Irish Life

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, investment bonds and life protection plans issued on or after this date. We have put together this brief document to address some of the most frequently asked questions about Exit Tax and some examples of how it works in practice.

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 investment bonds (unit linked, 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:
01/01/2001 to 01/01/2009	23%
01/01/2009 to 06/04/2009	26%
08/04/2009 to 31/12/2010	28%
01/01/2011 to 31/12/2011	30%
01/01/2012 to 31/12/2012	33%
01/01/2013 to 31/12/2013	36%
01/01/2014 to present	41%

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

- **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

Partial encashment example:

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

Some time 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.

Does the customer have to do anything?

No, Irish Life deducts the Exit Tax where appropriate, and pays it to the Revenue Commissioners.

Is anyone exempt from Exit Tax?

- non-resident individuals;
- a life assurance company;
- an investment undertaking;
- a Revenue approved charity;
- a 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 QFM in relation to SSIAs where the plan is held as an asset of an SSIA account; (this scheme is no longer in operation)
- a company pension scheme;
- an ARF or AMRF.

What does Irish Life need from a customer to prove they are 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.

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.
However, it is important to note that, in the case of non residents, following a change to legislation, the declaration must be completed at the time of the inception of the plan.

Why are non-resident plans different?

Revenue rules state that if the plan was effected before May 2006 the client does not have to be a non-resident at the time the contract was effected to claim the exemption but must be a non-resident at the time of the claim / encashment for the exemption to apply.

But if the contract was effected after May 2006 the client HAD TO BE non-resident at the time the plan was effected AS WELL AS at the time of the claim / encashment for the exemption from Exit Tax to apply.

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 2001.
Deemed encashment 8th anniversary i.e. 1st May 2009,
The cash value of the bond at 1st May 2009 is €37,000.

The plan is deemed to be 'encashed' and so the gain of €12,000 is liable to Exit Tax @ 28%* = €3,360.
The amount is deducted and paid to Revenue, so the value of the bond immediately after is €33,640.

This bond is then fully encashed on 1st March 2010 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. €3,360.

The gain, liable to Exit Tax of 28%*, is = €37,750 + €3,360 - €25,000 = €16,110.
The Exit Tax @ 28% x €16,110 = €4,510, BUT the previous Exit Tax deducted is offset:

€4,510 - €3,360 = €1,150

The total Exit Tax on this plan is €4,510.
Comprised of €3,360 on the 8th anniversary plus €1,150 on the subsequent encashment.

*Tax rate at 1st May 2009 and 1st March 2010

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?

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.

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 or an Irish branch of an EU financial institution 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 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 on unearned income. Does this apply to life assurance plans?

No. PRSI on unearned income in 2014 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.

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 as follows:

On Joe Smart’s death his original investment of €100,000 in Irish Life Scope 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.

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.

Information is correct as at July 2014 but is subject to change.