Bank of Ireland Group

Head Office, 40 Mespil Road, Dublin 4
Tel +353 (0)1 661 5933
www.bankofireland.com

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

8 July 2016

Dear Sir

Public Consultation – Levy on Financial Institutions

We refer to the announcement in Budget 2016 of the extension of the Financial Institutions Levy to 2021 and the review of methodology proposed by the Department of Finance within the Public Consultation document of 9 June 2016.

In this regard, we set out below our views on the current position and what should be considered in the review of the methodology.

Current Financial Institutions Levy

The current Financial Institutions Levy was introduced in 2013. Minister Noonan stated the introduction of the levy was to "reflect the significant role played by the banking sector in the crisis[1]". During the period 2014-2016 the levy has generated €450 million from the banking sector.

We support the Government's broader tax policy objectives of certainty over 1) rate, 2) regime and 3) reputation particularly in the context of developments in a broader European landscape. We believe that targeted taxes such as the Financial Institutions Levy should be assessed against these strategic objectives.

The Financial Institutions Levy applies to a financial institution holding an Irish (or equivalent EU) banking licence or is an Irish (or equivalent EU) building society that was obliged to pay DIRT in 2011[2]. The levy is in the form of a stamp duty and is currently calculated as 35% of DIRT paid by the relevant financial institution in 2011.

---

[1] 15 October 2013 - Minister for Finance Budget 2014 Speech

[2] Finance Act (No.2) Act 2013 - holders of a licence granted under section 9 of the Central Bank Act 1971 or held a licence or other similar authorisation under the law of any other Member State of the European Communities which corresponds to a licence granted under that section.

Public Consultation Document

The June 2016 Public Consultation Document states that the Financial Institutions Levy regime:

- should be extended for a further 5 years to 2021 with the aim of raising €150 million annually over that period;
- should continue to be calculated based on DIRT contributions but with the base year changed from 2011 to 2015 and a change in the rate applied due to a reduction in DIRT payments since 2011; and
- is not intended to extend to credit unions.

The public consultation document states that the Financial Institutions Levy was introduced in the Finance (No. 2) Act 2013 for a three year period from 2014 to 2016 with the express purpose of enabling the financial services sector to contribute to economic recovery.

In that context, we believe the following key points must be taken into consideration as part of any review of the Financial Institutions Levy methodology.

1. Recognition of banks repayment of State investment

The stated rationale for the introduction of the Financial Institutions Levy was to "reflect the significant role played by the Irish banking sector in the crisis".

In that regard, the methodology should take account of this rationale. Specifically, provision should be made for banks still in receipt of State investment not yet repaid to contribute a larger proportion as a means to ensure the appropriate repayment of taxpayers' funds to the State.

2. Narrow application of the Financial Institutions Levy & competition distortion in the Irish private sector deposits market

The Public Consultation paper on the Levy on Financial Institutions (9 June 2016) states that the express purpose of the levy is to enable the financial services sector to contribute to the economic recovery.

However, the current and proposed methodology significantly narrows the application of the Financial Institutions Levy, limiting contributors in the financial services sector to licensed banks only that deduct DIRT at source from interest paid or credited on deposits of Irish resident customers. Consequently, while accounting for almost 15% of the overall Irish private sector deposits in 2015, credit unions and An Post are not subject to the levy. This approach is different to regimes in other countries, where a more holistic balance sheet approach is applied as a proxy for risk exposure. The impact of this narrower focus in Ireland results in significant financial institutions and deposit takers avoiding any charge to the Financial Institutions Levy.

As a result, the levy could be considered to be anti-competitive in nature, on the basis that it is not being applied to all institutions, which offer deposit and savings products to consumers. The anti-competitiveness arises as the excluded financial institutions are not absorbing additional cost due to the levy resulting in a clear competitive and deposit pricing advantage.

The current and proposed methodology also excludes potential new entrants from the levy as it is calculated based on fixed DIRT positions in 2011, proposed to amend to 2015 and therefore would also confer an advantage to new entrants to the Irish private sector deposit market.

In order to create a level playing field and avoid a discriminatory levy, State aid implications and competition distortion in the Irish private sector deposits market, any Financial Institutions Levy should be applied to all deposit takers consistently.

Conclusion

The consultation paper issued by the Department of Finance in June 2016 sought the views of stakeholders on the proposed approach for calculating the Financial Institutions Levy for the years 2017 to 2021.

The consultation paper stated that the express purpose of the Financial Institutions Levy is to enable the financial services sector to contribute to the economic recovery.

Bank of Ireland acknowledges and greatly appreciates the investment made by the State on behalf of the Irish taxpayer during the financial crisis. It is also entirely appropriate that Bank of Ireland has now fully repaid this amount along with a significant additional return. We hope that other market participants are quickly in a position to repay all of their respective State investments.

We suggest that the following principles are incorporated into the methodology:

1. Contributions from banks should reflect the quantum of any State investment that remains outstanding
2. Scope of the levy should be broadened to apply to all operators in the Irish market to prevent a discriminatory levy and competition distortion in the market.

Should you require any further information, please do not hesitate to contact me.

Kind regards

Yours faithfully

Peadar Andrews
Director of Group Tax and Regulatory Reporting
Bank of Ireland