# Commission on Taxation

Submission from ACCA

23rd May 2008

**About ACCA**

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 122,000 members and 325,000 students throughout their careers, providing services through a network of 80 offices and centres. Our global infrastructure means that exams and support are delivered – and reputation and influence developed – at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities. Our focus is on professional values, ethics, and governance, and we deliver value-added services through 50 global accountancy partnerships, working closely with multinational and small entities to promote global standards and support. In Ireland, our 18,500 students, affiliates and members are supported through the ACCA Ireland office based in Leeson Park, Dublin 6.

We use our expertise and experience to work with governments, donor agencies and professional bodies to develop the global accountancy profession and to advance the public interest.

Our reputation is grounded in over 100 years of providing world-class accounting and finance qualifications. We champion opportunity, diversity and integrity, and our long traditions are complemented by modern thinking, backed by a diverse, global membership. By promoting our global standards, and supporting our members wherever they work, we aim to meet the current and future needs of international business.

# Executive Summary

ACCA welcomes the opportunity to comment on this very important consultation. Through our membership of the Consultative Committee of Accountancy Bodies - Ireland, (CCAB-I) we have already made a contribution to the CCAB-I submission made under separate cover to the Commission on Taxation.

For timing reasons, we have chosen to make a supplemental ACCA submission to the CCAB-I submission with short suggestions on two important issues: pension provision and provisions to release "dead" wealth back into the working economy.

**Pension provision**

ACCA believes that the State should introduce an SSIA-style pension with the flexibility to draw down some of the funds prior to retirement in the event of hardship caused by a medical condition or unemployment. In our suggestion, there would be a stepped state matching mechanism to encourage the lower paid to contribute, with matching funding only available up to a certain level.

**Freeing dead capital to grow the working economy**

We are suggesting reform of Capital Acquisition Tax (CAT) and Stamp Duty to encourage the circularisation of capital currently tied up in non-productive capital assets. It is currently more tax efficient to pass assets to children on death. We believe that reducing the CAT and stamp duty burden will encourage earlier release of these assets. We are also suggesting that consideration be given to allow tax payers to discharge their CAT liabilities by paying for public works such as the building or renovating of libraries, parks, schools and museums.

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## PENSION PROVISION

### "Consider how best the tax system can encourage long term savings to meet the needs of retirement"

ACCA is suggesting that a totally new pension funding arrangement be introduced for all employees not offered a defined benefit pension, and for the self-employed. The scheme would have the following characterises:

- SSIA-style pension with 50% state matching of private contributions up to a contribution limit of €400 per month (i.e. approximately 15% of the average industrial wage, where 15% was also historically the funding rate for many 2/3 final salary pensions), 30% matching on a further €600 a month and no state matching on amounts in excess of €1,000 a month.
    - The higher percentage at lower contributions is to encourage the lower paid to make contributions
    - 30% is considered a sufficient incentive for higher paid taxpayers to fund a pension, especially when combined with the flexible drawdown facility.
- As the relief will no longer be given through the tax system, the Government will benefit to the amount of PRSI relief not given on pension contributions. (for most taxpayers, this will amount to 17.25%) and PAYE at the marginal rate of 20 or 41%. For higher paid individuals, 50% state matching will actually be net revenue positive to the State, compared to the existing system.
- Allow drawdown of a certain percentage of the pension prior to reaching retirement age in predefined circumstances, such as a long period of unemployment, incapacity etc
    - The state's share of the contributions would be clawed back in these circumstances. The state will benefit in terms of the return of the state's share earlier than it would be if the state had to wait to retirement and receive just the tax on a retirement annuity income or pension drawdown. For this reason, we would not support any additional exit tax as this may discourage uptake and the loss of the state's share of the funds should act as sufficient disincentive to early encashment in anything other than exceptional need.
    - For early encashment, we would envisage that up to 75% of the funds could be made available with a simple application procedure to a local taxation office, accompanied by a medical certificate or proof of unemployment in excess of a certain number of weeks. The financial institution would be responsible for refunding the state contribution in the even of a drawdown. We would allow local taxation offices some discretion for special circumstances such as medical costs for a child or death of a spouse, rather than being overly prescriptive.

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- On retirement, allow total flexibility in the use of the funds and apply the standard rate of tax of 20% on drawdowns post retirement. No further liability to tax should arise on the drawdown of funds in retirement. This is justified on the basis of the relief allowed on entry being limited to contributions of €1,000 per month, with the gross roll up of income being the only loss to the exchequer.

- Do not require the purchase of an annuity. A mandatory drawdown similar to the current small self-administered schemes could be imposed where there was risk of substantial revenue loss to the State.

- Open the scheme to self-employed and employees. Do not limit the types of investments that the life insurance company can offer to customers through their funds and allow geared funds where there is no recourse in the event of capital loss.

- Remove the expectation that the state will pay a "comfortable" pension in the future by renaming the state pension as "Senior Subsistence Allowance". In any event, this is a better description of the current state pension.

- Peg the Senior Subsistence Allowance to 30% of the average industrial wage. We believe that there should be a safety net but that this safety net should be just that and amount to no more than subsistence allowance.

- We also suggest that the Senior Subsistence allowance be means tested but that that the cut off be reasonably generous so as not to discourage private provision of a pension. In addition, any loss of pension as a result of means testing should be tapered.

- The state provides a very generous pension to state employees. This is a very good staff recruitment and retention policy and in principal we would not object to the continuation of this scheme. However, in the interests of transparency and given the quantum of the benefit given, the current service cost, calculated in accordance with IAS 19 or FRS 17 should be published and included in Government expenditure figures as a "pension costs deferred".

- The mandatory retirement age should be abolished and allow people retire when ever they wish after reaching age 60, or lower in the event of incapacity.

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## FREEING DEAD CAPITAL TO GROW THE WORKING ECONOMY

**"Examine the balance achieved between taxes collected on income, capital and spending"**

Where there is discretion on the part of a taxpayer on the triggering of a taxation liability from an economic transaction, the incentive is to delay that transaction or to postpone it until the tax payable will be lower. Where the taxation cost is minimal, the transaction will go ahead. At present, it is more beneficial to pass assets to your children on death rather than during your life time. Pension assets in particular can be passed very tax efficiently on death. If the taxation costs of these transactions were reduced during the taxpayer's life time, the transaction would happen earlier, and the, albeit lower, taxation revenue would also be received earlier. The transaction may also happen more often if the taxation were reduced. The reduction in capital gains taxation resulting in an increased tax-take in an example of this. Our suggestions are as follows:

- Stamp duty should be aligned to the UK rates of 2% and 4% on residential property for investors and owner-occupiers. The reduction may even be revenue positive as was the case with Capital Gains Tax.

- The stamp duty on share transfers should also be aligned with the UK and cut from 1% to ½%.

- Capital Acquisition Tax (CAT) on gifts to be reduced from 75% of the inheritance rate to 25% of the inheritance rate to free up non-working assets and to accelerate the collection of tax. A gift from a parent early in life could be of great assistance to, for example, building a business and if it became widely used may stimulate economic activity and growth. Any Capital Gains Tax liability on the disposal should be rolled over and not become payable until the asset is on-sold by the recipient.

- As a further encouragement to free up non-working assets, allow CAT liabilities arising from gifts to be paid in the form of social works. So, for example, a CAT liability of €500,000 arising from passing the family business or property to a son or daughter could be discharged by spending this amount renovating the local school or building a public library or park.