Submission on Supplementary Pensions Reform

October 2018

Introduction

Dublin Chamber is pleased to make this submission to the Department of Finance in respect of the Interdepartmental Pensions Reform & Taxation Group Consultation Paper,[1] and thanks Department officials for their ongoing regard for business concerns. As the representative body for businesses in the Greater Dublin Area, Dublin Chamber is the largest Chamber of Commerce in Ireland.

The Chamber's cross-sectoral membership base comprises 1,300 firms, spanning the spectrum from micro-enterprises to multinationals, and supports 300,000 jobs nationally. This gives the Chamber a keen insight into the needs of both businesses and their employees. We take this opportunity to highlight several concerns in respect of Question B6 in the Consultation Paper, relating to tax treatment of pension at various stages.[2]

> B6 – Should changes be made to the existing tax treatment of pensions in any of the following stages?
> - Tax treatment of employee contributions
> - Tax treatment of employer contributions
> - Tax treatment of growth in pension funds
> - Tax treatment of drawdown of pension
>
> If so, what kind of changes should be introduced and for what reasons?

Improving Ireland's environment for entrepreneurs is key to building up Ireland's indigenous business base and supporting the growth of Irish SMEs. With this in mind, we are particularly concerned that the pensions system should facilitate and reward entrepreneurship.

More broadly, a higher level of saving for retirement is clearly important to long-term economic stability. Dublin Chamber believes there is scope to increase flexibility in the existing tax relief system so as to encourage increased saving and saving at an earlier stage in life.

[1] Department of Finance, Interdepartmental Pensions Reform & Taxation Group, Consultation on Supplementary Pensions Reform: Roadmap for Pensions Reform 2018-2023, https://www.finance.gov.ie/wp-content/uploads/2018/06/IDPRTG-Pensions-Consultation-Paper.pdf

[2] Ibid., p. 12, https://www.finance.gov.ie/wp-content/uploads/2018/06/IDPRTG-Pensions-Consultation-Paper.pdf#page=12

Tax Treatment of Employee Contributions

With respect to employee contributions, Dublin Chamber supports maintaining the existing level of marginal tax relief; adjusting the age/earnings limits on tax reliefs to support higher contributions at an early stage in the working life; allowing unused relief to be used by spreading the entitlement to claim relief over previous years; and reducing the burden on entrepreneurs.

- Dublin Chamber is concerned that under the auto-enrolment system currently being considered, the tax relief afforded to individuals on their personal pension contributions could cease. While it would likely be replaced by the proposed state contribution of €1 for every €3 contributed by person concerned (an effective tax relief of 25%), this would still represent a lower benefit than that afforded by the relief currently available to employees at marginal tax rates. The Chamber also notes that the state contribution would likely be made in the context of an income cap, meaning that for salaries of over €75,000 the level of relief would be even further diluted. *Therefore, Dublin Chamber believes that the tax relief for employee pension contributions should remain as it is.*

- The current age/earnings limits on tax relief for employee contributions do not reflect the real cost of funding an adequate pension in retirement. Moreover, the threshold structure can act as an obstacle to individuals who wish to make large Additional Voluntary Contributions in a given year due to once-off circumstances. While the financial situation of an employee may vary considerably over the course of his/her working life, the rules do not allow the level of pension contribution to fully reflect this through a 'lumpy' pattern of pension savings. This is particularly unhelpful for entrepreneurs, whose careers and income patterns are often marked by a higher level of change or volatility. *Dublin Chamber supports adjusting the age/earnings limit on tax relief for pension contributions to allow higher contributions at an earlier stage in life if and when an individual's financial resources allow it.*

- To achieve a greater spread of supplementary pension provision across the burden of an employee's working life, the Government should move away from a 'use it or lose it' approach to tax relief for employee pension contributions. Currently, unused tax relief capacity can only be set back to the preceding year. *Rather than this limited approach, the Government should consider allowing relief to be spread over a longer period of life, bearing in mind that the last decade before retirement is often the period with the most potential for saving.*

- Many entrepreneurs choose to 'incorporate' for the sole reason that this allows them to make greater provision for their pension than they would be able to if they were classified as self-employed. This has led to a proliferation of Small Self-Administered Schemes in the place of Personal Retirement Savings Accounts. The former, however, place a burden on entrepreneurs and the self-employed in terms of time, cost and administration. *To address this anomaly, Dublin Chamber supports bringing the tax treatment of employer contributions to PRSAs into line with the treatment of employer contributions to occupational pension schemes.*

Tax Treatment of Employer Contributions

- The tax treatment of employer contributions should be left as it currently is. In the context of the ongoing Dept. of Social Protection consultation on the Auto-Enrolment Strawman Proposal, Dublin Chamber is particularly concerned that the tax relief for employer contributions should remain in place. With the proposed employer contribution rate under the auto-enrolment system rising to a maximum 6% of salary by 2027, the absence of an adequate tax relief would have a major negative impact on business costs. *Dublin Chamber strongly supports retention of the existing tax relief for employer contributions to pensions.*

Tax Treatment of Investment Returns

- Under the current regime, investment growth is fully taxed at the time of drawdown from a pension. This takes into account the fact that gains and losses will occur over time and helps to avoid further volatility. *Dublin Chamber does not recommend any changes to the current tax treatment of investment returns on pension savings.*

Tax Treatment of Drawdown of Pensions

In light of the short-term opportunity costs associated with pension provision, the promise of a tax-free lump sum acts as an important lifetime incentive to save, both for entrepreneurs and for employees on middle-incomes. *Dublin Chamber strongly supports the continued availability of a tax-free lump sum and recognises the current caps as appropriate.*