Are you looking to expand into Emerging Markets?

Foreign Earnings Deduction (FED)

Many Irish businesses are seeking to develop growth opportunities overseas particularly in light of Brexit. Doing so is likely to involve sending employees overseas for business development and marketing trips.

The Foreign Earnings Deduction (FED) is a tax relief available to employees of Irish companies who spend time working overseas in certain qualifying countries (see table below).

The relief was introduced in Finance Act 2012 and was enhanced in Finance Bill 2016 to further support efforts by Irish companies to expand into these emerging markets. The relief has been extended to include the tax years 2018, 2019 and 2020.

With effect from 2017, the relief is now available to Irish resident individuals who spend at least 30 "qualifying days" working outside of Ireland in any of the qualifying countries in a continuous 12 month period. For years prior to 2017, the requirement was a minimum of 40 qualifying days and for years prior to 2015, the requirement was a minimum of 60 qualifying days.

The relief is calculated by applying the following formula:

$$\text{Qualifying employment income} \times \frac{\text{Number of qualifying days in year}}{\text{Number of days in year that the employment is held}}$$

"Qualifying employment income" is remuneration from the employment excluding benefits-in-kind, but including share based remuneration and share option profits.

A "qualifying day" is one of at least three consecutive days throughout the whole of which the individual is performing duties in any of the qualifying countries. Days of travel between Ireland and the qualifying country can be included as qualifying days. The individual must have a minimum of 30 qualifying days in a year in order to qualify for the relief.

Example:

An Irish resident employee of an Irish company spends 100 qualifying days in China during 2017 developing contacts with potential Chinese customers. Her employment income comprises a salary of €100,000 plus a share option profit of

€50,000, i.e. total qualifying employment income of €150,000.

The relief under FED is calculated as follows:

- Qualifying employment income of €150,000 X 100 days/365 days = €41,095, which is capped at the maximum relief under FED of €35,000.
- Relief from income tax is available for the €35,000, giving rise to an income tax refund of €14,000 (€35,000 X 40%) for 2015.

Qualifying Countries FED	
2012	Brazil, China, India, Russia and South Africa
2013 & 2014 Additional qualifying countries	Algeria, Democratic Republic of Congo, Egypt, Ghana, Kenya, Nigeria, Senegal and Tanzania.
2015 Additional qualifying countries	Bahrain, Chile, Indonesia, Japan, Kuwait, Malaysia, Mexico, Oman, Qatar, Saudi Arabia, Singapore, South Korea, Thailand, United Arab Emirates and Vietnam
2017 Additional qualifying countries	Colombia and Pakistan

Claiming Tax Relief

Relief under FED applies for tax years from 2012 to 2020. Where the conditions are met, the maximum amount an employee can deduct for income tax purposes under FED is €35,000 per annum (resulting in a maximum tax saving of €14,000 per employee, i.e. €35,000 @ 40%, for 2017). A condition of being eligible for the FED is that certain other tax reliefs are not claimed. Employees can claim the relief through their tax return and such claims must be supported by a statement from their employer indicating the dates of departure and return to Ireland and the location at which work duties were performed while working overseas.

The relief only applies to income tax i.e. no relief from USC or PRSI is available.

KPMG Link Mobile App & FED

The KPMG Link Mobile App provides automated location tracking by using state of the art GPS functionality. The KPMG software provides employers and employees with a tailored FED report to capture travel between Ireland and FED countries so that Irish companies can produce a report of employees who may be eligible to claim relief under FED. In addition, a report can be produced by employers as an automated and validated statement of travel to assist employees with their FED claims for their tax returns. It reduces the compliance risk and operational HR time spent validating travel to and from these locations.

For more details on how the KPMG Business Traveler software can assist with tracking and reporting of travel for FED click here.

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