Foreign Earnings Deduction (FED)

The Foreign Earnings Deduction "FED" was introduced in 2012 to encourage the expansion of Irish multi-nationals overseas, and particularly into emerging markets. The relief remains in force, and the conditions and application are summarised below:

Qualifying conditions

In it's current form, the relief is available to Irish tax residents who satisfy the following conditions:

— Working for at least 30 "qualifying days" in a "qualifying country" during any consecutive 12 month period,

— Holds a "qualifying employment", and

— Receives "qualifying employment income".

The above conditions are explained in more detail below.

Qualifying Employment

A "qualifying employment" can be either an Irish or Foreign employment, so long as the income from the employment is not chargeable to Irish tax on a remittance basis (e.g. in the case of non-domiciled employees)

Qualifying Day

A "qualifying day" is one of at least three consecutive days (including weekends) in which the employee works in a qualifying country. Days of travel between Ireland and the qualifying country (and vice versa) are considered qualifying days.

Since 2017, an individual must have a minimum of 30 qualifying days in a consecutive 12 month period to qualify for the relief.

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.

Qualifying Country

The Qualifying Countries for the purpose of FED are summarised below:

Qualifying Countries	
From 1 January 2012	Brazil, China, India, Russia and South Africa
Additions from 1 January 2013	Algeria, Democratic Republic of Congo, Egypt, Ghana, Kenya, Nigeria, Senegal and Tanzania.
Additions from 1 January 2015	Bahrain, Chile, Indonesia, Japan, Kuwait, Malaysia, Mexico, Oman, Qatar, Saudi Arabia, Singapore, South Korea, Thailand, United Arab Emirates and Vietnam
Additions from 1 January 2017	Colombia and Pakistan

Qualifying Employment Income

"Qualifying employment income" includes all earnings derived from employment, but after the deduction of approved pension scheme contributions. Benefits-in-Kind, termination payments and restrictive covenants are non-qualifying for the purposes of the FED.

Application of the relief

The deduction is calculated by applying the formula below, with the resulting amount not assessable to Irish tax. The tax saving is therefore dependent on the employee's marginal tax rate.

The FED is capped at €35,000 per annum, resulting in a maximum tax saving of €14,000 (i.e. €35,000 @ 40%). Note that FED applies to income tax only – there is no relief for USC or PRSI.

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

Reporting Obligations

Relief is claimed via the employee's Tax Return, and supported by an employer statement that confirms:

— the dates of departure and return to Ireland

— the location(s) where the employee worked whilst abroad.

An employee has 4 years to make the claim, and suitable documents should be retained in the event of an enquiry.

Example of how the relief works

An Irish resident employee of an Irish company spends 100 qualifying days in China developing contacts with potential Chinese customers. Her total qualifying employment income is €150,000.

The relief under FED is calculated as follows:

— Qualifying employment income of €150,000 X 100 days/365 days = €41,095

— €41,095 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%).

Limitations and Practical Challenges

In practice, we see the following challenges/limitations in respect of the Foreign Earnings Deduction:

— The relief applies for income tax only i.e. there is no relief from USC or PRSI

— Tracking and calculating qualifying days can be an administrative burden

— The employee must retain supporting documents for proof of the relief claim such as flight and hotel receipts

— The relief cannot be operated through payroll, therefore eligible employees must file an Irish income tax return to claim the relief

— The maximum income tax deduction is €35,000 and therefore the maximum tax saving is €14,000 (€35,000 @ 40%)

— FED cannot be claimed in conjunction with other income tax reliefs e.g. SARP or income that is eligible for double tax relief (i.e. Foreign Tax Credit).

Contact us

For more details on FED, or on how KPMG's Business Traveller tool may be able to provide support, please contact Thalia or your usual KPMG Ireland contact.

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