

# Commission on Taxation & Welfare: Pension Reform?



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## Chapter 8: Taxes on Retirement Savings

**INTRODUCTION**  
Tax expenditures associated with the provision of supplementary pensions are among the largest grouping of tax expenditures recorded. Although not explicitly referenced in the Commission's terms of reference, during the course of its work the Commission formed the view that a detailed examination of pension tax expenditures was warranted. This is because of their significant cost as well as their relevance to the key principle of equity, and the fact that overall levels of supplementary pension coverage remain low and levels of home ownership (an alternative form of post-retirement wealth) are falling. Having also considered the potential impact of the recently announced Automatic Enrolment Retirement Savings Scheme (AE), the Commission notes the overall cost of funding supplementary pension provision into the future will likely increase. This will impact on the Exchequer both directly (through the direct contribution costs of AE) and indirectly through significant increases in the cost of related tax expenditures in this area.

The examination of pensions tax expenditures is also relevant to other principles that ground the work of the Commission, and reinforce the need for good data upon which to base policy decisions.

### 3.1.1 Outline of pension landscape and developments in Ireland

The pension system in Ireland is structured around three pillars, as follows:

- **First pillar: State pension system**  
This is designed to meet basic living needs and prevent poverty.
- **Second Pillar: Occupational pensions**  
This is designed to provide a standard of living related to pre-retirement income. These pensions are usually provided through occupational pensions that supplement the first pillar. This pillar will soon include Automatic Enrolment pensions.

1. Preface x2
2. Six short observations

# 1. Preface x2

- ▶ The importance of the first Recommendation of the Commission:

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## *Chapter 4: Fiscal Sustainability*

- 4.1      The Commission recommends that given the medium- to long-term threats to fiscal sustainability, the overall level of revenues raised from tax and Pay Related Social Insurance as a share of national income must increase materially to meet these challenges. These increased yields should be obtained in a manner that minimises economic, social and environmental costs.

## Pensions and taxation

*Micheál L. Collins and Andy Lymer*

### Introduction

Pensions and pensions policy represent one of the major areas where taxation and social policy interact. Decisions impact on the current and future living standards of most individuals, involve substantial and growing state expenditure, raise questions of equity and efficiency, and grapple with the issue of the long-term sustainability of current approaches given

## TAXATION AND SOCIAL POLICY

Edited by  
**Andy Lymer,  
Margaret May  
and Adrian Sinfield**

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...es an overview of  
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...section considers  
...future reforms of  
...the context of the  
...he years to come.



COMMITTEE ON BUDGETARY OVERSIGHT



## 2. Six short observations

### 1. Annual cost of tax reliefs and savings supports

- ▶ once AE implemented
- ▶ heading towards €3.4 billion per annum

*“Based on the Budget 2023 annual current and capital expenditure allocations, an annual figure of €3.4 billion is more than the entire expenditure of each of twelve Government Departments, it is much the same as the annual expenditure by the Department of Transport and only Health, Social Protection, Education, Further and Higher Education, and Housing spend more each year”*

## 2. Efficiency?

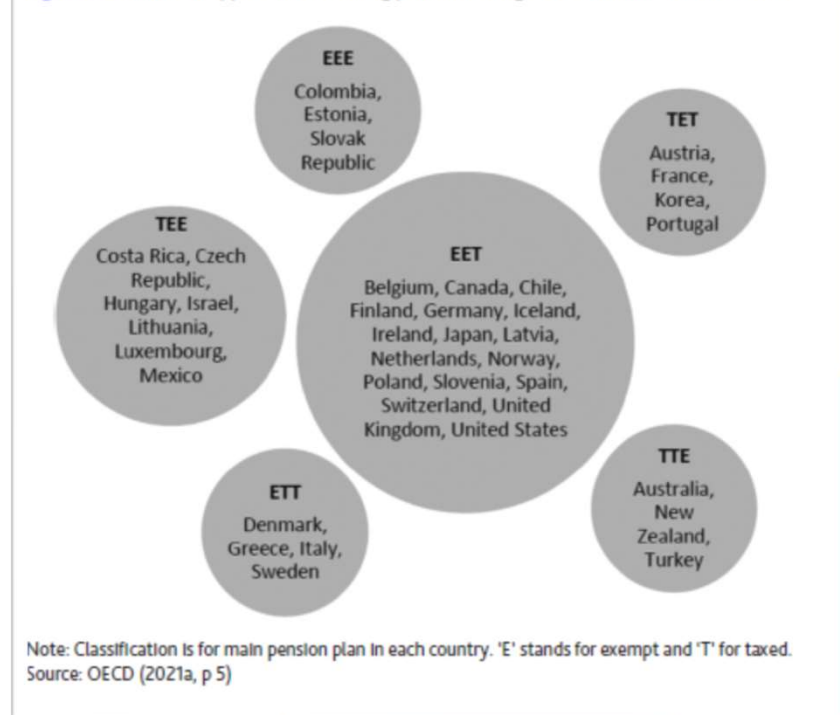
*“Given pension policy objectives on poverty avoidance and providing the expectation of a reasonable living standard in retirement, it raises the question as to whether there is a more effective and cheaper way of reaching these objectives...*

*Certainly, it is hard to argue that the current system is an effective and efficient use of state resources”*

### 3. Equity

- ▶ EET is really EEt
- ▶ Tax supports are heavily skewed up the income distribution
- ▶ Exaggerate by:
  - ▶ Lump-sums...(@ average earnings seems ok to me)
  - ▶ accumulation of lump-sums
  - ▶ different rates of tax relief and AE supports...getting worse with AE
  - ▶ tax free inheritances of ARFs

Figure 6.2: Different approaches to taxing pension savings, OECD member states, 2021



## 4. AE

- ▶ More costs and more inequities....





## 5. Data on tax expenditures

*“...It may be that the issue arises from the current legislative definition of the role of the Revenue Commissioners which is about the effective administration of the taxation system – something it does very well. However, the collection and provision of policy relevant data on taxes and the taxation system remains a secondary issue and priority for that organisation, and the consequences of this are reflected in many of the recurring tax policy design struggles encountered by the Commission and by those working on taxation issues including officials in the Department of Finance and the Parliamentary Budget Office. A change in the statutory definition of the role of the Revenue Commissioners to formally incorporate its data collection, provision and policy process contribution is overdue”*

## 6. COTW report a start rather than an end...

“Overall, the cost of these measures, the inequity of their impact, their limited effectiveness, and their current and expected future cost implies it is an area that deserves greater oversight and attention.”

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