Brokers Ireland Pre Budget 2025 Submission

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Executive Summary

Our pre-Budget 2025 submission makes the following recommendations:

- **Proposed Exit Tax Incentive Scheme for Responsible Investment Products.**
- **Remove the 1% Life Assurance Premium Levy from 1st January 2025**
- **Amend the Standard Fund Threshold system** in a number of respects:
  - increase the SFT in 2025 to at least €2,650,000, simply to maintain parity with earnings growth over the last 10 years,
  - amend the legislation to provide *automatic* annual indexation of the SFT for the future from 2026 onwards, in line with earnings growth.
  - The CET payment option for public service employees to pay CET over 20 years, be extended to private pension benefits,

    OR
  - A discount be applied to the payment of CET arising on the crystallisation of private sector DC benefits to reflect the immediate upfront payment of the tax at the point of crystallisation.
  - An Automatic Encashment Option be provided to the private sector to facilitate the automatic encashment of projected private benefits over the Threshold limit, where the sum of the value of an individual's uncrystallised DC benefits plus prior crystallised DC and DB benefits exceeds 120% of the relevant SFT

    The amount encashed under the AEO would, like a S787TA encashment by a public sector employee, not be treated as a benefit crystallization event for the purposes of the SFT system.
  - The treatment of Pensions Adjustment Orders for the purposes of the SFT be changed so that each individual is assessed for the SFT on the value of benefits they crystallise for their own benefit, whether the benefits originated from a PAO or not.
- **Link the life assurance exit tax (LAET) rate to the Capital Gains Tax rate of 33%** to ensure consistency and equality in the taxation of returns from investment in risk assets as between life assurance and collective investment funds and direct investment in such assets.

- **Review and implement a number of pensions reform proposals** which have not yet been implemented:
    - Removal of the requirement for a Certificate of Benefit Comparison in respect of transfer values paid from a scheme to a PRSA
    - The provision of a salary/service lump sum option in a PRSA in respect of funds for the portion of the PRSA assets arising from employment contributions, including a transfer value from an occupational pension scheme.
    - Allow Section 785 life cover to be provided in conjunction with a PRSA.
    - The removal of the current rigidity in PRSA charging, particularly for non-Standard PRSAs, which can act to reduce investment choice, e.g. no cash charges or performance fees.
    - Harmonization of the definition of ill health for access to a PRSA before age 60, to that used for schemes.
    - Provide the ARF option in DC schemes where a lump sum is taken under the salary/service option, for the balance of funds after the lump sum.
- **Implement the following changes allow the PRSA to replicate, as far as possible, the funding and benefit potential of the retail Master Trust for proprietary directors:**
    - Allow employers to contribute to a section 785 life assurance policy taken out by an employee, on a BIK free basis, to provide death in service cover related to that employment.
    - Allow benefits funded by a previous employer, where that employment has terminated, which have been transferred to a PRSA to be accessed in the PRSA after age 50, regardless of the current employment status of the PRSA holder.
    - Allow But Out Bond transfers to be paid to a PRSA to which employer contributions have been paid.
- **Retain current taxation of ARF balances on death.**
- **Introduce a financial incentive for older people to rent out their home, which may be too large for their current needs, by downsizing to a smaller rental property.**

Proposed Exit Tax Incentive Scheme for Responsible Investment Products

Introduction

We set out here the proposed basis for a scheme for a reduced rate of exit tax on personal unit-linked investments which are confined solely to funds complying with ESG1 criteria, as defined under Articles 8 and 9 of the Sustainable Finance Disclosure Regulation. We believe it would stimulate the greater adoption of ESG investment among the Irish public, while its fiscal cost should be modest.

Background

It is widely recognised that responsible investment has an important role to play in furthering climate change policy objectives, and in promoting broader environmental, social and governance (ESG) standards for society. The UN's adoption in 2005 of its 17 Sustainable Development Goals and associated six Principles for Responsible Investment (UNPRI) was a critical milestone along this road. Since then, almost 4,000 institutional investors and service providers have become signatories to the UNPRI.

In recent years the EU has led the way in the introduction of measures to stimulate responsible investment, and in particular investments which are consistent with the reduction of greenhouse gas emissions. In 2021 the Sustainable Finance Disclosure Regulation (SFDR) was introduced, imposing disclosure requirements of a 'comply or explain' nature on participants in investment markets. On January 1st 2023, SFDR enhanced disclosure standards came into force, which oblige investment providers to back up their claims to Article 8 or Article 9 status with specific data.

Europe has led the way in the promotion of sustainable funds. Recent research from Morningstar2 indicates that the combined size of sustainable funds in Europe is in the region of 2,300 billion euro, and this accounts for more than 80% of the global total. New funds continue to be launched, and the first quarter of 2024 saw net inflows to the sector running at an annualised rate of more than €10bn.

The insurance-linked fund sector plays a leading role in Ireland's long-term household savings market. Until recently, it was something of a laggard in European terms with respect to promoting sustainable

[1] ***Environmental, Social and Governance***

[2] ***'Global Sustainable Fund Flows – Q1 2024 in Review', Morningstar, 25-Apr-24***

investments, but the domestic life offices have worked hard to catch up. We estimate that, in the sphere of investment bond (i.e. non-pension) products, the sector currently offers 115 funds with SFDR Article 8 or Article 9 designations, out of a total number of approximately 247. So anyone wishing to follow responsible investment criteria has a good range of options to choose from.

Meanwhile, changes to the Insurance Distribution Directive (IDD) effected in August 2022 mandate that the customer's sustainability preferences be placed on the agenda of every consultation with their financial broker. Coupled with the greater range of choices on offer, the ground is now fertile for a measure to nudge investors in the direction of sustainable funds.

Proposed Scheme

Brokers Ireland would like to propose an incentive scheme for personal investments, where if they are made exclusively into funds qualifying as 'ESG' or equivalent, they would attract a reduced rate of exit tax at 25%. We propose this in tandem with the proposal that the standard exit tax rate would be reduced to 33%.

To participate in the scheme, life assurance companies would be required to offer a separate category of 'ESG' investment bond policies. The investor in an ESG policy would be permitted to select only from the set of ESG funds on offer from the provider, and switches during the life of the policy could only be made within that group. The only exception to this that we suggest is to permit the inclusion of a cash fund in the eligible mix, as investors should be allowed the option of temporarily de-risking their positions without making an encashment from the policy.

The disclosures mandatory under SFDR make the question of defining with constitutes an 'ESG' fund straightforward. We suggest that eligibility for this scheme be restricted to funds which have classifications of Article 8 or Article 9.

Costs and Benefits

The proportion of the insurance-linked fund market accounted for by taxable (i.e. non-pension) investments is quite small. For example, Brokers Ireland estimates that it accounted for just under 11% of total unit-linked annual premium income in 2021 (expressed in Annual Premium Equivalent terms). The fiscal cost of the proposed scheme, at least as far as insurance-linked products are concerned, should be correspondingly modest. If the measure stimulates some greater flows from low-yielding cash deposits into funds, it could be close to revenue neutral.

On the other hand, by stimulating greater interest from the public in responsible investment products, we would expect the scheme to help accelerate the adoption of ESG investment in the much larger pensions segment – a societal benefit which would come at no cost to the taxpayer.

Amend the Standard Fund Threshold system

The Department of Finance issued a Public Consultation document on 14th December 2023 on the Standard Fund Threshold (SFT) in relation to a *'targeted and focused examination of the current calibration of the SFT'* be carried out by the Department and report the results of the examination to the Minister for Finance by Summer 2024 for his consideration.

The original 2005 design of the SFT regime was that the SFT would increase annually in line with *" the average change in the average weekly earnings of industrial workers in all industries."*, and only those who had benefited from what would be perceived to be 'excessive' pension tax relief[3] would be subject to chargeable excess tax.

However in fact because of two reductions in the SFT level (from €5.4m to €2.3m to €2.0m) and a failure to index the SFT since 2008, the SFT limit is now catching and reducing the retirement benefits of more and more people in the private and public sectors, who would not be considered to have 'excessive' retirement benefits relative to their earnings and the need to replace at least 50% of their earnings in retirement.

For example, in the 2006 Budget speech the then Minister for Finance when introducing the €5m SFT referred to *"a fund of about €1 million is required to generate even a relatively moderate annual pension."*

Currently a €2m retirement fund in the private sector would provide at retirement a lump sum (before taxes) of €247,423[4] and a public service style pension[5] to a retiree aged 66 of just €48,259 pa. This is hardly a level of retirement benefit which has benefited from 'excessive' pension tax relief.

Employer sponsored retirement benefits are deferred remuneration. Private pensions should therefore be a function of a person's earnings at retirement, if they are to provide adequate financial provision for retirement.

If the Threshold continues to be maintained at a fixed monetary figure, as has been the case since January 2014, successive increases in earnings will push more and more people into the chargeable excess tax system, most of whom were not the original 'target market' of the system and could not be said to have benefited from 'excessive' pension tax relief.

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3 See Section G – Part IV 15.1, Budget 21006 Review of Tax Schemes, Department of February 2006 ; "the current regime ... allows an individual to create a pension fund over a very short period with a closing value well within maximum benefit limits of €100 million."

4 A public service retiree at age 66 could obtain a pension of €82,474 pa (assumed 75% accrued at 1st January 2014 and 25% accrued after that date) along with a lump sum of 3 x €82,474, i.e. €247,423, and be within the Threshold limit of €2m.

5 Open market annuity quote from a major life assurance company at 4th January 2024 in respect of a retiree aged 66 buying a pension increasing at 4% pa, with 50% spouse's death in retirement pension. 4% pa is the nominal rate of future public service salary increase assumed by the Department of Public Expenditure Actuarial Review of Public Service Occupational Pensions in Ireland, January 2024 for those who entered public service before 1st January 2013.

The Commission on Taxation and Social Welfare Report of 2022 recommended the "*the periodic benchmarking of the Standard Fund Threshold to an appropriate and fair level of estimated retirement income*." but did not recommend a particular level of retirement income for this purpose.

The mechanics of the SFT system takes back much more in taxes from retirement benefits crystallised in excess of the €2m limit by applying double taxation:

- First chargeable excess tax at 40% on the excess, which is presented as clawing back the 40% pension tax relief granted to create those excess benefits. But without the SFT system normal taxes on retirement benefits above the SFT level would be at least 48% anyway and arguably in excess of the value of tax relief granted; and
- Then taxing the residual benefits, after chargeable excess tax, again under PAYE, so that the effective tax rate on benefits taken in excess of the SFT is close to 70%, or far in excess of tax relief granted on the accumulation of the benefits. I.e. the net benefit of the excess over the SFT is:

  (1-40%) x (1 – 40% -8%) = 31.2%

The SFT system therefore acts to dissuade accumulation of benefits in excess of the SFT limit, by imposing a penal rate of tax on excess benefits, rather than its supposed objective of reclaiming pension tax relief on benefits taken in excess of the SFT limit.

The current chargeable excess tax system heavily favours public service employees with DB benefits over private sector employees with DC benefits. It is inequitable as between its application and impact on private and public sectors:

A. **Public service DB pensions are significantly undervalued for the purposes of the SFT compared to current 'mark to market' valuations of such pensions using open market current annuity rates.**

   Currently for the purposes of the SFT, public service DB pensions accrued before 1st January 2014 are valued at a fixed 20:1 multiple regardless of age, whereas DB pensions accrued since 1st January 2014 are valued at age related factors running from 30:1 at age 60 to 22:1 at age 70.

   These multiples are out of line with current 'mark to market' valuations of such pensions using current annuity rates offered by life assurance companies:

Comparison of valuation of public service pensions for SFT with current mark to market valuation

Age at retirement	Public sector DB pension accrued pre 1.1.14 valued for SFT at multiple of:	Public sector DB pension accrued post 1.1.14 valued for SFT at multiple of:	Public sector DB pension multiple based on open market indicative annuity rates[6]
60	20	30	**46**
61	20	29	**45**
62	20	28	**43**
63	20	27	**41**
64	20	27	**39**
65	20	26	**38**
66	20	25	**36**
67	20	24	**35**
68	20	24	**33**
69	20	23	**32**
70	20	22	**30**

This systematic undervaluing of public service pensions for the purposes of the SFT discriminates significantly against the vast majority of private sector employees who have private pension provision in DC format[7].

In simple terms private sector employees with DC benefits cannot secure the same actuarial *value* of retirement benefits in retirement under the SFT than their colleagues in the public sector can, because public sector DB pensions are undervalued.

B. DB pensions are allowed significant post-retirement increases outside the SFT system, which private sector DC retirees can not benefit from.

DB pension increases post-retirement are not captured by the SFT system in respect of increases which (cumulatively since the date of retirement) do not exceed the 'permitted margin' which is the higher of increases of 5% pa, CPI + 2% pa, and salary linked increases.

In effect substantial post-retirement salary and inflation linked increases in DB pensions can be provided by public service DB pensions outside the SFT, a facility which is not afforded to private sector DC funding where any additional post-retirement funding over the Threshold limit would trigger another chargeable excess tax charge when taken.

6 Based on a public service type pension with 50% spouse's death in retirement pension, both increasing in line with public service earnings assumed to be 4% pa nominal. Annuity rates as quoted by a major life assurance company on 4th January 2024.

7 Latest Pensions Authority Annual Report , 2022, shows 425,000 active members of private sector DC schemes, and only 67,000 active members of private sector funded DB schemes.

C. **Public service employees with private pension benefits can use an option in S787TA TCA 1997 to remove their private benefits from the SFT system, subject to a fixed tax charge of 42%; this facility is not provided to the private sector.**

Such a facility to encash prospective DC benefits likely to be over the SFT when taken, is **not** afforded to private sector employees.

There is no rational argument to restrict S787TA encashment option only to public service employees who hold private benefits, and exclude those in the private sector with similar benefits who risk being carried over the Threshold limit by investment growth and not fresh contributions.

D. **Public service employees who have a chargeable excess tax liability on their public service benefits can opt to pay it in interest free instalments over 20 years, with no recovery on death within the repayment period**. Again this 'easy pay' facility for the payment of chargeable excess tax is not afforded to the private sector, who must pay the tax up front in one sum with no facility for partial refund on later death within the first 20 years of retirement.

The SFT system in effect ignores the impact of a Pensions Adjustment Order (PAO) over a retiree's benefits, so that PAO benefits paid to a beneficiary of the PAO are still treated as the retiree's benefits for the purposes of the SFT and not the beneficiary's benefits.

This is inequitable because following a PAO over a retiree's benefits:

- the retiree cannot accumulate benefits up to the SFT without paying chargeable excess tax, as the benefits paid to the PAO beneficiary are still treated for the SFT as the retiree's benefits; in effect the retiree is limited to the SFT **less** the benefits paid under the PAO before chargeable excess tax applies; but
- the PAO beneficiary can accumulate and take benefits up to the SFT **plus** the benefits they received under the PAO, without paying chargeable excess tax.

Brokers Ireland therefore recommends the following amendments to the Standard Fund Threshold system, to ensure greater equity between public and private sectors in its application, and to allow reasonable provision for retirement, relative to earnings:

- increase the SFT in 2025 to at least €2,650,000, simply to maintain parity with earnings growth over the last 10 years,

- amend the legislation to provide *automatic* annual indexation of the SFT for the future from 2026 onwards, in line with earnings growth.
- The CET payment option in S787Q(8) TCA 1997 for public service employees to pay CET over 20 years, be extended to private pension benefits so that a chargeable excess tax liability arising on such benefits could be paid over 20 years in instalments by deduction from gross private sector pension or ARF/vested PRSA distributions in retirement, with no interest added and no recovery of outstanding instalments on death within the 20 year period,

  OR

  A discount, e.g. a lower CET rate, be applied to the payment of CET arising on the crystallisation of private sector DC benefits to reflect the immediate upfront payment of the tax at the point of crystallisation, with no subsequent recovery on death, as compared with the phased repayment of CET on public service benefits over 20 years with no interest added and outstanding instalments written off on death within the 20 year period.

- The S787TA encashment option, which is currently only available to public service employees and allows them cash out private pension benefits outside the SFT, be extended to private sector employees in the form of an Automatic Encashment Option (AEO),as follows:
  - It would apply to holders of uncrystallised DC benefits only
  - Where the sum of the value of an individual's uncrystallised DC benefits plus prior crystallised DC and DB benefits exceeds 120% of the relevant SFT on a valuation date (30th November), that individual would be required to:
    - take an encashment from their DC benefits within 30 days of the valuation date of 100% of the excess of the value of their DC benefits over the SFT, subject to deduction of income tax (no USC or PRSI) under Schedule D Case IV at the same rate as applied to encashments under S787TA, currently 40%. The tax would be a ring-fenced tax charge, with the net amount paid to the individual, and
    - make a self-assessment return to Revenue of the details of the excess, the encashment made and the tax deducted from the encashment.

  An amount encashed under the AEO would **not** be treated as a benefit crystallization event for the purposes of the SFT system, following the approach adopted in S787TA TCA 1997 for public sector employees encashing private pension benefits over the SFT (after allowing for their public service benefits).

- The treatment of Pensions Adjustment Orders for the purposes of the SFT be changed so that each individual is assessed for the SFT on the value of benefits they crystallise for their own benefit, whether the benefits originated from a PAO or not.

Remove the 1% levy on life assurance premiums

Life assurance protection, savings and investment policies, other than pension policies are, under S125B Stamp Duty Consolidated Act 1999, subject to a 1% Stamp Duty which is deducted by the life assurance company prior to investment, i.e. only 99% of the amount is invested in a savings and investment policy.

The levy was, on its introduction in April 2009, intended to be 'temporary'; it should now be revisited. The Tax Strategy Group Paper on Stamp Duty, September 2020, stated in 5.7 in regard to this levy:

> *"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."*

The continuation of the levy distorts the personal investment market given that it does not apply to corresponding investments in deposits, domestic or offshore collective investment funds.

As the Government financing crisis of 2009 has now long since receded, there is no rational reason to continue to apply a 1% tax on savings and investments made through life assurance policies only, when no such tax is levied on investment in deposits, domestic or offshore collective investment funds.

In accordance with the Commission on Taxation and Welfare Report of 2022 Recommendation 6.6 in relation to "*changes to the taxation of funds, life assurance policies and other investment products with the goals of simplification and harmonisation where possible",*

Brokers Ireland therefore calls for the removal of the 1% Stamp Duty Levy on life assurance premiums from 1st January 2025 for the following reasons.

- 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% over what they would otherwise pay.
- It amounts to a 1% confiscation of savings and investments made only through life assurance policies. It distorts the domestic savings and investment market by not applying to deposits, direct investment in property, stock and shares, or collective investment funds. There is no logical reason to apply a 1% tax through savings and investments structured using a life assurance policy and not on identical savings and investments made through other collective investment structures.
- Unlike the general insurance levy, the levy on life assurance premiums was not introduced to pay off deficits in life assurance companies. No life assurance company has failed. So why is there a 1% 'levy' on life assurance premiums?
- It compounds the inequity of the exit tax rate of 41% applying to realised gains on life assurance savings and investment policies, as opposed to a 33% Capital Gains Tax rate applying to direct

investment. Savers and investors in life assurance policies are hit twice, once with a 1% tax on investment and then again with a higher tax rate on gains. The 1% levy therefore distorts the savings and investment markets.

Link the life assurance exit tax (LAET) rate to Capital Gains Tax rate

Individuals investing in life assurance policies and domestic collective investment funds, established since 2001, are subject to an exit tax of 41% on realised gains (including those arsing on death), or earlier on every 8th anniversary of the investment.

In 2023 the Exchequer collected some €231m from LAET, down slightly from €233m in 2022.[8]

The life assurance exit tax (LAET) rate has increased significantly since the inception of the 'gross roll up regime' for life assurance policies and domestic collective investment funds in 2001:

Period Rate Applied	CGT rate %	Standard DIRT Rate %	LAET Rate %
01 Jan 2002- 31 Dec 2008	20	20	23
01 Jan 2009 – 07 Apr 2009	22	23	26
08 Apr 2009- 31 Dec 2010	25	25	28
01 Jan 2011 – 31 Dec 2011	25	27	30
01 Jan 2012 – 31 Dec 2012	30	30	33
01 Jan 2013 – 31 Dec 2013	30	33	36
01 Jan 2014 – 31 Dec 2016	33	41	41
01 Jan 2017 – 31 Dec 2017	33	39	41
01 Jan 2018 – 31 Dec 2018	33	37	41
01 Jan 2019 – 31 Dec 2019	33	35	41
01 Jan 2020 – Present	33	33	41

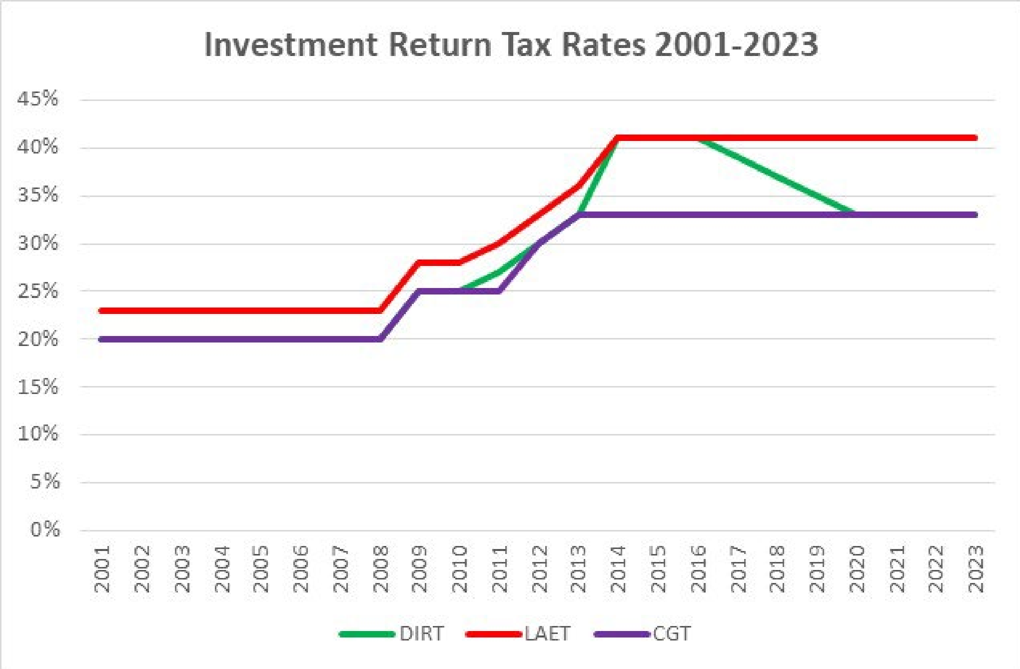
Source: Tax Strategy Group Paper 23/10, Capital Taxes and Stamp Duty, July 2023

The LAET 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. 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 was reduced in 2% annual steps to the CGT rate of 33% by 2020, but the exit tax rate has remained at 41%.

While all rates increased since 2002, the relative position of the LAET rate has disimproved from +3% on DIRT and CGT rates in 2002, to +8% currently:

[8] Table 2, Revenue Commissioners Annual Report 2023



The original rationale for the + 3% addition to the CGT rate for the LAET rate in 2001 was that payment of the 20% tax (the then CGT and DIRT rates) on gains within life assurance policies would be delayed within, given that investment returns accumulate tax free up to a maximum of 8 years.

Tax Strategy Group Paper 22/09 from July 2022 stated:

> *"despite the higher (than CGT) headline rate for LAET, with certain reasonable assumptions regarding different rates of return the result at the end of an 8 year period was a lower tax payment for the life assurance product, due to compounding interest over the 8 years before the tax was imposed."*

But the Tax Strategy Group Paper 22/09 failed to outline the investment return, the investment term, or other assumptions which justified the conclusion above of '*a lower tax payment for the life assurance product, due to compounding interest over the 8 years before the tax was imposed.'*

This argument is flawed as if an investor invested directly in risk assets, e.g. shares, no CGT arises anyway until the shares are disposed which could be longer than the 8 year deemed encashment triggering a LAET deduction from the investment.

A fuller comparison between a personal investor investing directly in risk assets subject to CGT (and paying income tax on investment income), and in a life assurance investment policy subject to LAET is set out below:

Taxation of investment returns from risk assets

	DIRECT INVESTMENT SUBJECT TO CGT	INVESTMENT IN LIFE ASSURANCE POLICIES SUBJECT TO LAET
Tax on realized gains	33%	41%, on encashment and every 8 years
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 realized 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. Unrealised gains to the date of death are subject to LAET.
Income returns	Income tax and USC at marginal rate; PRSI up to taking of State Pension (max 70) 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.

It can be seen that direct investors in risk assets benefit from indefinite gross roll up for as long as they retain the assets , and full gross roll up applies if assets are held to death.

With an LAET rate of 41% versus a CGT rate of 33%, the life assurance policy can never provide a lower tax payment in cash terms in respect of a similar realised gain, regardless of when it occurs. Indeed, with investment growth the exit tax payable after 8 years in cash terms will be higher than the CGT that would have been paid at the time of crystallising the gain on a direct investment.

Take **a simple example of a €1,000 gain realised at the end of year 4 of an 8 year investment period:**

- with direct investment, CGT of 33% of €330 is payable immediately leaving a net gain at the end of year 4 of €670. Let us assume that this €670 net amount can then be reinvested for the next 4 years, to the end of the 8 year period, at 3% pa return, another gain of €84 is realised after 8 years, incurring a further CGT charge of €28.

  So that at the end of 8 years, with the direct investor the total CGT paid over the period has been €358, and the investor has a net amount of €726 left after taxes at the end of the 8th year.

- However, in the life policy, the €1,000 gain realised after 4 years is maintained within the policy fund and with assumed further investment growth of 3% pa for the next 4 years, will have accumulated to €1,125 after 8 years. **By investing through a life policy, the total exit tax charge of 41% will be €461 and the net amount of the gain for the investor will be €664.**

The comparison above does not take account of other favourable aspects of direct investment:

- The use of the annual CGT exemption of €1,270. In the example above it would have wiped out the chargeable gain.
- The ability to offset losses on other direct investments gain the realised gain.
- The 1% life assurance premium levy does not apply to direct investments.

It is therefore hard to rationalise the statement in Tax Strategy Group Paper 22/07 that '*with certain reasonable assumptions regarding different rates of return the result at the end of an 8 year period was a lower tax payment for the life assurance product, due to compounding interest over the 8 years before the tax was imposed."*

In accordance with the Commission on Taxation and Welfare Report of 2022 Recommendation 6.6 in relation to "*changes to the taxation of funds, life assurance policies and other investment products with the goals of simplification and harmonisation where possible"* Brokers Ireland calls for the life assurance exit tax (LAET) rates applied to life assurance savings and investment policies to be the same as the CGT rate, i.e. currently 33%.

Implement outstanding pensions reform proposals

A number of pensions reform proposals set out in the Report of the Interdepartmental Pensions Reform & Taxation Group (IDPRTG), 2020 have, four years later, still not been progressed and implemented, including:

- Review of the requirement for a Certificate of Benefit Comparison in respect of transfer values paid from a scheme to a PRSA, "*in particular in relation to transfers to PRSAs from DC arrangements, and make recommendations to the Department of Social Protection for legislative change where necessary.*"

  See IDPRTG Report, 3.41

  There is no consumer protection benefit in maintaining the COBC, particularly for DC scheme transfers to a PRSA, given the reason why provisions of the Consumer Protection Code, and the fact that no initial charge can be imposed by a PRSA contract on the receipt of a transfer from a scheme.

- The provision of a salary/service lump sum option in a PRSA in respect of funds for the portion of the PRSA assets arising from employment contributions, including a transfer value from an occupational pension scheme.

  See IDPRTG Report, 3.40.

  The lack of this lump sum option can in some cases act as a barrier to the transfer of funds from a scheme to a PRSA, as the 25% lump sum in the PRSA may be significantly lower than the salary/service lump sum in a scheme.

- Allow Section 785 life cover to be provided in conjunction with a PRSA.

  See IDPRTG Report, 3.42

- The removal of the current rigidity in PRSA charging, particularly for non-Standard PRSAs, which can act to reduce investment choice, e.g. no cash charges or performance fees.

  See IDPRTG Report, 3.51

- Harmonization of the definition of ill health for access to a PRSA before age 60, to that used for schemes. See IDPRTG Report, 3.60 : *"occupational schemes/BOBs are more flexible with respect to early access on the grounds of ill-health."*

  Currently PRSA holders who fall ill before age 60 are disadvantaged in terms of accessing their retirement fund by being required to be *'<u>permanently</u> incapable through infirmity of mind or body of carrying on his or her own occupation or any occupation of a similar nature for which he or she is trained or fitted.'*

This is a more onerous requirement to access retirement benefits before age 60 than is allowed in an occupational pension scheme, where the current Revenue practice definition of ill health is*: 'physical or mental deterioration which is serious enough to prevent the individual from following her/his normal employment or which seriously impairs her/his earning capacity.'*

- Provide the ARF option in DC schemes where a lump sum is taken under the salary/service option, for the balance of funds after the lump sum.

  See IDPRTG 3.65*:" The mandatory requirement to purchase an annuity having taken a lump sum based on the salary and service methodology should be abolished*."

Brokers Ireland calls for the acceleration of the pensions reform proposals outlined above, to facilitate greater consumer choice and more flexibility.

Implement other pension changes

Brokers Ireland also calls for the implementation of the following changes allow the PRSA to replicate, as far as possible, the funding and benefit potential of the retail Master Trust for proprietary directors:

- Allow employer to contribute to a s785 life assurance policy taken out by an employee, on a BIK free basis, to provide death in service cover related to that employment.
- Allow benefits funded by a previous employer, where that employment has terminated, which have been transferred to a PRSA to be accessed after age 50, regardless of the current employment status of the PRSA holder.
- Allow But Out Bond transfers to be paid to a PRSA to which employer contributions have been paid.

Retain current taxation of ARF distributions on death

It has been proposed in Pensions Reform proposals to double tax ARF inheritances on death, i.e.:

- First subject the ARF balance to PAYE as income of the deceased in the year of death; and
- Then apply the current taxation of post death ARF inheritances from the net balance above, e.g., when inherited by adult child a flat rate of 30% tax be applied to the net balance.

The net effect could be a total effective tax rate of approximately 64% on ARF balances inherited by adult children of the deceased. This is a penal rate of tax way in excess of the rate of pension tax relief originally granted on contributions which created the ARF in the first place.

Such a penal rate of tax on ARF balance on death will further encourage transfers of accumulated funds prior to mature to Malta and other overseas jurisdictions, where on death the balance of the overseas fund would not be taxed in the double tax manner proposed for Irish ARF balances.

Brokers Ireland therefore urge the retention of the current one 30% flat tax rate on ARF inheritances taken by adult children of the deceased, or if additional taxes are to be imposed then the flat rate be linked to the CGT rate of 33%.

Downsizing incentive

Many older people who own their own homes may live in a property which is too large for their current needs, particularly where children have moved out to set up their own home. E.g. living in a 4 bedroom house where they only use one bedroom.

However, they may naturally be reluctant to sell their current home and buy a smaller property, but they may be interested in renting a smaller property to downsize to, if they can let out their own home at a higher rental level.

One way to incentivize such people to rent out their current home and move to a new smaller rental property would be to allow, for income tax purposes, the rent paid on the new smaller property to be offset against the rental income they receive by renting out their own home, so that they only pay tax on the difference in rental levels.

Brokers Ireland therefore urges the introduction of a rental offset scheme for income tax purposes to encourage those with large homes to rent them out and move to a small rental property, more suited to their needs.