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Mr Paschal Donohoe T.D.
Minister for Finance, Public Expenditure and Reform
Departments of Finance and Public Expenditure and Reform
Merrion Street
Dublin 2

18 September 2017

Taxation of Investment Products

Dear Minister,

On behalf of the Irish Association of Investment Managers, I would like to offer the views of our members to inform your consideration of changes to the taxation of investment products. This matter has been considered by the Department of Finance Tax Strategy Group and options and costings included in the published paper TSG 17/11 Capital & Savings Taxes.

Context

As provided for in the Finance Act 2016, the rate of Deposit Interest Retention Tax will be reduced progressively between 2016 and 2020 from 41% to 33%, making it equal to the rate of Capital Gains Tax applicable to property and/or equity gains. However, as stated by the then Minister during the Committee Stage of the 2016 Act, this change will not, at least initially, be matched by a reduction in the rate of Exit Tax charged on investments, including life policies. The primary reason for this decision was cited as cost: as deposit interest rates were extremely low, the cost of a reduction in DIRT was considerably less than a corresponding change in the rate of Exit Tax.

The two most significant aspects of Exit Tax are Life Assurance Exit Tax (LAET) and Investment Fund Exit Tax (IFET). As indicated by the Tax Strategy Group, the expected take in 2017 from LAET is €238m and while IFET is not projected, if it increases in line with LAET as it has historically, it is likely to be c. €40m. A reduction of 2% in the rate of Exit Tax is estimated by the Tax Strategy Group to have an impact of €14m per annum, though this does not account for substitution effects. A further levy of 1% is imposed on contributions to life policies.

It is the Association's view that the 1% life levy should not be continued, and that parity should be restored and committed to on an ongoing basis between DIRT and Exit Tax.

Parity Between Deposits and Investments

The equality of tax treatment of deposits and investments has existed for almost 20 years and is logical. The objective of life insurance and investment fund products is to ensure that savers can provide for their financial well-being into the future. At different stages of people's lives, different approaches to risk and reward are appropriate, but diversification remains at the heart of a sound savings portfolio.

Both deposits and different types of investment products play a key role in allowing savers to achieve their goals. For most savers, investment products do not represent a desire to speculate but rather to receive a reasonable return that will safeguard the value of their savings. To achieve this, a mix of deposit and investment products is usually the best course. Investment products also provide access to professional portfolio management and other benefits compared to direct investment in equities.

These considerations apply regardless of the size of the savings. In fact, due to the outlay required for a diversified direct equity portfolio or property investments (which are currently subject to the 33% CGT regime) smaller savers tend to find investment funds and life insurance investments considerably more accessible.

Fairness and cost

The Association believes that in the long-term it is clearly appropriate that different forms of saving and investment are treated equally and fairly by the State. A difference of 8% between equally appropriate and socially useful approaches to saving would unfairly punish savers for adopting a diversified approach, and send the wrong message that deposits are preferable in all cases.

Thank you for your consideration of this matter, and the Association is of course available should it be able to provide any further information.

Yours sincerely,

Brendan Bruen
CEO
Irish Association of Investment Managers