PENSIONS
INVESTMENTS
LIFE INSURANCE

Irish Life

For Financial Advisors only

Exit Tax

LIFE ADVISORY SERVICES

Exit Tax was introduced as the taxation system for all life plans on 1st January 2001. This affected all life savings plans, life investment bonds and life protection plans issued on or after this date.
We have put together this document to address some of the most frequently asked questions about Exit Tax and some examples of how it works in practice.

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When was Exit Tax introduced?

1 January 2001

What products ARE affected?

All life plans issued on or after 1 January 2001.

- all life savings plans,
- all life investment bonds (capital protected, trackers),
- all life protection plans.

What products are NOT affected?

- All life plans issued up to and including 31 December 2000, and top ups to these plans.
- Pensions, income protection and general annuity business.

When is Exit Tax payable?

Exit Tax is charged on "the investment profit" (or "gain") element of a life plan on certain chargeable events.

What is the rate of Exit Tax?

The current rate of Exit Tax for most plans is 41% (with effect from 1 January 2014). See the changes in rate of tax for each year from inception to date as outlined below:

Year:	Rate of Tax where plan owner is:	
	other than a company:	a company:
01/01/2001 to 01/01/2009	23%	N/A
01/01/2009 to 06/04/2009	26%	N/A
08/04/2009 to 31/12/2010	28%	N/A
01/01/2011 to 31/12/2011	30%	N/A
01/01/2012 to 31/12/2012	33%	25%
01/01/2013 to 31/12/2013	36%	25%
01/01/2014 to present	41%	25%

For Personal Portfolio Life Plans or "Wrapper" products the rate is no longer linked to the standard rate of tax and is now a rate of 60%. Where the life plan is owned by a company the rate of Exit Tax was reduced to 25% with effect from 1 January 2012. This reduced rate still applies.

What is a chargeable event?

- A claim, maturity or the full surrender of a plan, including a payment on death or disability.
- A partial encashment, including an automatic income payment.
- An assignment of a life plan in certain circumstances.
- Every 8th plan anniversary;

The tax payable on every 8th anniversary of the plan was introduced as part of the 2006 Finance Act.

How do you calculate the chargeable “gain” on different chargeable events?

- **Maturity or Full Surrender including a payment on death or disability?**
  Surrender Value - Total Premiums Paid
- **Assignment?**
  Value - Total Premiums Paid
- **Partial Encashment?**
  Encashment Value - [Premiums Paid x (Encashment Value/Policy Value)]
- **Every 8th Anniversary / Deemed Chargeable event?**
  Surrender Value – Total Premiums Paid

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Maturity or Full Surrender example:

€50,000 paid to Irish Life in 2012 by a personal investor. €500 is paid to Revenue and €49,500 invested in an Irish Life investment bond. In May 2018 the value of the plan is €72,000 and the plan is encashed

The chargeable gain is calculated as : €72,000 - €49,500 = €22,500
The exit tax is calculated as : €22,500 x 41% = €9,225

The client gets €62,775 into their hands / bank account

Partial encashment example:

€100,000 was invested in a Life Bond in March 2001.

Sometime later the gross value of the bond is €150,000 and a gross partial encashment of €20,000 is requested.
No previous withdrawals have been made from this bond.

Firstly calculate the "chargeable amount"

In the case of a partial surrender the chargeable amount = B – [P x B/V] where
B = the encashment value
P = allowable premiums / total of all premiums paid in to the plan before the chargeable event, to the extent that they have not already been used in calculating a gain on an earlier "chargeable event".
V = plan value immediately before the chargeable event.

Chargeable amount	= €20,000 – [€100,000 x €20,000 / €150,000]
	= €20,000 - €13,333
	= €6,667

Secondly calculate the Exit Tax payable

Exit Tax at 41%	= €6,667 x 41% = €2,734

The client gets €17,266 into their hand (the gross value of the withdrawal less Exit Tax).
Following the partial encashment

Gross value is reduced to	€130,000
Net value is reduced to	€112,233
P – the allowable premiums – is reduced to	€86,667

i.e. €100,000 less the amount used to reduce the chargeable amount of this partial encashment.

Example assumes that the plan owner is an individual and not a corporate entity.

Is the Government Levy included in the 'total premiums paid' figure?
No, the Government Levy is not included in the 'Total premiums paid' figure when calculating the chargeable gain on the plan. This is because this amount is paid over the Revenue and is not invested in the plan.

Does the customer have to do anything to have the tax deducted?
No, Irish Life deducts the Exit Tax where appropriate, and pays it to the Revenue Commissioners. It is important to note that there is no annual tax on the plan holder funds so the returns roll up tax free and the Exit Tax deducted by Irish Life is a full and final tax on chargeable events i.e. once exit tax is paid, there are no further tax consequences for the plan holders.

How is the tax paid to Revenue?
Irish Life sends a bulk payment to Revenue for all exit tax deducted in respect of all clients twice every year. In January and July of each year.

Is anyone exempt from Exit Tax? Back to Top

- non-resident individuals;
- a life assurance company;
- an investment undertaking;
- a Revenue approved charity;
- a Personal Retirement Savings Accounts (PRSA) provider;
- a credit union;
- the court service;
- the National Asset Management Agency or where the life plan is an asset held by the National Pensions Reserve Fund;
- a company pension scheme;
- an Approved Retirement Funds (ARF) or Approved Minimum Retirement Fund (AMRF);
- a Qualified Fund Manager in relation to Special Savings Incentive Accounts (SSIAs) where the plan is held as an asset of an SSIA account. (this scheme is no longer in operation)
- Motor Insurers' Bureau of Ireland

What does Irish Life need from a customer to prove they are entitled to pay a lower rate or exempt from Exit Tax?

Irish Life needs a specific Revenue declaration completed by the plan owner before it can make a gross payment. These declarations are subject to very strict Revenue regulations. Where the plan owner is non-resident, Irish Life will also require proof of this in the form of recent utility bills or foreign bank account statements.

Non Residents:

1. **Declaration**

   Original relevant Revenue declaration completed by the plan holder - an Irish Life Compliance declaration is NOT sufficient

   There are two different Revenue declarations.
   1. for clients who were non-resident when the contract was taken out and
   2. for clients who were Irish resident when the contract was taken out but who have left Ireland and are now non ordinarily resident (see below for definition / rules)

2. **Proof of Address**

   If we have been writing to the client at a non-resident address for more than three years we will only need copies of recent utility bills or a foreign bank account statement from within the last 6 months.

   If writing to the client at an Irish address up until recently we need evidence in the form of utility bills from enough previous years to show that the client meets the non-ordinarily resident rules below.

   For a 'non-resident' to be noted as 'potentially exempt' from exit tax they must be BOTH non-resident AND non-ordinarily resident.

   An individual who has been ordinarily resident in the State ceases to be ordinarily resident at the end of the third consecutive tax year in which s/he is not resident. So, an individual who is resident and ordinarily resident in the State in 2014 and departs from the State in that year will remain ordinarily resident up to the end of the tax year in 2017.

   Therefore that individual only becomes non-ordinarily resident with effect from 2018.

A Charity:

1. **Declaration**

   Original relevant Revenue declaration completed by the plan holder - this declaration is available on www.bline.ie.

2. **Check charity registration with Revenue**

   A Charity Registration number is quoted on the Revenue declaration. Irish Life will check that the charity is still registered with Revenue.
   ONLY THE charity named in the Revenue list is exempt from exit tax

A corporate entity to apply the lower rate of Exit Tax:

1. **Declaration** - The corporate should declare, on company headed paper, signed by an authorised signatory of the corporate entity, that they are a corporate as defined within Section 4(1) and for the purposes of Section 730 (F) Taxes Consolidation Act 1997.
2. **Evidence of** registration with the Companies Registration Office / Certificate of Incorporation
3. Last set of **signed financial statements / B1 Cert**

When does Irish Life need this Revenue declaration?

Irish Life needs to have the relevant Revenue declaration at the time of the chargeable event in order to pay out the proceeds of the plan without deducting Exit Tax.

Can we accept a fax or a scanned copy of a Revenue declaration?

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The Revenue guidance notes state that the life assurance company must be in possession of an original signed declaration. Faxed declarations are not acceptable and will not satisfy the declaration requirements provided for in the legislation.

For Non Residents, do they need to have been non-resident when the plan was taken out to avail of exemption from Exit Tax?

No. The Finance Act 2015 removed the requirement that the non-resident declaration must be completed at or about the time of the inception of a plan. So where the plan owner was Irish Resident at the point of sale and subsequently becomes non-resident they may (once they meet our requirements) look to avail of an exemption from Exit Tax.

What requirements does the client need to meet to qualify as a non-resident?

The client/plan owner must be both non-resident and non-ordinarily resident at the time of the chargeable event to qualify for an exemption from Exit Tax (subject to meeting our requirements). An individual who has been ordinarily resident in the State ceases to be ordinarily resident at the end of the third consecutive tax year in which s/he is not resident. So, an individual who is resident and ordinarily resident in the State in 2014 and departs from the State in that year will remain ordinarily resident up to the end of the tax year in 2017. Therefore that individual only becomes non ordinarily resident with effect from 2018.

Is the “deemed” charge on each 8th plan anniversary an additional charge?

No, it is not; it is simply a prepayment of tax. For example if you cash in your plan on the 9th anniversary, the tax you pay at that stage will be reduced by the amount of tax you paid on the 8th anniversary. Also, where the tax payable on a subsequent encashment is lower than the tax deducted on the 8th anniversary, Irish Life will refund you the ‘overpaid’ tax. Either way there is little change to the overall tax you will pay on your investment.

An example of how this will work in practice is as follows:

Example – Full encashment following Deemed encashment

€25,000 was invested in a Life Bond on 1st May 2006.
Deemed encashment 8th anniversary i.e. 1st May 2014,
The cash value of the bond at 1st May 2014 is €37,000.

The plan is deemed to be ‘encashed’ and so the gain of €12,000 is liable to Exit Tax @ 41%* = €4,920.
The amount is deducted and paid to Revenue, so the value of the bond immediately after is €32,080.

This bond is then fully encashed on 1st March 2018 with a gross value of €37,750.
In order to calculate the ‘chargeable gain’ on the encashment the gross value is first increased by the Exit Tax deducted on the deemed disposal i.e. €4,920.

The gain, liable to Exit Tax of 41%*, is = €37,750 + €4,920 - €25,000 = €17,670.
The Exit Tax @ 41% x €17,670 = €7,244, BUT the previous Exit Tax deducted is offset:

€7,244 - €4,920 = €2,324

The total Exit Tax on this plan is €7,244.
Comprised of €4,920 on the 8th anniversary plus €2,324 on the subsequent encashment.

*Tax rate at 1st May 2014 and 1st March 2018
Example assumes that the plan owner is an individual and not a corporate entity.

Are only plans issued after the ‘deemed’ charge was introduced going to be subject to this new rule?

No, all plans subject to the Exit Tax rules, issued since 1st January 2001, will have a deemed Exit Tax deduction on each 8th plan anniversary. The first charges were deducted in January 2009.

What are the effects on projected plan values?

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The projected plan value after taxation will be the same until year 8 as it was until now. However, it will be slightly lower from year 9 onwards as the tax actually taken from the fund value on each eighth anniversary reduces the amount invested in the fund from that date onwards and there is then a lower amount available for the projected fund growth to be applied to

If a top up is applied to the plan, is the top up amount subject to the deemed charge on the 8th anniversary of the contract or the 8th anniversary of the top up?

The deemed charge is calculated based on the TOTAL value of the contract at every 8th anniversary of the date of entry of the contract, regardless of any top ups.

. **Example of a deemed charge after a top up**

€50,000 paid to Irish Life in May 2010 by a personal investor. €500 is paid to Revenue and €49,500 invested in an Irish Life investment bond
In June 2017 the investor paid an additional €10,000 to Irish Life, €100 of which was paid to Revenue and €9,900 was invested in the existing plan.

In May 2018, on the 8th anniversary of the plan, the deemed charge is deducted from the value of the plan

The value of the plan on 1st May 2018 is €72,000

The chargeable gain for the purposes of calculating the deemed charge is calculated as :
€72,000 - (€49,500 + €9,900) = €12,600
The deemed exit tax charge is calculated as : €12,600 x 41% = €5,166

€5,166 is deducted from the value of the contract and paid to Revenue

The gross value of the plan after the encashment is €66,834

An assignment of a life assurance plan is listed as a 'chargeable event'. Are there any exemptions?

Assignments as security for a debt or the discharge of a debt to an Irish financial institution, a credit union, an Irish branch of an EU financial institution or A Special Purpose Vehicle within the meaning of Section 110 of the Taxes Consolidation Act are exempt from Exit Tax.
Also exempt are assignments between legal spouses and registered civil partners and where the assignment is under order following divorce, judicial separation or the dissolution of a registered civil partnership.

Are clients who are exempt from DIRT (Deposit Interest Retention Tax) and Income Tax also exempt from Exit Tax?

DIRT, Income Tax and Exit Tax are three separate forms of taxation. DIRT is payable on the growth on deposit accounts in building societies, banks and the post office, Income Tax is payable on earned income and Exit Tax is payable on the growth on life assurance plans.

Only those plan owners mentioned under "Is anyone exempt from Exit Tax?" are exempt from Exit Tax.

Clients now have to pay PRSI (Pay Related Social Insurance) on unearned income. Does this apply to life assurance plans?

No. PRSI on unearned income will not apply to amounts paid out under life assurance plans

Can anyone claim Exit Tax back from Revenue?

Exit Tax must always be deducted from payments to plan owners with the exception of the 'exempt' plan owners referred to already.

However, the following people may be entitled to reclaim Exit Tax from Revenue –

- a permanently incapacitated individual who has invested a compensation payment in respect of a personal injury claim;
- the trustees of a 'qualifying trust' where the investment returns are the sole or main income of the incapacitated individual;
- a thalidomide victim investing a compensation payment made by the Minister for Health and Children.
- Any payment made to a relevant individual as a result of the Magdalen Commission Report.

Credit against Inheritance Tax

Where Exit Tax is payable as a result of a claim on the death of a life assured, the amount of Exit Tax may be offset against any Inheritance Tax liability arising for the beneficiary of the plan on the plan proceeds.

It is important to note that the beneficiaries Inheritance Tax liability is calculated based on the value of the plan before Exit Tax was deducted.

An example of how this works is overleaf: Back to Top

On Joe Smart's death his original investment of €100,000 in a Life Bond has achieved a gross investment return of 50% i.e. gross value €150,000 leaving a net €129,500 after payment of €20,500 Exit Tax at 41%.

Let's assume he leaves this investment to his daughter Lucy. Assuming Lucy has received additional inheritances and therefore used up her tax free threshold the full value of the bond is liable to Inheritance Tax at 33%.

Lucy is deemed to have received a taxable inheritance of €150,000 from which €20,500, Exit Tax, has been deducted. The Inheritance Tax liability is calculated based on the 'gross value' i.e. €150,000, on which the estimated Inheritance Tax liability at 33% is €49,500. This amount can then be reduced by 'offsetting' the 'Exit Tax' of €20,500 (in this example) which has been deducted.

*in the case of a 'Wrapper' or 'Personal Portfolio Investment Bond' where the tax rate is currently 60%, the offset against Inheritance Tax is limited to EXIT TAX at 41%. So, in the above example, if this had been a Wrapper the Exit Tax charge would have been €30,000, but the credit against Inheritance Tax would be limited to €20,500.

Is it possible to offset any losses on a life assurance investment against any gains on any other types of investments/ assets?

No,
The Revenue Guidance Notes state that where losses are incurred on the initial capital investment in a life assurance fund, no loss relief is available. Thus any losses on a life assurance contract cannot be offset against any capital gains tax liability on any other types of investments / assets.

Is it possible to offset any gains on a life assurance investment against any losses on any other types of investments/ assets?

No,
While the Revenue Guidance Notes do not implicitly state that this type of offset is not available there is no mention of any such offset thus it is our understanding and practice that no such relief is available. Thus any gains on a life assurance contract cannot be offset against any capital losses on any other types of investments / assets

The Exit Tax liability on the life assurance contract must be deducted in full by the life assurance company.

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We advise that you and your client seek professional tax advice as the information given is a guideline only and does not take into account you or your client's personal circumstances.

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