TSG 15/13

TAX STRATEGY GROUP

Capital and Savings Taxation Issues

1. Introduction and context

1.1 Scope of this paper

This paper covers Capital and Savings taxes; Capital Gains Tax (CGT), Capital Acquisitions Tax (CAT), Stamp Duties and DIRT. It briefly sets out the current position on each and examines potential options for change in the context of the Budget 2016 and the consequent Finance Bill.

1.2 Context

There are increasing signs of an improving economic environment. This is a factor to be taken into account when considering options regarding the taxation issues raised in this paper. Insofar as they relate to property, decisions regarding capital taxes also need to have regard to the Government's Construction 2020 Strategy, the objective of which is to support the return of the construction sector to sustainable levels. The recommendations relating to Capital and Savings tax included in the 2014 Agri-taxation Review should also be borne in mind where relevant. Where a tax expenditure is considered this should be done with regard to the evaluation guidelines included in the 2014 Report on Tax Expenditures.

2. Capital Gains Tax

2.1 Introduction

CGT is charged on the value of the capital gain made on the disposal of an asset, whether by sale or gift. All classes of assets are covered by CGT, but the majority of the yield relates to property.

2.2 CGT Yield

The amount of CGT received for each year since 2006 is shown below.

Year	Yield (€m)	% change (Y-on-Y)
2006	3,100	+58%
2007	3,105	-
2008	1,430	-54%
2009	542	-62%
2010	347	-36%
2011	416	+20%
2012	415	-
2013	369	-12%
2014	561	+53%
2015(p)	415	

The significant drop in the CGT yield since its peak in 2007 is due to declining asset values and a reduction in the number of property and share transactions. Liability to CGT is determined by the difference, at the time of disposal of an asset, between the cost of acquisition and the value at the time of disposal. The 2014 yield outturn from CGT was over 40% higher than projected. This increase related to a rise in both equity markets and property prices. It is currently expected that the 2015 yield from CGT will be around €515 million instead of €415 million which was the projection on Budget Day 2015 in October 2014 and before the outturn for 2014 was known.

2.3 CGT Exemptions and Reliefs

The main exemptions and reliefs from CGT are as follows:

- Annual exemption: An annual CGT exemption of €1,270 for gains arising on the disposal of assets in a calendar year by an individual.

- Disposals to spouses, separated and divorcing spouses, registered civil partners and to former co-habitants under a court order
  Such disposals are treated as being at "no gain/no loss" and the recipient is treated as having acquired the asset at the same date and for the same value at which it was acquired by the donor. The treatment afforded to married persons was extended to civil partners and former co-habitants under Finance (No. 3) Act 2011, which transposed the provisions of the Civil Partnership Act into tax law.

- Principal Private Residence Relief
  An individual's principal private residence is exempt from CGT. Where the individual resides in the property for part rather than the whole of the duration of ownership, the relief is apportioned accordingly. In such cases, the final year of ownership is counted as a year of occupation.

- Retirement Relief
  Business or farming assets are relieved from CGT where the person disposing of the assets is aged 55 or over and had owned and used the asset for the ten years prior to disposal. The operation of the relief differs as between persons aged 55 to 65 and persons aged 66 and over.

  For individuals aged 55-66, the relief applies to assets valued up to €750,000 where the assets are transferred outside the family. Where the disposal is made to a child or favourite niece/nephew, there is no monetary limit to the relief. For individuals aged 66 years and over disposing of business or farm assets outside the family, the consideration limit has been reduced from €750,000 to €500,000. For individuals aged 66 years and over disposing of business or farm assets to a child or nephew/niece who has worked full time in the business/on the farm for the previous five years, the relief can be claimed up to a consideration or value limit of €3 million. The changes for individuals aged 66 years and over came into effect from 1 January 2014, having been announced in Budget 2012 in order to encourage transfers by individuals, particularly in farming, who were already aged 66 year or who would reach that age before 1 January 2014.

- CGT Entrepreneur Relief

  A targeted CGT relief to encourage entrepreneurs who reinvest the proceeds of previous asset disposals made by them into new business ventures was introduced in Budget 2014 and Finance (No 2) Act 2013 and was brought into effect by Finance Act 2014 following discussions with the EU Commission on State-aid issues. It provides that, where the proceeds of disposals of assets on or after 1 January 2010 on which capital gains tax has been paid, are applied in acquiring new chargeable business assets, a tax credit will be available equal to the lower of the capital gains tax paid on the original asset disposals or 50% of the capital gains tax due on the subsequent disposal of the new chargeable business assets. The reinvestment must take place within the period 1 January 2014 to 31 December 2018, the chargeable business assets must be held for at least three years and a minimum reinvestment of €10,000 is required.

2.4 Possible Capital Gains Tax issues – Budget 2016 and consequent Finance Bill.

With the current difficulties, particularly in Dublin, of property supply, options in relation to CGT must have regard to both protection of yield and the adequacy of the supply of property.

(i) Options for changing CGT rates

Since 2008 the rate has been gradually increased from 20% to 33% having been reduced from 40% to 20% in 1998.

CGT yield in 2014 was improved over the previous five years, however it seems unlikely, whatever policies are adopted, that it will approach pre-crisis levels in the near future.

As the property market improves maintaining or increasing the rate could capitalise on increased disposals to raise yield. Alternatively a small reduction in the rate may encourage further disposals, leading to increased yield. However, in the absence of behavioural change, each 1% reduction would be estimated to reduce yield by about €17m annually.

A number of other possible options for maintaining or increasing CGT yield could be considered:

- <u>Different rates for standard and higher rate income tax payers</u>
  The UK Government increased the CGT rate for higher rate income tax payers from 18% to 28%. It is estimated that c.60% of individuals declaring capital gains here are higher rate income tax payers. If a lower rate were introduced for standard rate income tax payers then retention of the current rate for the higher rate cohort while introducing a lower “standard” rate could protect the yield from that cohort.

- Re-introduce multiple rates based on length of ownership of asset
  Up to 1992, the longer an asset was held, the lower the rate of CGT which applied. A similar system is currently in place in the USA – assets held for a short period are taxable at income tax rates, whereas assets held for longer periods are taxed at a reduced rate. This system would encourage longer term investment. Consideration could be given to re-introducing a multiple rate system on this basis. As against this, such a system could influence the timing of disposals over the short to medium term.

  The introduction of multiple rates of CGT would introduce administrative complexities for taxpayers and for Revenue.

- A higher rate for larger gains
  For example, the first €50,000 of gains could be taxed at one rate (either below or above the current single rate) with the balance of any gain taxed at a higher rate. This could be a relevant consideration in the context of a consistent trend in the recovery of asset values.

(ii) Abolition/amendment of reliefs/exemptions

- Amendment of annual exemption
  The annual exemption is currently €1,270. It can only be claimed by individuals (not by companies). The exemption has not changed since 1992, when it was reduced from the equivalent of €2,540. The equivalent UK exemption is over £10,000. Consideration could be given to increasing the exemption (for example, to €1,500 or €1,750). This would result in decreasing the CGT tax compliance burden for taxpayers and the administrative burden for Revenue. The cost of such a measure could amount to €2m.

- Abolition or amendment of principal private residence (PPR) relief
  Consideration could be given to abolishing principal private residence relief or amending it. There are a number of ways that this could be done – (i) by only allowing the relief for residences up to a certain value, (ii) allowing for only a certain level of capital gain to be exempt or (iii) applying a lower rate of CGT to gains from PPR disposals. All of these possible approaches would have different advantages and disadvantages depending on the structure of any particular restriction to the current relief.

  Based on the 2013 valuations of properties returned to the Revenue Commissioners for Local Property Tax purposes, over 86% of all properties were valued below €250,000. Just over 1.5% of properties were valued between €500,000 and €750,000 with 0.5% of properties valued between €750,000 and €1 million and 0.2% valued at over €1 million. Even allowing for increases in property prices since 2013, it is unlikely that this broad percentage breakdown of property values would have changed significantly. Not all of the properties in this value breakdown would be PPRs and the

CGT relief (and any form of curtailment to it) would only apply to transactions involving sales or disposals of PPRs.

- <u>Amendment of loss relief</u>
  At present, a taxpayer who makes a loss on the disposal of an asset can offset that loss against gains made in the current year and carry forward any remaining loss indefinitely against gains in subsequent years. The significant decline in value of capital assets in recent years has the potential to affect the CGT yield for several years to come. It appears that in recent years many people have been either holding onto assets or have been unable to dispose of them in the market. The market is now showing signs of improvement. However, asset values are still significantly down from their peak values circa 2007. To protect the CGT yield into the future, consideration could be given to restricting loss relief to a maximum amount per year (for example, €50,000) or to a maximum of 50% of all chargeable gains made in a year. This would not remove loss relief but might assist in restoring stability to the CGT yield by spreading the relief over a longer period.

(iii) Restructuring the CGT regime to support enterprise and investment

CGT could be restructured as a means of supporting enterprise and investment by the re-introduction of indexation (inflation) relief and/or the re-introduction of a restricted form of "roll-over relief" for re-investment. Both were considered in depth by the Commission on Taxation, which supported their reintroduction, and they have featured in pre-Budget submissions from various interest groups in previous years.

- <u>Re-introduce indexation (inflation) relief</u>
  Indexation relief seeks to limit CGT to 'real' gains in asset values by excluding the impact of inflation as measured by the Consumer Price Index (CPI). Indexation relief was brought in a number of years after the introduction of CGT in 1975 to take account of high levels of inflation when CGT rates were relatively high. With a marked decline in inflation, and in light of the reduced standard rate of CGT at the time, the relief was abolished in 2003 but still can be claimed for allowable expenditure incurred up to 31 December 2002.

  Even with recent increases in property values, there may be little grounds for reintroducing indexation relief given the declines in asset values and recent low rates of inflation and the fact that other jurisdictions do not exclude inflation from capital gains.

- <u>"Roll-over relief" for re-investment</u>

  "Roll-over relief" (under which the CGT payable on the proceeds of a gain was deferred if the proceeds were reinvested with the result that the tax liability is not realised until the assets are eventually sold) was abolished in 2003 for all disposals, including disposals as a result of a compulsory purchase order. An issue with the relief was that chargeable gains which were deferred under roll-over relief were often never ultimately taxed.

a) Reintroduction in the case of Compulsory Purchase Orders

The argument put forward for the re-instatement of the relief for the purchase of farmland using an award made under a Compulsory Purchase Order (CPO) is that it would enable farmers to consolidate their holdings and re-invest the proceeds from a CPO into productive economic activities rather than simply investing in a financial institution.

However, if conceded, this change may lead to added pressure for the general re-introduction of roll-over relief for the business and agricultural sectors in the context of transfers of assets. This could be extremely expensive, bearing in mind the issue of gains which are ultimately never taxed.

b) Modification of the Entrepreneurial Relief

As described in section 2.3 above the current Entrepreneur Relief is a targeted time-bound relief aimed at encouraging reinvestment in further productive activity by successful entrepreneurs. Submissions to the recent Consultation on Tax and Entrepreneurship Review make the point that as the current relief applies only after an entrepreneur has made a second successful gain on asset disposals, it may not appear attractive. Many of the submissions to the Consultation argue for the introduction of a CGT relief for entrepreneurs similar to that in the UK.

- Introduction of a preferential CGT rate for entrepreneurship

  In the UK, gains from the disposal of qualifying business assets by qualifying individuals, up to a lifetime limit, are charged to CGT at a reduced rate. The UK CGT relief replaced retirement relief which still applies here (see 2.3 above). Any consideration of a CGT relief for entrepreneurs similar to that in the UK would have to have regard to issues such as the scale and application of such a relief, the potential cost and the implications for and interaction with CGT retirement relief.

Tax measures designed to support enterprise and investment would need to be assessed according to the Guidelines for Tax Expenditure Evaluation, including the following questions:

- What objective does the tax expenditure aim to achieve?
- What market failure is being addressed?
- Is a tax expenditure the best approach to address the market failure?
- What economic impact is the tax expenditure likely to have?
- How much is it expected to cost?

3. Capital Acquisitions Tax (CAT)

3.1 Introduction

The Capital Acquisitions Tax (CAT) code includes gift tax, inheritance tax and discretionary trust tax.

The tax is charged on the amount gifted to, or inherited by, the beneficiary. There is a tax-free threshold (referred to as a 'group threshold'), based on the relationship between the disponer (the person making the gift/leaving the inheritance) and the beneficiary. Previous gifts/inheritances since 1991 from other disponers in the relevant group are counted when calculating the taxable amount over the threshold. The balance of the gift/inheritance above the threshold is taxable, currently at a single rate of 33%.

The group tax-free thresholds based on the relationship between the disponer and the beneficiary are: Group A - Son/Daughter: €225,000; Group B - Parent/Brother/Sister/Niece/Nephew/ Grandchild: €30,150; Group C - All others: €15,075. These thresholds can be claimed in conjunction with other available reliefs.

The CAT yield for each year since 2006 is as shown below:

Year	Yield €m	% change Y-on-Y
2006	353	+42%
2007	392	+11%
2008	332	-15%
2009	254	-23%
2010	238	-6%
2011	244	+3%
2012	283	+16%
2013	279	-1%
2014	357	+28%
2015 (p)	400	

While the yield from CAT can be volatile from year to year, it should be borne in mind that CAT yield usually represents around 1% of the overall tax yield.

3.2 CAT Reliefs/Exemptions

The main CAT reliefs and exemptions are as follows:

- Small Gifts Exemption
  The CAT code contains an exemption on the first €3,000 of taxable gifts (not inheritances) received in a tax year. This is in addition to the group thresholds which relates to gifts and inheritances received from 1991 to date.

- Spouses, Registered Civil Partners and former co-habiting spouses
  Gifts and inheritances between spouses are exempt from CAT. Finance (No. 3) Act extended this treatment to registered civil partners and former co-habiting spouses who transfer property under a court order.

- Dwelling House Exemption
  Finance Act 2000 introduced an exemption from CAT for certain dwelling houses. The intention of the exemption is to remove the transfer of a home between home sharers from a charge to CAT. The main condition is that the beneficiary has to occupy the dwelling house as his or her only or main residence for three years prior to the gift/inheritance and continue to reside in it for six years after the gift/inheritance. It is a full exemption without a ceiling or a requirement that the beneficiary has to be related to the disponer.

- CAT Agricultural/Business Relief
  Qualifying farmers and business owners can avail of CAT agricultural/business relief which reduces liability to CAT by 90%. To qualify for agricultural relief, 80% of the beneficiary's assets, after having received the gift/inheritance, must consist of qualifying agricultural assets. The beneficiary must also be an active farmer or lease the land to one.

- CGT/CAT "same event" relief
  If CGT and CAT is payable on the same event (for example, a gift of land by a parent to a child) any CGT paid by the parent can be used by the child as a credit against her/his CAT liability.

3.3 Possible Capital Acquisition Tax issues - Budget 2016 and consequent Finance Bill

A number of possibilities can be identified for consideration:

(i) Options for changing the CAT rate

- Re-introducing "slicing"
  As an alternative to a single CAT rate, consideration could be given to reintroducing "slicing". Up to 1999 CAT was payable in "slices", with rates increasing depending on the amount inherited above the tax free thresholds. Consideration could be given to re-introducing slicing on higher inheritances. This could be a way to protect or increase yield while reducing the tax impact for the recipients of comparatively smaller transfers. Initial communication with Revenue suggests that the administrative burden would not be significant.

(ii) Options for adjusting the CAT base

- Adjust the tax-free thresholds
  The CAT tax-free thresholds have been reduced a number of times over recent years, from a peak Group A threshold of €524,544 in 2009 to €225,000 since late 2012. As property prices have increased since then the CAT base has broadened. Consideration could be given to increasing the thresholds.

- Reduce difference between tax-free thresholds

The Group A threshold is currently 7.5 times the Group B threshold and 15 times the Group C threshold. This excludes many inheritances from parents to children, while other receipts are taxed much more aggressively. Consideration could be given to reducing the differential. Regard would need to be had to the overall impact of such a move and the re-introduction of "slicing".

- <u>Reduce agricultural and business property relief</u>
  The annual cost of these two reliefs is about €300 million and reducing the scale of the reliefs from 90% to 75% of the taxable value of the relevant assets and capping the relief at €3 million (the level originally suggested by the Commission on Taxation) would increase the yield from CAT. It could be a useful measure in terms of base-broadening and ensuring equity for different classes of taxpayers. However, it could have a negative impact on the development and growth of family businesses. Following the Agri-taxation Review, agricultural relief has been maintained in its current form but restricted to apply only to active farmers.

  Consideration could be given to providing that an individual could only claim either the CAT tax-free threshold or agricultural/business relief in respect of a gift or inheritance, rather than being able to claim both, as is the case at present. This would mean that at least some CAT would be payable on most inheritances/gifts of such agricultural and business property.

- <u>Change the small gift exemption</u>
  This is currently €3,000. Similar to the CGT annual exemption consideration could be given to increasing this exemption (for example to €3,500 or €3,750) having regard to the recovery in asset values.

4. Stamp Duty

4.1 Introduction

Stamp Duty is generally a tax on documents or instruments. There are a variety of Stamp Duties; some are fixed (e.g., Stamp Duty on credit and debit cards, which is a set amount irrespective of how much the card is used), while others are levied on an *ad valorum* basis, i.e. according to value (e.g., Stamp Duty at 1% on the value of shares transferred).

The main Stamp Duties are:

- Residential property (1% on values up to €1 m and 2% on any balance over €1 m)
- Non-residential property (2%)
- Transfers of shares in Irish registered companies (1%)
- Financial cards:
  - Credit cards (€30 per year)
  - ATM only or debit only cards (€2.50 per year)
  - Combined ATM/debit cards (€5 per year)
- Cheques or "Bills of Exchange" (50c per cheque)
- Levies on

- Non-Life Insurance (3%; there is also a non-tax "Insurance Compensation Levy" of 2%)
- Life Insurance (1%)
- Health Insurance (charge is per person insured and varies according to age and the type of health insurance policy – this levy is transferred directly into the Risk Equalisation Fund, rather than into the Exchequer)
- Pension Funds (0.6%; introduced in Finance (No. 2) Act 2011 and which expired in 2014. Additional 0.15% introduced in Finance (No.2) Act 2013 which will expire at the end of 2015).

4.2 Stamp Duty on property transactions

The 2011, 2012, 2013 and 2014 Stamp Duty yields from property transactions are as follows:

Property:	**2011 (€m)**	**2012 (€m)**	**2013 (€m)**	**2014 (€m)**
Residential	44.48	56.9	65.51	101.77
Non-Residential	90.06	48.51	86.85	173.28
Total	**134.54**	**105.41**	**152.36**	**275.08**

The yield in the seven months to 31 July 2015 is € €165.16 million of which €69.37 million relates to residential properties and €95.79 million relates to non-residential properties. Budget 2012 reduced the rate of Stamp Duty on non-residential property from up to 6% to 2% with effect from 6 December 2011. This accounts for a large part of the fall in non-residential Stamp Duty receipts between 2011 and 2012.

4.3 Recent Developments

In the Finance Act 2014, **Young Trained Farmers relief**, which was due to expire on 31 December 2012, was extended for a further three years to 31 December 2015. Stamp Duty is not payable where land is conveyed or transferred to the holder of approved qualifications who is under 35 years and who farms the land, for not less than 50% of his or her normal working time, for a period of not less than 5 years from the time the land is conveyed or transferred.
The cost of this relief in 2014 was €4.7m.

Consanguinity relief: Under this relief conveyances and transfers of certain properties between close relatives were subject to stamp duty at one-half of the normal rate. This relief was due to expire at the end of 2014. However, arising from recommendations of the Agri-taxation Review Finance Act 2014 provides that this relief will continue to be available for another three years, i.e., in relation to the conveyance of land executed on or after 1 January 2015 and before 1 January 2018. The relief is confined to the conveyance or transfer of land by an individual who is 65 years or under, where the person to whom the land is being conveyed or transferred is a farmer who, from the date the land is conveyed or transferred, spends more than 50% of his or her time farming the land – including the land conveyed or transferred – for a period of not less than 6 years. In addition the land must be farmed on a commercial basis and with a view to the realisation of profits. This relief is designed to encourage farmers who are of retirement age to transfer their land to a son or daughter or other close relative who will be better able to farm the land productively.

The cost of this relief in 2014 was €6.9m.

Issues for consideration

In recent years, Stamp Duty on property has been reduced significantly, from rates of up to 9% to the current rates of 1% and 2% on residential property and 2% on non-residential property, while most exemptions and reliefs have been abolished. These changes were introduced mainly as part of the preparation for the introduction of the Local Property Tax, i.e. a move away from the taxation of flows, which can be volatile, to the taxation of stock, which provides a much more stable base. This means there is now less reliance on transactions based property taxes. The Local Property Tax, introduced in 2013, is an annual recurring tax based on market value and the yield will not be vulnerable to a fall in the volume of transactions.

In its summer 2015 quarterly economic commentary the ESRI noted that House prices continue to register strong annual growth with an average rate of almost 15% for Q1 2015. It further noted that while there are signs that housing construction may not be as significant in 2015 as had initially been expected, overall investment is still set to contribute significantly to growth this year.

In early 2015, the Central Bank responded to significant increases in house prices from late 2013 by imposing new Loan-to-value (LTV) and Loan-to-income (LTI) limits to curb house price inflation. In May 2015, the authors of an ESRI working paper[1] noted that the Irish property and credit market still appeared to be emerging gradually from the market failure that pertained between 2007 and 2012. They concluded that housing supply is below fundamental levels. Furthermore, while house prices have increased significantly since early 2013, this was against the backdrop of a 50% fall in prices between 2007 and 2012. Thus, price increases in the market would appear to be a function of prices returning to their long-run equilibrium path along with the current low levels of housing supply.

Having regard to the policy shift in Ireland from transactional based taxes to a more stable annual recurring property tax and the increasing evidence that the supply of new housing is falling short of demand, it would be difficult to justify introducing any significant increases in stamp duty rates on property.

Given the low cost of YTF relief and the continued policy preference for encouragement of transfers to younger, active farmers, consideration could be given to the deferral of the deadline for its abolition to the end of 2017, in line with the timescale for consanguinity relief.

4.4 Stamp Duty on share transfers

The Stamp Duty yields from share transactions in the years 2010 to 2014 are as follows

Shares:	2010 (€m)	2011 (€m)	2012 (€m)	2013 (€m)	2014 (€m)
Total	181.74	194.76	171.46	251.44	282.30

[1] ESRI Working Paper No. 500 May 2015: *Macroprudential Policy in a Recovering Market: Too Much too Soon?*

The yield in the seven months to 31 July 2015 is €239.77 (provisional) which is comfortably ahead of the target of €193.05 million and is 38.2% ahead of receipts for the same period in 2014. This strong growth in recent years follows a period of declining yields between 2008 and 2010.

As there has been no change in the rate of this stamp duty, the growth in receipts over recent years would be indicative of increasing volumes of trade and or share values within a recovering economy.

Financial Transactions Tax (FTT)

In September 2011 the European Commission presented a proposal for a financial transaction tax (FTT) in the 27 Member States of the European Union to be levied on all financial instrument transactions between financial institutions where at least one of the transaction parties is located within the EU. The proposed rate on exchanges of shares was 0.1% and the proposed rate for derivative transactions was 0.01%. The tax would be levied on financial institutions – non-financial institutions would not be covered. At the Economic and Financial Affairs Council meeting in June 2012 it became clear that an EU-wide FTT would not be agreed. In January 2013, an authorising decision was adopted by the Council to allow eleven Member States proceed by way of "enhanced co-operation", the first time such a procedure was used on a tax dossier. The Commission has since produced a revised FTT proposal, which is being discussed at the EU Council Working Party on Tax Questions.

Ireland will not be among the participating countries introducing the FTT, which means we cannot vote on the revised proposal. However, we are participating at working party meetings. Our aim is to ensure that any FTT introduced by way of enhanced co-operation is compatible with our current Stamp Duty on shares (it is possible that a transaction could be liable both to Irish Stamp Duty and an FTT in another Member State).

A joint statement was issued in January 2015 by the Ministers of the Member States participating in enhanced cooperation in the area of FTT in which they renewed their commitment to reach an agreement on the proposal. While this statement reiterated the willingness of the Member States involved to create the conditions necessary to implement the FTT on 1 January 2016, there seems little likelihood of that date being met.

UK Position

The UK charges Stamp Duty Reserve Tax at 0.5% of the value of shares transferred for purchases of more than £1,000. From 28 April 2014 the UK abolished stamp duty and stamp duty reserve tax on securities admitted to trading on recognised growth markets provided that they are also not 'listed' on a recognised stock exchange.

Recent Developments

As part of Budget 2014, the Minister for Finance announced that he would abolish Stamp Duty on the transfer of shares admitted to the Enterprise Securities Market of the Irish Stock Exchange. This measure is subject to a commencement order pending EU State Aid approval. Discussions are ongoing with the EU Commission.

Issues for consideration
Consideration might be given to reducing/eliminating Stamp Duty on share sales, as recommended by the Commission on Taxation. However, the cost of abolishing the duty would be considerable at €400.10m, based on 2015 projected yields. Bearing in mind current developments in relation to FTT, considerations of abolishing or diluting the liability to stamp duty on share transfers domestically would be questionable.

4.5 Other categories of Stamp Duty
The yield from other categories of Stamp Duty in recent years has been as set out below.

Stamp Duty	2011 (€m)	2012 (€m)	2013 (€m)	2014 (€m)	Provisional Jan - July 2015 (€m)
Credit Cards	51.8	51.6	49.62	45.85	10.10
ATM only and debit only	1.5	1	1	0.6	0.26
Combined ATM/debit cards	15.7	15.5	17.33	18.16	4.63
Cheques	33.2	30.9	25.32	27.42	14.31
Non-life insurance	106.4	104.1	98.73	103.35	66.88
Life Assurance	31.6	24.1	25.4	27.85	21.77
Health insurance*	346.9	436.7	172.58	581.71	368.47
Pension Funds	463.2	482.8	535.31	742.88	1.41

*Paid into the Risk Equalisation Fund from 2013 onwards.

Issues for consideration

The National Payment Plan Visions for Payments include:

- *Electronic forms of payment will be universally accepted, and be the preferred payment choice for most;*
- *Cheque usage will fall, though will remain available to those who wish to use them, and consumers will not be obliged to discontinue using them.*

A Central Bank analysis of cheque usage in Ireland showed that Ireland was one of only six EU member states that use cheques for regular payments. The research also showed that cheque volumes were continuing to decline with business cheque usage reducing faster than consumer usage. Cheque usage in Ireland peaked in 2005 at 131 million and declined every year since, to less than 70 million in 2013 and an expected 61 million in 2014.

The NPP Steering Committee has recommended a cost neutral increase in stamp duty on cheques offset by reduction or elimination of charge on debit cards. The charge on credit cards would remain unchanged.

In line with the NPP Steering Committee recommendation consideration could be given to increasing the charge on cheques e.g. to €0.75 per cheque (from €0.50) while reducing the annual charge on combined cards (Debit and ATM) to €2.50 (from €5) as a disincentive to cheque usage while encouraging more electronic payment methods. The scope for limiting the increase to cheques issued by businesses could be examined. However, that may pose administrative challenges particularly in distinguishing between sole traders and personal usage. Even if it was possible to differentiate without excessive administrative cost between business and other cheques, a potential issue would be whether there was a significant danger of people with business cheque accounts (sole traders) converting them to personal accounts to avoid the higher Stamp Duty.

The impact on SMEs and potentially vulnerable groups in society would have to be carefully considered if such changes were to be introduced.

The elimination of any charge on cards could remove a source of measurement of activity while a reduction will retain this information source. Furthermore, the charge on cards is an annual charge per card and is not impacted by the number of transactions undertaken in any year. Therefore a minimal charge of €2.50 might not be seen as a barrier to card usage.

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5. DEPOSIT INTEREST RETENTION TAX AND EXIT TAXES AND INSURANCE LEVIES

5.1 Introduction

Deposit Interest Retention Tax (DIRT) is deducted by Irish financial institutions from deposit interest paid to the accounts of Irish residents. The basic rate is 41% (increased from 1 January 2014 from 33% where interest was paid or credited at least once annually (most bank accounts) and 36% where it was paid less frequently.

Exit taxes apply to payments and deemed payments from life assurance and funds products, at the same rate as DIRT – 41% (increased from 1 January 2014 from 33% for "relevant payments", which were made at least annually (this rate did not apply in the case of life assurance products) and 36% for less frequent payments.

DIRT is a "final liability tax" – that is, it satisfies the individual's full liability to Income Tax in respect of deposit interest. The individual may still be liable to PRSI on the interest. Deposit interest subject to DIRT is not subject to the Universal Social Charge. Individuals aged 65 and over whose total income, including the deposit interest, is below the relevant income tax exemption threshold (€18,000 for single individuals and €36,000 for married couples/civil partners) can have interest paid without deduction of DIRT or can apply for a refund of DIRT deducted. An exemption also applies for permanently incapacitated persons whose tax credits exceed any tax payable (including DIRT).

Companies can have bank interest paid without deduction of DIRT, but are liable to CT on the interest at the CT "passive income" rate of 25%. The Exit Tax rate for payments to companies is also 25%.

Up to Budget 2009, the rate of DIRT was equal to the standard rate of Income Tax at 20%. The increases in recent years were introduced to generate additional yield and to encourage spending in the economy to stimulate growth and employment.
TSG Paper 12/12, *Capital and Savings Taxation Issues*, provides a background to DIRT and Exit Taxes issues and yields in recent years.

Yield
The yields from DIRT, Life Assurance Exit tax and Investment Fund Exit tax in each of the years 2010 to 2014 are set out in the table below.

	2010 (€m)	2011 (€m)	2012 (€m)	2013 (€m)	2014 (€m)	Provisional Jan – August 2015 (€m)
DIRT	445.7	473.3	580.6	499.5	435.2	246.5
Life Assurance Exit tax	31.2	43	43.4	58.7	129.9	246.16
Investment funds exit tax	5.9	16.4	6.9	9.7	28.6	37.2

Levies on insurance policies
The supplementary Budget in April 2010 introduced a new insurance levy at a rate of 1% on all life assurance premium income commencing with the quarter ending on 30 September 2009.
A stamp duty of 3% applies on the gross amount received by an insurer in respect of certain non-life insurance premiums. The exceptions are reinsurance, voluntary health insurance, marine, aviation and transit insurance, export credit insurance and certain dental insurance contracts. The 3% rate of duty applies to premiums received on or after 1 June 2009 in respect of offers of insurance or notices of renewal of insurance issued by an insurer on or after 8 April 2009.

The yields from these levies in the period since 2009 are set out below.

	2009 (€m)	2010 (€m)	2011 (€m)	2012 (€m)	2013 (€m)	2014 (€m)
Non-Life Levy	86.39	109.47	106.40	104.16	98.73	103.35
Life Assurance Levy	8.70	45.03	31.60	24.12	25.40	27.85

Issues for consideration

The standard DIRT rate has increased significantly since 2008 (up from 20% to 41%) and is now 1% higher than the higher rate of tax. Options that could be considered include reducing the DIRT rate to match the higher rate of tax or applying DIRT at the same rate as CGT and CAT i.e., 33%.

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The Tax Strategy Group may wish to discuss.

Capital and Savings Taxation Policy
September 2015