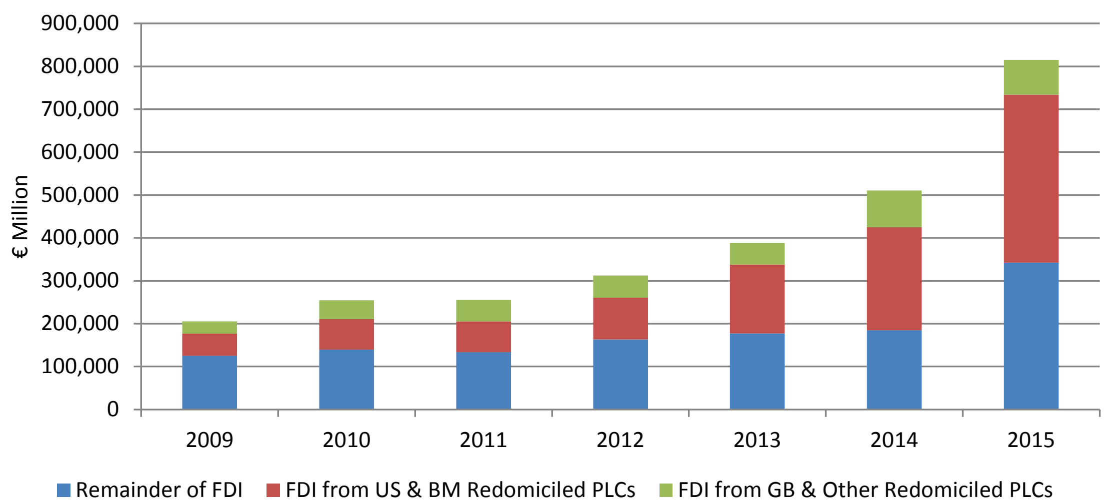
Figure 1: Effect of Net Income from Redomiciled PLCs



The foreign assets of redomiciled PLCs are classified as 'Direct Investment Abroad' in the Irish International Investment Position (IIP) statistics (CSO, 2015). These PLCs have had a significant effect on the stock of Irish FDI abroad, as shown in Figure 2 (below).

Figure 2: Direct Investment Abroad

By prior domicile location



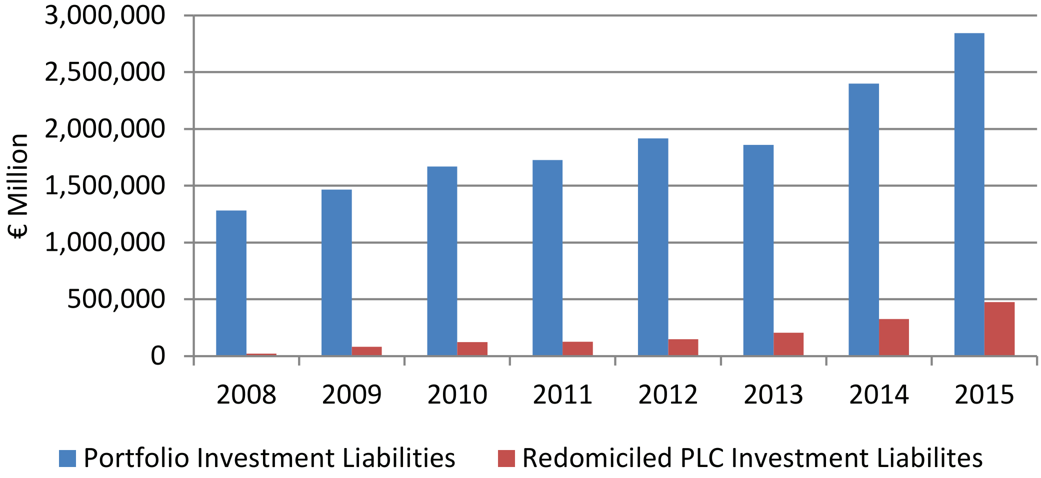
We have also updated this note to give an indication as to the location from which the PLCs responsible for the direct investment abroad redomiciled. For example, companies that redomiciled their headquarters from the United States or Bermuda to Ireland now make up the largest category in Irelands outward FDI data, as shown in Figure 2 (above). This breakdown also shows a substantial increase in outward FDI in 2015 from companies which are not redomiciled PLCs.

[2] 'Net Factor Income' = 'Primary Income' less 'Other Primary Income'

As none of the shareholders own more than 10% of the equity in these companies, their liabilities are classified in the IIP as ‘Portfolio Investment – Equity’. Proportionally they have a smaller impact on this sub-heading as Portfolio Investment liabilities are dominated by investment funds. The data of redomiciled PLCs, compared to Ireland’s total Portfolio liability, is shown in Figure 3 (below).

Figure 3: Portfolio Investment

Total and Redomiciled PLC liabilities



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