

Current Tax System Fundamental to Long Term Sustainability



APF has warned that the Government could destroy Irish private pension provision if it were to reduce tax relief. In a briefing paper issued in advance of the supplementary Budget the IAPF says that a reduction in relief on pension contributions to the standard rate would attack hardest not the "super wealthy" but 800,000 ordinary members of occupational pension schemes.

The €3 billion which has been referred to as the estimated "cost" to the State of providing pensions relief is out of date, says that paper, and includes both double counting and invalid assumptions. The maximum the Government could raise by adjusting the system of tax relief is in the region of €300 million. It points out that the Irish pension system is one of tax deferral not tax foregone and that in 2006 the State collected €320m in tax from pensions in payment and that this contribution is expected to rise as more

people reach retirement.

"Members of defined contribution schemes are already reeling from pension fund losses of over 30% in the last year, says Chairman Patrick Burke. "Capping income tax relief to employees at the standard rate would largely destroy any incentive to save for retirement. Research shows that those most affected would not be the wealthy but lower to middle income workers on salaries from €40,000."*

The greatest "cost" of tax relief is the relief granted on investment incomes and gains, say Mr Burke. "It is clear however that no revenue could be raised from this in the current investment environment. Having to account for this could increase the deficits in defined benefit schemes by €20 billion and seriously threaten the pension of every existing private sector defined benefit member at a time when the survival of these schemes is already under severe strain."

Mr Burke added that a sting in the tail in the reduction of pension relief to the standard rate would be to increase the cost of the pensions levy to public sector workers by an average of 35%.

"In view of the current state of the country's finances, we understand the Government's need to explore all opportunities for additional short finance. Any aspects of the system that turn legitimate pension arrangements into wealth accumulation or inheritance planning vehicles should be viewed as an abuse of the purpose of tax relief and should be reviewed by the Commission on Taxation." ©

» "An analysis of certain tax aspects of the Irish system of pension provision", published by Life Strategies, May 2008. Available at: <http://www.iapf.ie/InformationLibrary/ResearchReports/PubTitle,1648,en.html>