

## Ireland's Reverse Hybrid Rule

Ireland's investment limited partnership (ILP) is quickly becoming one of the fund vehicles of choice for private equity and private credit managers. Managing Ireland's reverse hybrid rule (RHR) is a key consideration in choosing the ILP. The RHR has been in force for almost six months and its key features are highlighted below.

### Snapshot of RHR

The RHR requires Ireland to tax ILPs and other transparent funds if an investor (or associated investors) holds  $\geq 50\%$  of the ILP, treats the ILP as a corporation for their local tax purposes and the ILP's profits attributable to that investor(s) are not subject to tax in any jurisdiction as a result.

Key RHR considerations are:

- The RHR operates to tax the ILP's profits only insofar as they are attributable to the relevant  $\geq 50\%$  investor(s). Profits attributable to other investors are not taxable in Ireland.
- Investors are not deemed to be 'associated' simply by being partners in an ILP.
- The RHR is not operative if the relevant  $\geq 50\%$  investor(s) are tax-exempt, established in a nil tax jurisdiction or subject to a remittance basis of tax and their ILP profits are not subject to tax in their home jurisdiction for one of those reasons (ie, the hybrid nature of the ILP does not cause non-taxation).
- ILPs are exempt from the RHR if they are widely held and hold a diversified portfolio of securities. If there is no individual or listed company indirectly owning  $>25\%$  of the ILP, it should be viewed as widely held.
- ILPs have 24-months to satisfy the 'diversified portfolio of securities' test.

### Comment

Our client base of asset managers have been providing positive feedback on both the practical implementation of the RHR in Ireland and their ability to manage it amongst investors with different tax profiles, in particular in jurisdictions which may view the ILP differently from a tax perspective. Guidance notes on the application of the RHR are also expected from the Irish Revenue Commissioners in the coming months and these are expected to provide further welcome examples on the practical application of the RHR.

Please feel free to contact the authors below if you would like to discuss the RHR or reach out to your usual Matheson contact.

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