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9th June 2009

Mr Jim Kelly,
Secretary,
Commission on Taxation,
Le Pole House,
Great Ship Street,
Dublin 8.

Dear Mr Kelly,

Taxation of Pensions and Tax Relief on Pension Contributions

I am writing to emphasise the importance of some of the points made in our previous submission to the Commission and at the hearing we attended, in relation to tax relief on pensions contributions, in the light of recent legislation and continuing speculation as to the future of marginal rate relief.

As you will be aware, the recent Finance Act, following on from the supplementary budget, introduced a 1% levy on all premium income of life assurers, including pension contributions. The members of the IIF unanimously consider that applying a levy to pensions contributions is a retrograde step, not least because it is in direct contradiction of settled Government policy on incentivising private pension provision through the provision of tax reliefs. However, although no amendment was made to the relevant section of the Finance Act before its adoption, the Minister for Finance did indicate in the Dáil that he is amenable to further discussions with the industry to address this and other concerns we have about the levy. In fact discussions have already commenced with the Department of Finance and we are optimistic that a long-term solution will be found which will avoid the application of any levy to pensions. In this context, we would urge the Commission, in its forthcoming report, to support exclusion of occupational pensions from any levy on contributions.

We are also concerned at continuing political and media speculation as to the likelihood of abolition of marginal rate relief and at the continuing misperception that that the existing incentives are skewed in favour of high earners. We do not believe that this is the case and we are firmly of the view that the existing system of providing tax relief at the marginal rate should be retained. Any restriction on tax relief on pensions could have a significant negative impact on pensions take-up and would reduce the availability of adequate retirement income, contrary to the interests of workers and of the State itself.

The current system is not inequitable because:

- It provides for taxation to be deferred, not foregone – although tax relief is available on contributions, pensions in payment are fully chargeable to tax at the taxpayer's marginal rate under PAYE. Any further restriction on the tax relief on

- contributions while benefits continue to be taxed at the marginal rate would be inequitable;
- The objective of limiting the potential benefits of marginal rate tax relief to very high earners has already been largely achieved by the fund limit and earnings cap which have been introduced, and in particular the reduction in the earnings cap to €150,000 *p.a.*;
 - The main beneficiaries of tax reliefs are not very high earners but rather middle income earners who obtain tax relief at the marginal rate but may pay tax on their pensions at the basic rate when the income is realised;
 - A restriction on tax relief would make pension savings less attractive relative to other investments, which also benefit from fund gross roll-up, with only investment gains subject to tax on exit. Whilst such investments can of course be used for retirement saving, there are no restrictions on encashment and there is therefore no guarantee that contributions made will ultimately be used to provide a regular income in retirement.

Our members are firmly of the view that any decision to restrict tax relief to the standard rate will have the effect of reducing the amount that individuals contribute to their own retirement income. This is at a time when pension funds have lost a considerable proportion of their value and where workers should be seeking to – and be encouraged to – increase contributions in order to maintain benefits. This will simply not happen if current tax reliefs are restricted. We have continuously in the past raised concerns about serious inadequacies in funding for pensions. In 2007, our research on the savings gap showed a total shortfall of €7.4 billion per annum, i.e. in excess of €3,700 per annum per worker. With the significant falls in asset values since then, these figures have undoubtedly deteriorated further.

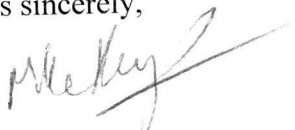
We also believe that a restriction on tax relief would have a disproportionate effect on the private sector. Public sector benefits are guaranteed, whereas in the private sector, where the majority of pension contributors are in defined contribution schemes of one type or another, the level of tax relief affects the level of contributions which will itself directly impact on the fund available to provide benefits in retirement.

For all these reasons, we are anxious that the existing system of fiscal incentives for private pension provision at the marginal rate should be retained and we would strongly urge the Commission to reflect this point of view in its report.

We have expressed similar views recently in correspondence and meetings with the Minister for Social and Family Affairs and the Minister for Finance.

Appreciating that the Commission's report is in the final stages of preparation, we are nevertheless available for further elaboration of our views and/or to provide any necessary back up. Please let me know if the Commission needs any additional material or would like to discuss any aspect of these issues with us.

Yours sincerely,



MICHAEL KEMP
Chief Executive