Brokers Ireland Budget 2020 Submission

APRIL 2019

Summary

Our Budget 2020 submission makes the following recommendations:

- **Link the life assurance exit tax rate to the Capital Gains Tax rate of 33% to ensure consistency and equality in the taxation of investment returns as between domestic life assurance policies, collective investment funds and deposits, and as between direct and collective investment.**

  The life assurance exit tax rate and DIRT rates became unlinked from the standard rate of income tax from April 2009 when the rates moved to a rate linked to the then CGT rate.

  By 2014 the DIRT and exit tax rates had both increased to 41% but the CGT rate was and still is 33%.

  Following Budget 2017, the DIRT rate is being reduced by 2% annually to the CGT rate of 33% by 2020, however, the exit tax rate remains at 41%. It is clear that a reduced DIRT rate since 2017 has provided further incentive to leave funds on deposits, even in a low interest rate environment.

  There is no logical reason why:

  - deposit interest should be taxed at a lower rate than returns from savings and investment policies/collective investment funds; or why
  - returns from life assurance investment policies/collective investment funds should be taxed at a rate higher than the prevailing CGT rate.

- **Remove the 1% Life Assurance Premium Levy.**

  The levy was, on its introduction in April 2009, intended to be 'temporary'; it should now be revisited.

  The continuation of the levy distorts the personal investment market given that it does not apply to investments in deposits and collective investment funds, while it also increases the cost to individuals of protecting themselves and their families through life assurance and serious illness cover, as the levy increases their premiums by 1%.

- **Retain marginal rate pension tax relief**

  There have been a number of suggestions to standardise tax relief on personal contributions at a fixed rate regardless of the individual's marginal rate income tax rate, through providing a non-refundable tax credit of, say, 30% of the contribution amount rather than a deduction against income.

However, while attempting to equalise the tax relief on personal contributions between higher and standard rate taxpayers, such a move would have a number of unintended consequences, including:

- It would widen the inequity of tax treatment as between personal and employer contributions (40% v. 52%).
- It would drive down or stop entirely personal contributions by higher rate taxpayers, such as the unincorporated self employed.
- It would reintroduce a tax on employer contributions to an employee's PRSA.
- It would be unfair to limit tax relief on personal contributions to, say, 30% (with no relief for USC), but to tax taxable benefits emerging in retirement from such contributions at marginal rate income tax + USC.

We therefore urge the retention of marginal rate income tax relief on personal pension contributions, as to reduce it risks driving down pension contributions and widening inequity between the tax benefits of personal and employer contributions.

- **Extend the backdating period for pension tax relief for the unincorporated self employed to the preceding four years.**

  The unincorporated self employed do not and can not benefit from employer pension contributions**.** They experience fluctuating income and therefore can not always afford to use their annual pension contribution tax relief allowance in each year.

  A facility to backdate pension contributions for tax relief purposes for up to four preceding years would offer the unincorporated self employed some of the funding flexibility afforded to employees and directors in funded occupational pension schemes.

- **Allow first time buyers with private pension benefits to access part of their accrued private pension tax free lump sum entitlement.**

- **Recommence indexing the pensions earnings tax relief limit**

  With earnings and profit growth returning to the economy it is appropriate for the Minister for Finance to recommence indexing the pensions earnings tax relief cap in s790A TCA 1997 of €115,000.

  If not increased in line with average earnings, the real value of retirement provision which can be made by sole traders and partnerships is being reduced, as retirement provision to be effective must be linked to earnings.

We suggest that at a minimum, the pensions earnings limit for tax relief of €115,000 be increased in line with minimum public service salary increases provided for under the Public Service Stability Agreement (2018-2020).

- **Recommence indexation of the Standard Fund Threshold limit**

  We urge the Minister for Finance to recommence indexing the Standard Fund Threshold (SFT) limit from 2020 onwards, in line with the growth in average public service earnings because:

  - Pension provision should be earnings related. The SFT should therefore move in line with earnings, as otherwise the non indexation of the limit over time reduces the scope for adequate pension funding.
  - The non-indexation of the SFT is particularly unfair to those in Defined Contribution (DC) arrangements, as DB pensions are considerably undervalued for the purposes of the Threshold limit relative to current market conditions.

- **Allow private sector retirees the same option (s787TA TCA 1997) afforded to the public service to avoid a double taxation of retirement benefits in excess of the Threshold limit.**

  Retirement benefits taken over the Threshold limit are taxed at an effective marginal rate of close to 70%, when double taxation is allowed for. This is far in excess of the likely income tax relief granted to the contributions which funded the excess.

  Those in the private sector who have benefits projected to be over the Threshold limit should be allowed to use the S787TA Taxes Consolidation Act 1997 encashment option in the same manner as public sector employees can, i.e. to encash such benefits subject to one taxation charge prior to retirement.

- **In line with the Capital Markets Union of the EU and overall government policy objectives we propose that members of funded private pension arrangements be encouraged through higher lump sum entitlements, to direct a portion of their fund into socially and environmentally useful objectives** such as Wind Energy, Biomass, SME Financing or Social Housing in Ireland.

- The current method of calculation of the cost of private pension tax relief gives rise to an entirely misleading figure (generally taken as circa €2.5bn p.a.) for a number of reasons.

  We therefore propose that the Minister for Finance establish a Consultation to arrive at a cost of private pension tax relief that will be less misleading and more meaningful and fully reflect the EET system and split of its cost between the public and private sectors.

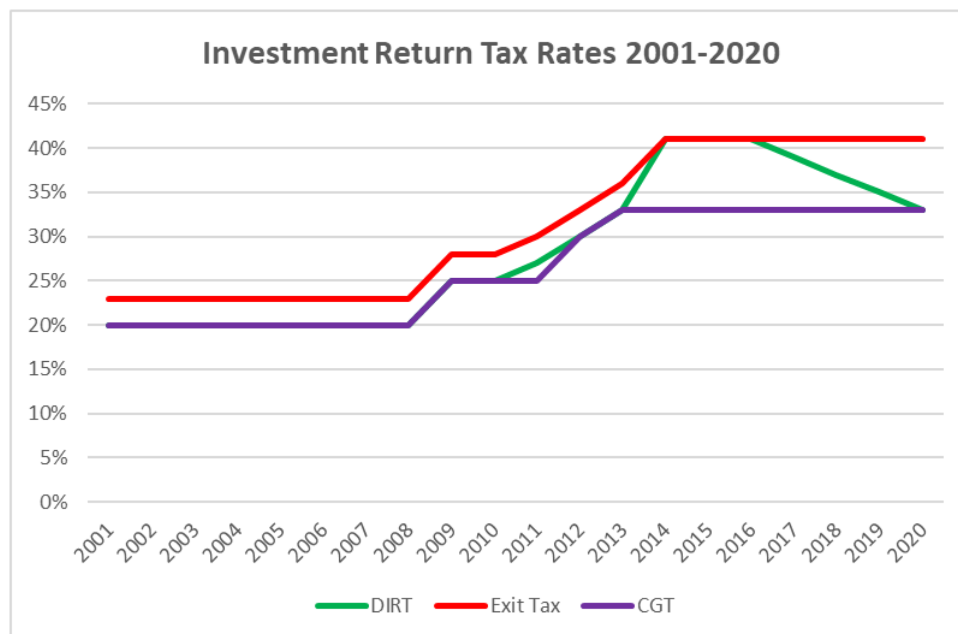
Link the life assurance exit tax rate to Capital Gains Tax rate

When the life assurance gross roll up taxation of savings and investment life assurance policies was introduced in 2001 the exit tax rate was set as [the standard rate of income tax + 3%], while the DIRT rate at that time was standard rate income tax (20%) and the capital gains tax (CGT) rate was also 20%.

The life assurance exit tax rate and DIRT rates were decoupled from the standard rate of income tax from April 2009 when the rates moved to a rate linked to the then CGT rate.

However, by 2014 the DIRT and exit tax rates had both increased to 41% but the CGT rate was and still is 33%.

Following Budget 2017 the DIRT rate is being reduced by 2% annually to the CGT rate of 33% by 2020, but the exit tax rate remains at 41%. There is no rational reason for not reducing the exit tax rate also to the prevailing CGT rate.



There is no logical reason why:

- deposit interest should be taxed at a lower rate than returns from savings and investment policies/collective investment funds; or why
- returns from life assurance investment policies/collective investment funds should be taxed at a rate higher than the prevailing CGT rate.

Tax Strategy Group Paper 17/11 25th July 2017 indicated that the refusal to reduce the exit tax rate was based solely on cost grounds and not for any policy objective reason:

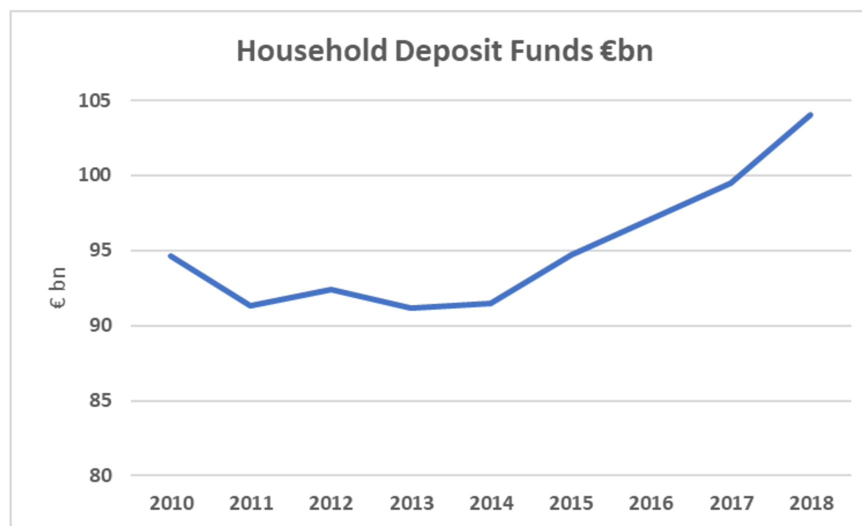
"The principal reason for not reducing the 41 per cent rate applicable to investment products in Budget 2017 when the rate of DIRT was being reduced was the cost of this change. At the time the cost of reducing the rates of exit taxes, by two percentage points, was estimated by the Revenue Commissioners to be €14 million per annum,"

The Department of Finance publication 'The Taxation of DIRT & LAET', December 2018, confined itself to a comparison of DIRT and exit tax rates and concluded:

'… as there are differences in the products, it is not the case that because one tax has a similar rate to another that they are the same product and the rates are of necessity linked and should be reduced in tandem.

It is difficult then to accept the view that it is the specific rates that apply to DIRT and to LAET which are the main factor in determining whether or not individuals invest in deposit products or life assurance products. '

However, statistics from the Central Bank show total deposits increasing strongly in recent years, particularly from 2017 when the DIRT rate was first reduced:



Source : Central Bank Table A.11.1 Deposits from Irish Private Sector - Sector and Category

It is clear that a reduced DIRT rate since 2017 has provided a further incentive to leave funds on deposits, even in a low interest rate environment.

The Department of Finance publication 'The Taxation of DIRT & LAET', December 2018, failed to compare the unfavourable tax treatment of returns from domestic life assurance policies/collective investment funds with the taxation of returns from direct investment:

Comparison of Taxation of investment returns

	Direct investment	Investment in domestic life assurance policies/collective investment funds
Tax on gains	33%	41%
Offsetting losses against gains for tax purposes	Yes; indefinite carry forward of realised losses	Only with the same policy/umbrella fund structure
Annual exemption from tax on gains	Yes; €1,270	No
Deemed encashment every 8 years for tax purposes	No	Yes
Deemed encashment on death for tax purposes	No; there is gross roll up to death, as death does not give rise to a CGT liability and beneficiaries are deemed to acquire assets at their value at the date of death.	Yes
Income returns	Income tax and USC at marginal rate; PRSI up to age 66 if subject to self assessment or with total investment income of more than €5,000. However, income tax credits and allowances can be used to reduce or eliminate the income tax liability. Those over age 65 may be able to benefit from tax free income returns if their total income is under €36,000 for a married couple or €18,000 for single person.	Life assurance policies: income rolled up into unit price and taxed at 41% on encashment or deemed encashment. Collective investment funds: income tax at 41%. However, income tax credits and allowances can be used to reduce or eliminate the income tax liability.
1% insurance levy on investment	No	Yes, for life assurance policies only.

From the above table, it is clear that investors who are prepared to take a risk enjoy a lower tax rate and more benign tax regime if they invest directly in property, stocks and shares than if they invest collectively in similar asset types through domestic life assurance policies/collective investment funds. It is grossly unfair for such discriminatory taxation treatment of collective investment.

The anomalous tax treatment of returns subject to exit tax is compounded in the case of domestic life assurance policies, by the 1% premium levy, referred to later.

We believe the exit tax rate on domestic life assurance policies/collective investment fund returns should be the same as the CGT rate, in addition to the abolition of the 1% insurance premium levy,

in order to ensure consistency and equality in the taxation of investment returns as between domestic life assurance policies, collective investment funds and deposits, and as between direct and collective investment.

Remove the 1% levy on life assurance premiums

A stamp duty levy of 1% was introduced on life assurance premiums in the April 2009 Supplementary Budget.

The Tax Strategy Group Report of 31 July 2017 states, in this regard:

"The levy was introduced as one element of the Government's concerted effort to raise revenue necessary to help address the serious decline in the public finances evident in 2009. It was understood that in common with other taxation measures, the operation of the levy would be kept under review."

To the end of 2017, a total of €236m has been collected in this levy.

We suggest that the 1% levy on life assurance premiums be abolished from 2020 onwards for the following reasons.

- It amounts to a 1% confiscation of savings and investments made through life assurance policies issued by domestic life assurance companies. It therefore distorts the domestic savings and investment market by not applying to deposits, offshore policies, or domestic and offshore collective investment funds.
- It amounts to double taxation in that no credit or allowance is provided for the 1% premium levy paid in the calculation of a subsequent chargeable gain for exit tax purposes[1];
- It increases the cost to individuals of protecting themselves and their families through life assurance and serious illness cover, as the levy increases their premiums by 1%.
- It was introduced at a time of an emergency in public finances and the understanding was that it would be reviewed in 'better times'. Other emergency measures introduced at the time, e.g. the pension levy, the reduction in public service pensions, and USC rates/bands, have either been removed or significantly modified with the welcome improvement in Government

[1] *Example: A consumer invests €50,000 in a life assurance investment bond; 1% or €500 levy tax is taken off at the outset. If the individual encashes his or her bond six years later for, say, €67,000, exit tax @ 41% is applied to the gain of €17,000, i.e. €6,970, but with no credit or offset allowed for the 1% levy tax paid at the outset, i.e. the €500.*

finances. The Public Service Stability Agreement 2018-2020 unwinds the provisions of the FEMPI pay cuts by 1st April 2019.

Retain marginal rate pension tax relief

Currently marginal rate income tax relief (but not for PRSI or USC) is provided on personal contributions[2] to pension arrangements, within age related limits and an upper earnings limit of €115,000. This is a tax deferral as the EET pension tax system taxes emerging benefits in retirement at marginal rate as taxable income.

There have been a number of suggestions to standardise tax relief on personal contributions at a fixed rate regardless of the individual's marginal rate income tax rate, through providing a non-refundable tax credit of, say, 30% of the contribution amount rather than a deduction against income. This would be broadly in line with the proposed 3 for 1 tax credit under the Autoenrollment scheme, which amounts to a 25% tax credit.

The impact on individuals currently personally paying a €1,000 gross pension contribution of a move to a fixed 30% tax credit would be:

- Non taxpayers: None, as the tax credit would only be available against an income tax liability;
- Standard rate taxpayers: It would *reduce* the net cost of the €1,000 gross contribution from €800 currently to €700.
- Higher rate taxpayers: it would *increase* the net cost of the €1,000 gross contribution from €600 to €700. It would also act as a significant disincentive to higher rate taxpayer to continue making personal contributions given that emerging benefits in retirement could be taxed at higher rate as taxable income.

While attempting to equalise the tax relief on personal contributions between higher and standard rate taxpayers, such a move would have the following unintended consequences:

- If not also applied to employer contributions (explicit and implicit[3]) to occupational pension schemes, it would widen the tax inequity between personal contributions, where relief is

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[2] *Including public service employee superannuation contributions. The Additional Superannuation Contribution (ASC) also benefits from separate marginal rate tax relief from January 2019, not subject to the age related and earnings limits applying to other pension contributions.*

[3] *In the case of the public service, an annual BIK could be imputed equal to the estimated value of the increase in the public service employee's pension and gratuity expectation over a year arising from an additional year's service and a salary increase, if any. A similar approach could be applied to funded DB schemes, in lieu of allocating actual employer contributions to each member.*

limited to 30%, and employer contributions where relief is in effect obtained at up to 52% through employer contributions being exempt from a BIK tax charge.

It is likely that employers operating group contributory DC schemes would negotiate revised remuneration agreements to replace less tax efficient employee contributions with more tax efficient employer contributions. This would *increase* the cost of pension tax relief to the Exchequer as tax relief would now be obtained on employer contributions at up to 52% (through BIK exemption for employer contribution) on contributions which previously obtained relief at just 40%. (with no relief for USC or PRSI)

- It would drive down or stop personal contributions by higher rate taxpayers, such as the unincorporated self employed. For example, a higher rate taxpayer currently paying a €1,000 gross contribution might reduce it to €857 so that after the 30% tax credit, the net outlay of €600 is the same as before. Some might stop making contributions given the disparity between the rate of relief granted and a possible higher rate tax charge on taxable retirement benefits.
- It would reintroduce a tax on employer contributions to an employee's PRSA.

  Currently such contributions are a BIK but the employee can claim income tax relief at marginal rate on them as personal contributions (within the limits which apply to tax relief on personal contributions). For a higher rate taxpayer this can mean that currently the personal tax relief equates to and wipes out the BIK related to the employer contribution.

  But if personal tax relief is limited to 30% but the BIK remains taxable at higher rate, (40%) the employee will have an income tax liability at marginal rate on the difference. This will discourage employer contributions to employee's PRSAs.
- Public service unions would inevitably seek compensatory remuneration increases to offset the increased net cost for their higher rate taxpaying members of their normal superannuation and ASC[4] contributions.
- It would be unfair to limit tax relief on personal contributions to 30% (with no relief for USC), but to tax taxable benefits emerging in retirement from such contributions at marginal rate income tax + USC.

[4] i*t is assumed that reduced tax relief would be also be applied to ASC relief for higher rate taxpayers*

Higher rate taxpayers in particular would be disincentivised from making larger contributions by the prospect of a tax loss arising from taxable retirement benefits being taxed at a higher rate than the rate of relief obtained.

We therefore urge the retention of marginal rate income tax relief on personal pension contributions, as to reduce it risks driving down pension contributions and widening inequity between the tax benefits of personal and employer contributions.

Extend backdating period for pension contributions for the unincorporated self employed

Of all groups, the unincorporated self-employed currently benefit least from private pension tax reliefs because they:

- are subject to an annual cash limit on tax deductible contributions, related to their earnings (capped at €115,000) and an age related %;
- are also subject to the Standard Fund Threshold (€2m) on emerging retirement benefits; and
- do not benefit from an explicit or implicit employer contribution like employees (in public and private sector pension arrangements) do, which are tax exempt (for income tax, USC and PRSI) for employees.

In particular the unincorporated self employed have variable earnings; they can have ‘good’ years followed by ‘bad’ years and followed again by ‘good’ years. Yet the pension tax relief system does not accommodate this fluctuating pattern of income, allowing backdating of contributions only to the immediately preceding year. By contrast, employers can fund back service liabilities for employees in occupational pension schemes.

We therefore urge the amendment of pension contribution backdating to allow self employed individuals making retirement annuity and PRSA contributions, to opt to backdate those contributions for income tax relief purposes to any of the immediately preceding four years. This would provide to the unincorporated self employed some of the backservice funding potential afforded to occupational pension schemes.

Allow first time buyers to access their accrued private pension tax free lump sum

First time buyers have never faced as big a challenge to buy their first home. Many are forced into rented accommodation which in turn makes it even harder to save the necessary deposit to buy their first home.

However even though pension coverage among the under 35's is low, some first-time buyers have accumulated private pension tax free lump sum entitlements. We therefore propose that early access to accrued private pension tax free lump sums be provided to first time buyers as follows:

- only those who qualify for the Help to Buy (HTB) scheme could qualify for early access to their accrued pension tax free lump sum entitlement, and only for a maximum period of 12 months, say, from the date of HTB qualification.
- Access would be allowed once only;
- Access would be subject to an upper monetary limit of €20,000;
- The tax free lump sum accessed would have to be used to purchase a home and could not be recycled back into a fresh pension contribution; and
- The amount of tax free lump sum accessed would be deducted from the €200,000 lifetime limit on pension tax free lump sums.

We believe such an initiative would encourage younger people to start contributing earlier to a private pension and for those already contributing to contribute more, leading to a beneficial long-term savings habit. It bundles together a short-term objective (home ownership) with a long-term objective (retirement planning). Such a feature could also form part of the Auto Enrolment scheme.

Recommence indexation of the pensions earnings tax relief limit

With earnings and profit growth returning to the economy (public service salaries will be increased by up to 7.25% over the period to 2020, under the Public Service Stability Agreement (2018-2020), it is appropriate for the Minister for Finance to recommence indexing the pensions earnings tax relief cap in s790A of €115,000.

If not increased in line with average earnings, the real value of retirement provision which can be made by sole traders and partnerships is being reduced, as retirement provision to be effective must be linked to earnings.

We suggest that at a minimum, the current pensions earnings limit for tax relief of €115,000 be increased in line with minimum public service salary increases as agreed under the Public Service Stability Agreement (2018-2020).

Recommence indexation of Standard Fund Threshold (SFT)

Finance Act 2006 introduced[5], from 7 December 2005, a limit on the maximum value of retirement benefits which can be taken by an individual from all Irish pension arrangements, before a tax called 'chargeable excess tax' is applied at the higher rate of income tax to the value of benefits taken over that limit.

The limit is referred to as the Standard Fund Threshold and has been reduced a number of times from its initial (2005) €5m value to its current €2m value.

The original chargeable excess tax system provided for automatic indexation of the SFT in line with an earnings index, and indexation was therefore applied in 2007 and 2008. However, since 2009 automatic indexation of the SFT has been replaced with optional indexation by the Minister for Finance in line with *"an earnings adjustment factor which may be designated in writing by the Minister for Finance in December of the year of assessment preceding the relevant year".*[6] The Minister has chosen not to index the €2m SFT limit since 2009.

With earnings and profit growth returning to the economy (public service salaries will be increased by up to 7.25% over the period to 2020, under the Public Service Stability Agreement 2018-2020), **we urge the Minister for Finance to also recommence indexing the Standard Fund Threshold limit from 2020 onwards, in line with the growth in average public service earnings,** because:

- Pension provision should be earnings related. The SFT should therefore move in line with earnings, as otherwise the non indexation of the limit over time reduces the scope for adequate pension funding.
- The non-indexation of the SFT is particularly unfair to those in Defined Contribution (DC) arrangements because:
    - DB pensions are considerably undervalued for the purposes of the Threshold limit relative to current market conditions.

[5] *Part 30, Chapter 2C, TCA 1997*
[6] *From definition of Standard Fund Threshold in s787O(1) Taxes Consolidation Act, 1997*

For example, compare the DB pension valuation factors used for the Threshold limit for a retiree aged 65, for a pension increasing at 2% p.a. and with 50% survivor's death in retirement pension, with the current open market annuity rate equivalent:

Threshold factor: DB pension accrued prior to 1/1/14	20
Threshold factor: DB pension accrued prior 1/1/14	26
Current annuity rates	36.0[7]

In effect, DB pensions, as compared with DC funds, are undervalued by up to 45% for the Threshold limit. This is unfair.

- The Threshold system does not distinguish between DC contributions and investment growth so that an individual can end up using up their Threshold and possibly exceeding it, not through making additional tax-deductible contributions but through investment returns.

- The non-indexation of the SFT encourages some to transfer their retirement funds to overseas arrangements[8] before they reach the SFT level, with any further growth in their overseas fund then outside the Irish Threshold limit system.

Remove the current chargeable excess double taxation

When an individual takes retirement benefits in excess of the pension Threshold limit, the excess value taken is taxed at the higher rate of income tax, representing a repayment of the notional tax relief granted on the contributions that funded the excess.

However, the residual retirement fund, *after* deduction of the chargeable excess tax, is taxed again as taxable pension, annuity, or ARF withdrawals at

- marginal rate income tax,
- USC up to 8%, and
- Class S PRSI (on ARF withdrawals under age 66).

[7] *Open market annuity rate quoted by a major life assurance company, 12th March 2019*
[8] *Under S.I. No. 716/2003 - Occupational Pensions Schemes and Personal Retirement Savings Accounts (Overseas Transfer Payments) Regulations, 2003*

This amounts to **double taxation of the same retirement fund** and a recovery of tax way beyond the level of tax relief which initially may have been given on contributions which funded that excess fund.

Example: take a €100,000 DC fund in excess of the Threshold.

Excess	**€100,000**
Less	
chargeable excess tax	-€40,000
	€60,000
Less	
income tax @ 40%	-€24,000
USC @ 8%	-€4,800
Net Fund	**€31,200**

In effect the excess €100,000 fund over the Threshold has been taxed in this example at 68.8% which is far in excess of the higher rate tax relief that might initially have been obtained on the contribution (or BIK exemption in respect of employer contributions). **In effect the current chargeable excess tax system is a confiscatory or penal system and not a fair taxation system to simply recover the 'excess' income tax relief granted.**

This double taxation treatment is in stark contrast to the 'single taxation' treatment afforded to public service employees by S787TA Taxes Consolidation Act 1997, who can, prior to retirement, encash private pension benefits that are projected to be over the Threshold limit, subject to ONE higher rate income tax charge and USC at the low rate, currently 2.0%, with the encashment *not* being counted as a benefit crystallisation event for the purposes of the Threshold limit system.

Example: Take a public sector employee and a private sector employee who both have private pension benefits valued at €100,000, which are projected to be chargeable excess (i.e. over the Threshold limit) when they access these benefits. The public sector employee can use the s787TA TCA 1997 encashment option prior to accessing his or her benefits to encash the €100,000, **without it triggering a chargeable excess tax charge,** but the private sector employee cannot and hence their €100,000 similar retirement fund will be double taxed as chargeable excess.

	Public Sector employee	Private Sector employee
Excess of private pension benefits over Threshold limit	€100,000	€100,000
Less		
chargeable excess tax		-€40,000
		€60,000
Less		
income tax @ 40%	-€40,000	-€24,000
USC	-€2,000[9]	-€4,800[10]
Net Fund	**€58,000**	**€31,200**

Individuals in the private sector who have benefits projected to be over the Threshold limit should be allowed to use the S787TA Taxes Consolidation Act 1997 encashment option in a similar manner as public sector employees can, i.e. to encash such benefits before retirement subject to *one* taxation charge.

To deny this option to those who have worked exclusively in the private sector is to discriminate in favour of public sector employees who may have a similar projected chargeable excess from an identical private pension arrangement.

Incentivise Socially Responsible Investment by pension funds

In line with the Capital Markets Union of the EU and overall government policy objectives we propose that members of funded private pension arrangements be encouraged to direct a portion of their fund into socially and environmentally useful objectives such as Wind Energy, Biomass, SME Financing or Social Housing in Ireland.

Whilst it may be difficult for DC scheme trustees to fulfil this condition on their own initiative, they could include such investment options for members to avail of.

To the extent that individuals do invest in this area we propose that that qualify for additional lump sum on retirement. The proposed conditions are as follows:

[9] *at 2%*
[10] *at 8%*

- The normal lump sum will be enhanced by a further 5% for each 20% of their pension fund that is allocated to SRI over a specified minimum period; and
- The maximum enhanced lump sum will therefore be 50% to a max of €400k.

Establish a consultation on the cost of private pension tax relief

The current method of calculation of the cost of private pension tax relief gives rise to an entirely misleading figure (generally taken as circa €2.5bn p.a.) for a number of reasons:

- The cost of some items, such as tax free returns, is speculative and described by Revenue as: '*particularly tentative and subject to a considerable margin of error*.' This item accounts for 35% of the latest estimate of the annual cost of private pension tax relief.[11]
- The cost understates the cost of private pension tax reliefs provided to the public sector by excluding the cost of a BIK exemption on the accrual of superannuation benefits. It also excludes the cost of tax relief granted on the PRD (the public service pension levy). Consequently, the share of the cost of private pension tax reliefs provided to the public sector is significantly understated. A paper, *The Tax Treatment of Pension Contributions in Ireland, May 2018,* published by the ERSI concludes: *'The cost of tax relief on public sector pensions, given the addition of these implicit employer contributions by the government, accounts for more than half of the total cost of tax relief on pension contributions*.'

  Therefore, a perception that a relatively small number of individuals in the private sector are using up a large part of the cost of private pension tax relief is entirely false.
- There is double counting in including both the cost of employer contribution tax relief as a business expense and the cost of exempting employer scheme contributions from an employee BIK charge.
- The cost is before tax recoveries on taxable retirement benefits, the T of EET. The 'cost' used of €2.5bn is therefore at best the EE part only of EET.

The existence of these anomalies leads to significant problems as policymakers and lobbyists focus policy proposals around an incorrect and misleading 'cost' figure of €2.5bn pa.

We therefore propose that the Minister for Finance establish a Consultation to arrive at a number that will be less misleading and more meaningful and fully reflect the EET system and split of its cost between the public and private sectors.

[11] See *Private Pension Tax Relief (Burke and Gilhawley)*, Society of Actuaries, November 2018