Brokers Ireland
Budget 2021 Submission

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Introduction

Private pension tax reliefs and benefits are provided to encourage those in the private sector without private pension provision to make such provision, in order to provide retirement income additional to the State Pension. In spite of these incentives, private pension coverage in the private sector is currently estimated at 35%, so that two out of every three workers in the private sector will rely on the State Pension in retirement.

In the public sector where there is compulsory 100% defined benefit private pension coverage, tax relief on contributions amounts to a subsidy which reduces the cost of employee superannuation and Additional Superannuation Contributions. Public sector workers look on such tax relief as an established part of their terms and conditions of employment.

Therefore, any significant change in the package of private pension tax reliefs, including a reduction in the level of tax relief on personal contributions, will lead to:

- a reduction in the current low level of private pension coverage, leading to increased pressure on the State Pension; and
- a demand from public service workers for an equivalent salary increase to meet the resulting loss of tax relief. There is a precedent for this reaction; in 1995 when a compulsory 5% superannuation contribution was introduced for new entrants post 6th April 1995, the existing non-contributory salary scales were increased by 5%, so that in effect new entrants post 6th April 1995 got a salary increase to pay for the cost of the superannuation contribution.

This submission deals with:

- lifting of 4% limit on AMRF withdrawals for 2020
- the consequences of any reduction in the current €115,000 limit on earnings for tax relief on personal contributions to pension arrangements.
- the consequence of any reduction top rate tax relief on personal contributions to pension arrangements;
- the need to increase the Standard Threshold Limit of €2m
- the need to increase the DIRT rate to the same rate as life assurance exit tax (LAET); and
- removal of the 1% Life Assurance Premium Levy.

Lifting of 4% maximum withdrawal on AMRFs for 2020

Approved Minimum Retirement Fund (AMRF) holders are currently limited to a 4% maximum annual withdrawal. Many retirees with AMRFs (typically average of €50,000) do not have an ARF and may be under severe financial pressure because of the current economic shock and have little other substantial savings to draw on.

We therefore urge that for 2020 the 4% limit on AMRF withdrawals be lifted to allow retirees with small retirement funds to access more of them in 2020; all withdrawals are subject to PAYE.

The €115,000 earnings limit for pension tax relief

Currently there are two annual restrictions on income tax relief[1] on personal contributions[2] to all pension arrangements, in addition to the €2m Standard Fund Threshold limit:

- a % limit of earnings, which varies by age:

Age	Limit as % of earnings
Under 30	15%
31 top 39	20%
40 to 49	25%
50 to 54	30%
55 to 59	35%
60 +	40%

- a €115,000[3] cap on earnings which can qualify for relief, so that those with earnings more than €115,000 are in effect subject to an annual cash limit on the amount of tax-deductible personal contributions they can make all pension arrangements in a year:

Age	Cash limit for pension tax relief for those earning more than €115,000
Under 30	€17,250
31 top 39	€23,000
40 to 49	€28,750

[1] *Personal contributions are not deductible for USC or PRSI purposes, so that in effect USC and PRSI is levied on personal contributions to pension arrangements.*
[2] *Including imputed employer contributions to a PRSA*
[3] *Which has applied since 2011; a higher limit of up to €254,000 applied in previous years.*

Age	Cash limit for pension tax relief for those earning more than €115,000
50 to 54	€34,500
55 to 59	€40,250
60 +	€46,000

Neither annual limit above, i.e. the % annual limit or the €115,000 earnings limit, applies to:

- employer contributions to occupational pension schemes in the private sector, which are exempt from a Benefit in Kind charge for the employee[4];
- the Additional Superannuation Contribution paid by public service employees earning more than €34,500 in 2020; or
- implicit employer contributions in the case of the public service employees.

The Revenue Commissioners Budget Ready Reckoner 2020 suggests that on a no change in behaviour basis, reducing the €115,000 earnings limit for tax relief, while maintaining relief at marginal rate, would produce the following estimated tax savings (€m) for the Exchequer:

	Tax saving €m from reducing the €115k earning limit
€115,000	0
€110,000	11
€105,000	22
€100,000	34
€95,000	48
€90,000	62
€85,000	76
€80,000	93
€75,000	111
€70,000	130
€65,000	151
€60,000	174

However, any reduction in the earnings limit from €115,000 will likely lead to much *lower* tax savings than outlined above for the following reasons:

- in the private sector, large employer DC schemes can sidestep the reduction by reducing or eliminating employee contributions and increasing the employer contribution[5] funded by a corresponding reduction in earnings.

[4] *Except for employer contributions to an employee's PRSA.*
[5] *which is not subject to the €115,000 limit*

E.g. a current 5% employer and 5% employee DC scheme could be renegotiated to a non-contributory scheme with a 10% employer contribution, with employee earnings renegotiated down to a level of 95% of their previous level.

The above response would *increase* the cost of pension tax relief as the employee reduction in earnings would be in effect fully tax deductible for income tax, USC and PRSI, whereas the current employee pension contribution is only deductible for income tax.

- In the public sector, public sector unions would likely demand a compensating salary increase for members impacted by the reduction in the earnings limit, on the basis that the reduction was a material change in their established terms and conditions. The cost of such salary increases would significantly reduce the anticipated tax savings from reducing the earnings limit.
- In the short run, following an announcement of a reduction in the earnings limit for pension tax relief on personal contributions, it would likely trigger a higher take up of the relief in the year of announcement[6] as well as a higher tax take up of backdated relief to the previous year, both benefitting from the €115,000 earnings limit.
- It would likely trigger greater use of the relief by those earning more than the reduced earnings limit, as the reduced cash limits would become a 'target' for these workers.

For example, if the earning limit were reduced to €60,000, as proposed by some, the annual cash limit for tax deductible personal contributions to pension arrangements would become:

Age	**Cash limit for pension tax relief for those earning more than €60,000**
Under 30	€9,000
31 top 39	€12,000
40 to 49	€15,000
50 to 54	€18,000
55 to 59	€21,000
60 +	€24,000

[6] Assuming the measure would not be effective until the following year

In anticipation of even further curtailments in private pension tax reliefs, those earning more than the reduced earnings limit would be likely to increase their annual contributions to the cash limit above through AVCs, and discretionary increases in employee contributions to employer DC schemes which could trigger a matchinh increased employer contribution, and increased contributions by the self-employed.

Change in behaviour following a reduction in the €115,000 earnings limit for pension tax relief would likely give rise to much lower tax savings than suggested by the Revenue Budget Ready Reckoner, or even in certain circumstances could lead to an *increased* tax cost.

The current €115,000 earning limit on pension tax relief limit, combined with the age related % limits, prevents the self employed from accumulating a fund equal to the €2m Standard Fund Threshold. The €2m Threshold is designed to be equivalent to the capital value of a €60,000 pa public service pension at age 60 (capitalised at 30:1[7]) plus a €200,000 tax free gratuity.

However currently the self employed, relying on personal contributions only, can not by retirement accumulate a fund equal to the Threshold limit unless they adopt an extremely high investment risk approach and start contributing before age 30 (a highly unlikely scenario):

[7] Equivalent to a retirement age 60. See Table of capitalisation factors Schedule 23B

Table 1 – Projected Retirement Fund at age 60, starting at different ages using current €115,000 earnings limit

Earnings limit	€115,000
Assumed investment return (net of charges)	5.26%

Age when funding starts	% limit on tax relief at that age	Max annual Contribution at that age	Projected Fund at 60	Equivalent projected pension[8] pa at 60
30	20%	€23,000	€2,000,000	€59,952
35	20%	€23,000	€1,515,036	€43,805
40	25%	€28,750	€1,139,800	€31,309
45	25%	€28,750	€776,882	€19,221
50	30%	€34,500	€496,077	€9,865
55	35%	€40,250	€235,354	€1,177

Using a more realistic medium risk return assumption after charges of 3% pa, the projected fund figures at age 60, for different starting ages, are:

Earnings limit	€115,000
Assumed investment return (net of charges)	3.00%

Age when funding starts	% limit on tax relief at that age	Max annual Contribution at that age	Projected Fund at 60	Equivalent projected pension[9] at 60
30	20%	€23,000	€1,385,540	€39,518
35	20%	€23,000	€1,122,198	€30,740
40	25%	€28,750	€895,037	€23,168
45	25%	€28,750	€650,099	€15,003
50	30%	€34,500	€438,812	€7,960
55	35%	€40,250	€220,103	€6,415

Therefore currently even with a maximum €115,000 earning limit for pension tax relief, the self employed can not fund the equivalent of a €60,000 public service pension by retirement age 60.

[8] After allowing for a €200,000 tax free lump sum and assuming the balance is used to secure an annuity at an annuity rate of 3.33% (equivalent to 30:1 capitalization factor)

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If the €115,000 earnings limit was reduced further, to say, €60,000 the self employed would be even further restricted in their ability to fund a decent pension in retirement. For example if the limit were reduced to €60,000 then the projected fund & pension at age 60 for different starting ages is:

Table 1 – Projected Retirement Fund at age 60, starting at different ages using current €60,000 earnings limit

Earnings limit	€60,000
Assumed investment return (net of charges)	3.00%

Age when funding starts	% limit on tax relief at that age	Max annual Contribution at that age	Projected Fund at 60	Equivalent projected pension[10] at 60
30	20%	€12,000	€722,890	€17,430
35	20%	€12,000	€585,495	€12,850
40	25%	€15,000	€466,976	€8,899
45	25%	€15,000	€339,182	€4,639
50	30%	€18,000	€228,946	€965
51	30%	€18,000	€204,755	€159
55	35%	€21,000	€114,837	€0[11]

Any proposal to reduce the earnings limit from €115,000 to a lower figure will therefore lead to the following outcomes:

- a reduction in the level and quality of private pension coverage; the self employed will be particularly disadvantaged and substantially restricted from accumulating a pension of €60,000 pa, the level at which the Standard Fund Threshold starts to apply in the public service.
- introduce considerable inequity as between different groups:
  - Those who benefit from a large employer contribution, either explicit in the private sector or implicit in the public sector, would be largely immune from a reduction in the earnings limit on personal contributions, as most or all[12] of their pension is funded by employer contributions not subject to the earnings limit.

[10] After allowing for a €200,000 tax free lump sum and assuming the balance is used to secure an annuity at an annuity rate of 3.33% (equivalent to 30:1 capitalization factor)

[11] The tax free lump sum is €114,837 with no residual fund left to buy a pension.

[12] *E.g. occupational pension schemes funded entirely by employer contributions, and civil servants recruited before 6th April 1995 who are not required to make any personal superannuation contribution.*

The unincorporated self-employed, by contrast, have no employer contribution and hence would be significantly impacted by a reduction in the earnings limit, as illustrated above.

- Workers in the private sector would be subject in full to the reduced earnings limit, but public sector workers earning more than €34,500 would not be in respect of their Additional Superannuation Contributions.[13]
- Tax relief on employer contributions to an employee's PRSA are effectively subject to the earnings limit[14], but an employer contribution to an occupational pension scheme is not a BIK and hence is not subject to the earnings limit. Reducing the earnings limit hence impacts on employer contributions to a PRSA but not on employer contributions to an occupational pension scheme.

Pension tax relief on personal contributions

There have been some proposals that the rate of income tax relief on personal contributions to pension arrangements should be reduced from its current marginal rate to standard rate only or to a fixed rate somewhere between 20% and 40%, say 30%.

This argument is often put forward on 'equity' grounds as:

	Higher rate taxpayer	**Standard rate taxpayer**
Personal pension contribution	€1,000	€1,000
Income tax relief at marginal rate	€400	€200
Net cost of contribution	€600	€800

The higher rate taxpayer appears to get tax relief at 40% (€400 in the example above) while the standard rate payer appears to get 20% (€200) for the same pension contribution, a difference of 20% or €200 in relief in the example above.

However, this comparison is not complete as it fails to allow for the fact that personal contributions are *not* deductible for USC and PRSI purposes, so that a worker must earn more in gross earnings than the pension contribution, in order to cover the cost of the USC, PRSI and the pension contribution,

[13] *Separate income tax relief is allowed on ASCs, to normal superannuation contributions, and are not subject to an upper earnings limit.*

[14] *The employer contribution to an employee's PRSA is a BIK for income tax purposes, but the employee can then claim income tax relief on the contribution as if it were a personal contribution, but subject to the age % limits and the earnings limit.*

even allowing for tax relief. It fails to show that the higher earner therefore has to earn *more* than the standard rate earner to be able to pay the same €1,000 gross pension contribution, and therefore pays more in taxes to do so.

Take this example where the objective is to be able to afford to contribute €1,000 gross pension contribution:

		Higher Rate taxpayer		Standard rate taxpayer
Gross income required		**€1,250**		**€1,119**
USC	8%	€100	4.50%	€50
Employee PRSI	4%	€50	4%	€45
Income tax	40%	€500	20%	€224
Gross pension contribution		€1,000		€1,000
Total outlay *before* pension tax relief		€1,650		€1,319
Deduct pension tax relief on €1,000 pension contribution	40%	€400	20%	€200
Total outlay after pension tax relief		**€1,250**		**€1,119**
Pension tax relief as % of gross earnings		**32.0%**		**17.9%**

The pension tax relief obtained as a % of gross income is 32% for a higher rate taxpayer and nearly 18% for a standard rate taxpayer, a difference of 14% instead of the perceived 20%, and the standard rate taxpayer could afford from the same €1,000 gross income a higher gross pension contribution (€894) than a higher rate payer (€800):

- The simple comparison of €400 v €200 pension tax relief for a €1,000 pension contribution also fails to take account of the fact that:
    - those on average earnings can be higher rate taxpayers; and
    - higher rate taxpayers are likely to fund higher private pension benefits (because of their higher earnings) which means they are more likely to pay back this additional tax relief in retirement through higher taxes on their taxable private pension benefits.

Standard rate taxpayers are mor likely to pay low or no taxes on their taxable retirement income because of the income tax exemption limit applying to the over 65s'.

Applying a fixed rate of relief (either at standard rate or a fixed rate between 20% and 40%) would be inequitable and largely in effective in many ways:

- Unless employer contributions (explicit in the private sector and implicit in the public sector) are imputed to the employee for income tax purposes at marginal rate and then treated as a personal contribution and tax relieved at the new fixed rate as a personal contribution (leading to a tax charge for the employee on the difference), it would *increase* the existing level of inequity as between the tax treatment of employer and personal contributions.
- If employer contributions are not imputed and treated for tax purposes as a personal contribution, moving to a fixed tax relief rate only on personal contribution only could be largely side stepped in the private sector by the swapping of employee contributions for increased employer contributions (financed by employees taking a corresponding reduction in gross remuneration), as already outlined in relation to a proposed reduction in the earnings limit.

  But imputing employer pension contributions for income tax purposes would largely destroy the whole current tax basis of private pensions, i.e. a deferral of remuneration.
- Moving to a fixed tax relief rate on personal contributions for higher and standard rate taxpayers would swap the current inequity which favours higher rate taxpayer with a new inequity favouring standard rate taxpayers.

  Let's take the same example as before but with a fixed 20% tax relief for both the higher rate taxpayer and the standard rate payer, and as before the objective is to be able to fund a €1,000 gross pension contribution:

		Higher Rate taxpayer		**Standard rate taxpayer**
Gross income required		**€1,667**		**€1,119**
USC	8%	€133	4.50%	€50
Employee PRSI	4%	€67	4%	€45
Income tax	40%	€667	20%	€224
Gross pension contribution		€1,000		€1,000

Total outlay *before* pension tax relief		€1,867		€1,319
Deduct pension tax relief @ 20% on €1,000 pension contribution	20%	€200	20%	€200
Total outlay after pension tax relief		**€1,667**		**€1,119**
Pension tax relief as % of gross earnings		**12.0%**		**17.9%**

Therefore if pension tax relief were to be given at a fixed rate of 20% of the gross pension contribution, the figures swap around so that the higher rate taxpayer now gets pension tax relief of 12.0% of gross earnings but the standard rate taxpayer gets relief at 17.9%.

Therefore standard rating pension tax relief on personal contributions at 20%, say, does NOT equalise the amount of relief provided to higher rate and standard rate taxpayers when you allow for the fact that contributions are not deductible for PRSI and USC purposes and that therefore the higher rate taxpayer has to earn more than the standard rate payer to pay the same gross contribution; in fact standard rating relief swaps the inequity around by giving the standard rate payer more tax relief than the higher rate payer.

- Some higher rate taxpayers (e.g. AVCs and unincorporated self-employed) may react to a reduction in the rate of relief by:
  - Reducing their discretionary personal contributions to a level to lead to the same net outlay as before the reduction in the rate of relief; or
  - stopping discretionary personal contributions altogether due to a perception that they will only benefit from, say 20% relief, on contributions but emerging benefits will be taxed in retirement at higher rate income tax (40%) + USC.
- By encouraging employees to reduce or stop their contributions, this could also drag down matching employer contributions in private sector DC schemes, leading to a compounding effect.
- In the public sector, public sector unions would likely demand a compensating salary increase for higher rate members impacted by the reduction in the rate of relief, on the basis that the reduction was a material change in the established terms and conditions of their members.

The cost of such salary increases would significantly reduce the anticipated tax savings from reducing the earnings limit.

- It would, in effect, reintroduce a tax on employer contributions to an employee's PRSA, for higher rate taxpayers.

  Currently such contributions are treated as a BIK, but the employee can claim income tax relief at marginal rate on them as if they were personal contributions, within the age related and earnings limits which apply to tax relief on all personal contributions. For a higher rate taxpayer this usually means that the personal tax relief claimed equates to and wipes out the BIK associated with the employer contribution[15].

  > Standard rating pension tax relief for personal contributions would lead to a much lower tax savings than expected, reduced personal contributions, and introduce significant inequity in the private pension tax system.

  But if pension tax relief on personal contributions is reduced to 20%, but the BIK for an employer PRSA contribution remains taxable at a higher rate (40%), a higher rate employee will have an income tax liability of 20% of the employer contribution. This would reduce the attractiveness of employer contributions to PRSAs as opposed to an employer contribution to an occupational pension scheme (which is exempt from a BIK charge). It would introduce another anomaly into the taxation of private pension arrangements.

The Standard Fund Threshold

There is currently a limit on the capital value of retirement benefits which can be taken by an individual from all Irish private 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 €5.4m in 2008 to its current €2m value, which is deemed to be equivalent to a public service pension of €60,000 pa plus a tax free lump sum/gratuity of €200,000[16].

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[15] *Assuming the combined employer and employee contribution is within the age related and €115,000 earnings limits*

[16] *i.e. 30 x €60,000 pension + €200,000 gratuity.*

The original chargeable excess tax system provided for indexation of the Threshold limit in line with an earnings index, and indexation was therefore applied in 2007 and 2008. However, since 2009 the SFT limit has not been increased, despite growth in earnings in the meantime.

The Threshold limit is particularly unfair to the vast majority in the private sector who fund for retirement on a Defined Contribution (DC) basis as Defined Benefit (DB) pensions (the norm in the public sector) are significantly *undervalued* for the purposes of the Threshold limit, relative to current market conditions.

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 (i.e. a typical public sector pension), with the current open market annuity rate equivalent:

Threshold factor: DB pension accrued prior to 1/1/14	20 x pension
Threshold factor: DB pension accrued prior 1/1/14	26 x pension
Current open market value	41.8[17] x pension

In effect, DB pensions are undervalued by up to 52% for the Threshold limit, as compared with DC funds.

For example, a €2m DC fund for a retiree in the private sector would at today's annuity rates buy a public service type pension of just €47,847 pa,[18]. But a public service retiree retiring in 2020 after 40 years' service[19] could retire on a pension of €83,680 (with an associated gratuity of 3 times the pension), and still be just under the €2m Threshold limit. This is blatantly unfair to vast majority of private sector workers who fund for retirement on a DC basis.

Any further reduction in the Threshold limit would:

- further reduce the ability of workers in the private sector to fund a decent level of private pension. For example, a €1.2m Threshold would under current annuity rates only buy a public service type pension of just €28,708 pa.

[17] *Open market annuity rate quoted by a major life assurance company, 1st March 2020*
[18] *Assumed age 65 and using open market annuity rates at 1st March 2020*
[19] *Of which 6 years relates to post 1st January 2014*

- cause an acceleration of the legal transfer of DC retirement funds, before they reach the Irish Threshold limit, to overseas pension arrangements[20], such as Malta, which do not operate Threshold limits, with any further growth in their overseas fund outside the Irish Threshold limit system. This would significantly reduce the likely tax savings expected to arise from a reduction in the Threshold limit.

- make it very difficult to recruit and retain high paid specialists in the public sector such as HSE Medical Consultants and members of the Judiciary.

Take an example of a HSE Consultant who is retiring in 2020 at age 65 on earnings of €200,000 with a right to a public service pension of €100,000 and a gross gratuity of €300,000. We will assume he accrued €80,000 of his pension before the 1st January 2014 and €20,000 after 1st January 2014:

Threshold limit at €2m

Pension	**€80,000**	**20**	**€1,600,000**
	€20,000	26	€520,000
Gratuity			€300,000
Total capital sum			€2,420,000
Les Threshold			- €2,000,000
Excess			€420,000
Chargeable excess tax			€158,000[21]
Annual reduction in pension[22]			€7,900

But if the Threshold limit when he or she retires is €1,200,000, the chargeable excess tax would be far higher resulting in a much bigger reduction in their pension:

Threshold limit at €1.2m

Pension	**€80,000**	**20**	**€1,600,000**
	€20,000	26	€520,000
Gratuity			€300,000

[20] *Under S.I. No. 716/2003 - Occupational Pensions Schemes and Personal Retirement Savings Accounts (Overseas Transfer Payments) Regulations, 2003*

[21] *i.e. 40% x €420k less a credit of €10k standard rate tax assumed to be deducted from their gratuity.*

[22] *Public sector employees have a right to pay chargeable excess tax arising on their benefits by 20 yearly reductions from their pension, with no interest added.*

Total capital sum	€2,420,000
Less Threshold	- €1,200,000
Excess	€1,220,000
Chargeable excess tax	€478,000
Annual reduction in pension	€23,900

- require protecting accrued entitlements from the reduction, as has happened in 2010 and 2014, by way of providing a Personal Fund Threshold for those whose accrued benefits are valued at higher than the reduced Threshold at the time of its reduction.

  Such protection reduces the anticipated tax savings arising from the reduction.

If the Threshold limit is to be reduced then it must be equitable between the public and private sectors which means moving the DB pension valuation factors to an open market value basis, so that a €1 of public sector DB pension would be valued (for a 65 year old) at 42 rather than the 20/26 multiple used currently.

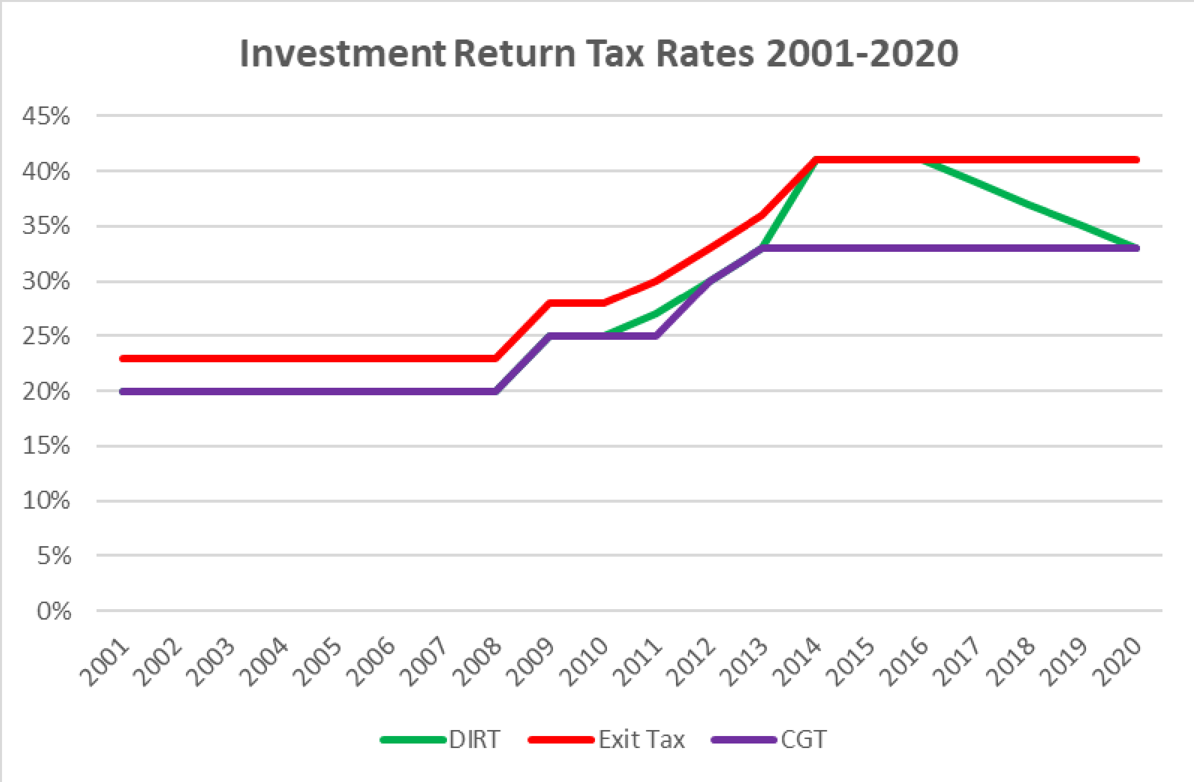
Increase the DIRT rate to 41%

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%).

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%.

Following Budget 2017 the DIRT rate has been 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 reducing the DIRT rate to the CGT rate while leaving the life assurance exit tax rate at 41%.

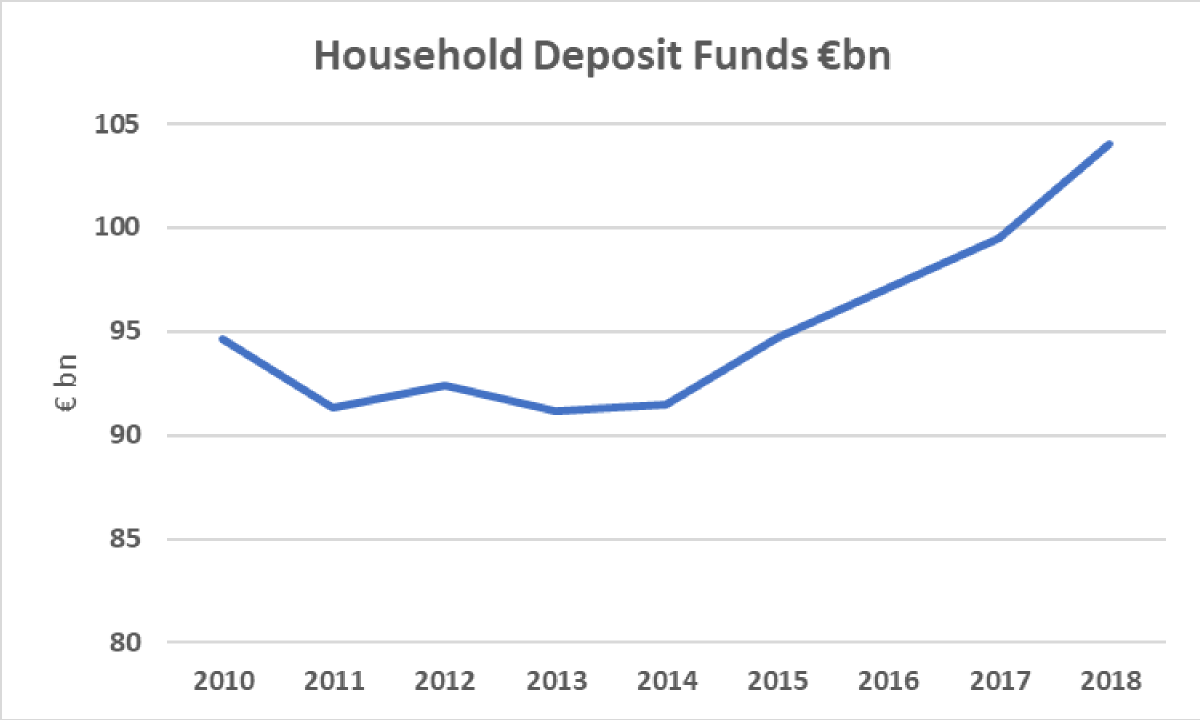


Tax Strategy Group Paper 17/11 25th July 2017 indicated that the refusal to reduce the exit tax rate was based solely on cost grounds and not for any policy objective reason:

"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 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 has provided a further incentive to investors to leave funds on deposits, even in a low interest rate environment, rather than invest in unit linked funds to earn a better return.

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

We believe if the exit tax rate on domestic life assurance policies is not to be reduced to the DIRT rate, then the DIRT rate should be increased back to the exit tax rate of 41%, i.e. the DIRT rate which applied up to Budget 2017, 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 life assurance policies and deposits.

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."

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[23];

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 finances. The Public Service Stability Agreement 2018-2020 has fully unwound the provisions of the FEMPI pay cuts.

[23] *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.*

Summary

AMRFs
We suggest that for 2020 the 4% limit on AMRF withdrawals be lifted to allow retirees with small retirement funds to access more of their retirement savings in 2020, given the financial distress some AMRF holders may currently be experiencing.

Pensions Tax Relief
Any cuts in the pensions tax relief earnings limit, rate of relief on personal contributions, or the Threshold limit will lead to:

- greater inequity in private pension provision as between the public sector and those who work in the private sector;
- a significant reduction in the level and quality of private pension provision in the private sector, particular for the self employed; and
- lead to far lower tax savings than anticipated because of likely change in behaviour not allowed for in estimates of tax savings arising from the change in reliefs.

Increase the DIRT rate back to the life assurance exit tax rate of 41%

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%.

Following Budget 2017, the DIRT rate has been reduced by 2% annually to 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, rather invest such funds in unit linked funds to earn a better return.

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. The anomalous position should be rectified by increasing the DIRT rate to 41%, to match the life assurance exit tax 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%.