

4 November, 2016

Standard Life calls on Minister Noonan to reverse unfair tax treatment of hard pressed savers in Finance Act

Standard Life has written to the Minister to request fair treatment for all savers, not just the privileged few as a result of the recent 2016 Finance Bill. This Bill announced a reduction in the DIRT rate from 41% to 39% with further 2% annual reductions to reach 33% by 2020 but failed to announce an equal reduction in exit tax that applies to smaller and ordinary life assurance savers.

“The Minister and his government cannot want to unfairly penalise people prudently saving for a home, their children’s education, a rainy day or other life necessities,” said Jennifer Richards, Head of Standard Life Ireland. “Especially when it’s their stated policy to: “encourage saving and improve the return to the small saver,” she said.

Standard Life, Insurance Ireland, The Professional Insurance Brokers Association PIBA and The Irish Association of Investment Managers call on the Minister to rectify this oversight by actioning the following :

- **Exit tax urgently needs a matching reduction from 41% to 39% with a corresponding 2% annual reduction to bring it to 33% by 2020.** This would avoid penalising mostly small to medium sized savers who diligently try to secure a better life for themselves and their families without being a burden on the state.
- **The 1% ‘austerity’ levy introduced on life assurance investment policies dating from 2009 needs to be abolished immediately** to provide fairer and better investment choices for all savers. It’s an outdated penal tax imposed as an austerity measure post the 2008 crash that has no place in a strongly recovering economy. It discriminates unfairly against prudent long term savers and its abolition is long overdue.

Why Exit Tax needs to be reduced in line with DIRT reductions and 1% levy should be removed:

- Many hard working and responsible people have to invest in funds (e.g life assurance investment policies) that can take more risk as traditional deposits pay close to zero and cannot be relied upon to produce sufficient growth to secure the deposit required for people’s first home, their children’s education, a rainy day fund etc. in a realistic timeframe.
- Life companies service a broad range of Irish savers - the majority, small to medium.
- **N.B.** There is a long established history of Exit tax and DIRT rates being identical for savers that must be maintained. (See table below.) The wisdom of this tradition is its promotion of optimal saver/investor behaviour as choices are based on the underlying investment’s merits (i.e their potential returns vs risks) and not preferential tax treatment. Exit tax needs to be reduced to 39% and track DIRT tax exactly to ensure all savers are treated equitably.
- Capital gains tax at 33% is applicable to investors in direct equities and property. People who own individual equities and property tend to be higher net worth investors and stockbroker type clients. Is it fair they don’t pay a 1% levy while smaller savers saving into better diversified investment funds do? Why do they pay 20% less tax on investment gains vs smaller investors i.e. 33% vs 41%?
- Judicious legislation should not steer individual towards tax – driven investments, the underlying investment itself needs to be appropriate and should be the driver. Structured products with a track record of significantly higher charges and unimpressive returns should not benefit from disproportionately favourable tax treatment i.e. DIRT at 39%.

- It is the government's stated policy to encourage saving and improve the return to the small saver. However, this levy does the opposite. It creates a two tier system where wealthier savers can access stockbroker structured products (levy exempt) and bank customers are encouraged to save into very low yielding deposits (levy exempt) whilst discriminating against ordinary life company savers seeking better long term returns - who are penalised.

"Savings are a necessity not a luxury that provide highly sought after peace of mind for many," said Richards. "We believe Minister Noonan and his government will want to rectify this iniquity and be seen to be extremely fair to all savers, not just the privileged few."

Ends

Notes for Editors

Exit Tax and DIRT rates for individual savers

	Exit Tax	*DIRT
01/01/2002 to 31/12/2008	23%	23%
01/01/2009 to 07/04/2009	26%	26%
08/04/2009 to 31/12/2010	28%	28%
01/01/2011 to 31/12/2011	30%	30%
01/01/2012 to 31/12/2012	33%	33%
01/01/2013 to 31/12/2013	36%	36%
01/01/2014 to present	41%	41%
2016/17 Budget	41%	39% reducing to 33% by 2020

Source: Revenue.ie

* This D.I.R.T. rate is applied to interest earned on certain deposit products such as capital guaranteed investments, tracker/structured deposits. It's applied when interest can't be calculated annually/or more frequently and can't be determined until paid. It's accepted as the most accurate DIRT rate for comparison purposes with exit tax.

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