



PENSION TAXATION

The challenges in budget 2013

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History

	€m	Full Year Savings €m
Programme for Government – Targeted savings from Pensions		940
Savings to date		<u>527</u>
Gap		413
Levy	900+	



Options

Ongoing

- Leave as is
- Memorandum of Understanding – Reduce tax relief to Standard rate relief
- Programme for Government – Cap tax incentivised pensions at €60k per annum

Once-off

- Early access to AVCs

* Also investment in Infrastructure – but this is more linked to Levy alternatives



IAPF position

We need a pension system that is:

- Sustainable
- Fair
- Provides an incentive to save for retirement
- Easy to understand



Early Access to AVCs

Likely tax generated of c€100m

- Positive impact of money being released into the economy
 - Significant amounts would most likely go towards repairing bank balance sheets



Reduction in tax relief

- Saves c. €375m per annum (net of expected leakage)
 - Impacts c. 555,000 taxpayers earning > €35k p.a.
 - Disproportionate impact on public sector due to operation of PRD
- Negative impact on jobs and the economy
 - On average reduces take home pay/disposable income by €830 per person
 - Reduces capacity for spending in the economy
- Inflicts severe damage on private pension provision
 - Saving for retirement makes no sense for those earning > €40k p.a.
- Simple to implement and communicate



Reduce the cap to a pension of €60k

Impact

- Saves c. €380m each budgetary year going forward (starting with €231m in 2013)
- Impacts c. 27,000 taxpayers (primarily private sector) earning > €125k p.a.

How

- Implemented by reduction in Standard Fund Threshold from €2.3m to €2m with 30:1 factor
- Addresses DC concerns due to fairer 30:1 factor and net tax impact

**Protects coverage and adequacy of private pensions
& simple to implement and communicate**



Summary

Preferred approach is to leave as is.

If they have to do something the €60k cap is the “least worst option”

- Less people impacted
- Retains the incentive to save for the majority
- Does not take money out of the economy

Retain a system that is sustainable, fair and provides an incentive to save.