Levy on Financial Institutions
Public Consultation
9 June 2016
1. Introduction and Background

The Financial Institutions Levy was introduced for the three-year period from 2014 to 2016 in the Finance (No.2) Act 2013 with the express purpose of enabling the financial services sector to contribute to economic recovery. The legislation governing the levy is contained in Section 126AA of the Stamp Duties Consolidation Act, 1999, as inserted by Section 72 of Finance (No.2) Act 2013.

The annual yield to the Exchequer from the levy is approximately €150 million.

In October 2015, the Minister for Finance announced the extension of the annual levy to 2021, subject to a review being undertaken of the methodology used to calculate the levy.

Currently, the Financial Institutions Levy is charged at 35% of the Deposit Interest Retention Tax (DIRT) payments made by a financial institution in 2011. In the case of a financial institution where the amount of DIRT deducted in the base year 2011 did not exceed €100,000, the levy is not payable.

The levy does not apply to credit unions and it is not intended to extend it in that regard.

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The Minister for Finance, Michael Noonan TD, invites interested parties to make submissions in relation to the Levy on Financial Institutions. The consultation period will run for four weeks to 5pm on 8 July 2016. Any submissions received after this date will not be considered.

Submissions received will be published on the Department’s website following the conclusion of the consultation process. Submissions may be emailed to Filevyconsultation@finance.gov.ie, or posted to:

Financial Institutions Levy Consultation
Department of Finance
St Stephen’s Green House
Earlsfort Terrace
Dublin 2
2. Levy Policy

The policy to continue to impose a financial institutions levy of the order of €150 million annually, up until 2021, was agreed as part of Budget 2016 in October 2015. There is no change in that policy.

The Review announced by the Minister is strictly concerned with the methodology for calculating the levy and in that regard the Department of Finance has undertaken a preliminary assessment of different approaches towards calculating the levy for the years 2017 to 2021. The overarching consideration in undertaking that assessment was the need to ensure that there would be no reduction in the overall yield to the Exchequer of approximately €150 million annually.

3. Preliminary Review

The Department of Finance has conducted an initial review of the levy, which included consideration of the performance of the levy to date as well as alternative methodologies for calculating the levy.

That review was prompted by a number of considerations. Firstly, the base year for calculating the levy, 2011 DIRT payments, needed to be updated. Secondly, there was a need to take into account both new entrants and exits from the market since 2011. Finally, there was a need to factor in changes in prevailing interest rates, which ultimately dictate DIRT payments, since 2011.

The Department also looked at the possibility of moving away entirely from a DIRT based formula and instead importing a formula calibrated around the make-up of the balance sheet of the financial institution, a formula that is prevalent in some other EU countries. However, it was felt that such an approach would be overly interventionist, particularly in the context of the current prescriptive environment around funding models of financial institutions, mainly emanating from EU law including the Bank Recovery and Resolution Directive Framework.

4. Proposed Approach

In assessing the various options for calculating the levy, adherence to the core principles of simplicity, impartiality, certainty for the payee and ease of collection was foremost in the Department’s considerations.

On that basis, the Department is in favour of the retention of the DIRT-based formula but changing the base year from 2011 to 2015.
Factoring in the overarching policy objective of protecting the annual yield of the order of €150 million to the Exchequer and the fact that the overall DIRT payments have reduced since 2011, the proposed approach would automatically necessitate an increase in the rate applied to DIRT payments in 2015.

It is considered that this approach would introduce a more level playing field by taking into account institutions that may have entered or exited the market since 2011 and also factoring in changes in the interest rate environment since 2011.

In summary the proposed policy would be to change the base year to 2015 with a consequential increase in the rate of the levy applicable to DIRT payments made in 2015 so as to maintain the annual yield of the order of €150 million for the Exchequer.

It is proposed that this new formulation would be maintained until 2021.

5. Consultation Questions

This consultation paper seeks the views of stakeholders on the proposed approach for calculating the Financial Institutions Levy for the years 2017 to 2021.

The Department is seeking your views in relation to the following:

- Do you agree that there is a need to review the methodology for calculating the Financial Institutions Levy?
- Do you agree with the proposed approach recommended by the Department of Finance?
- If not, what alternative model would you suggest, bearing in mind that it would have to protect the annual yield of €150 million to the Exchequer?
- Are there any additional factors you believe should be taken on board in any evaluation of the existing formula?
- Is there any further comment you wish to make?
6. The Consultation Process

§ Consultation Period
The consultation period will run for four weeks from 9 June 2016 to 8 July 2016. Any submissions received after this date may not be considered.

§ How to Respond
The preferred means of response is by e-mail to: Fllevyconsultation@finance.gov.ie.

Alternatively, you may respond by post to:

Financial Institutions Levy Consultation
Department of Finance
St Stephen’s Green House
Earlsfort Terrace
Dublin 2

Please include contact details if you are responding by post.

When responding, please indicate whether you are contributing to the consultation process as a professional adviser, representative body, corporate body or member of the public.

§ Freedom of Information
Responses to this consultation are subject to the provisions of the Freedom of Information Acts. Parties should also note that responses to the consultation will be published on the website of the Department of Finance.

§ After the Consultation
Responses received will be carefully considered before a final decision is made by the Minister.

§ Queries
Please email Fllevyconsultation@finance.gov.ie should you have any queries.