Understanding Exit Tax on Savings and Investments

The information provided is based on the current tax position of domestic Life Assurance products at the time of writing and is expected to change.

A recent Government report on the fund sector included 'domestic life assurance products' and recommended the following changes:

- Remove the eight-year deemed disposal requirement
- Align the Investment Undertaking Tax (Exit Tax) and Life Assurance Exit Tax rate with the Capital Gains Tax rate (currently 33%)
- Allow for a limited form of loss relief
- Repeal the 1% Life Assurance Levy

It is expected that some of these changes will be laid out in the coming Budget 2026 and implemented "over multiple cycles" including the reduction in the Exit Tax rate.

Background

In 2001, "Gross Roll Up" funds, traditionally only available for pension savings, became available for general savings and investments. With Gross Roll Up, your funds can grow tax free. This new approach replaced the old 'net fund' system, where tax was deducted within the fund itself and policyholders had no personal tax liability when cashing in their policy. To support this change, a new Exit Tax system was introduced for clients going forward and from 2001, Net Funds were closed to new business.

Exit Tax is payable on a 'chargeable event' and applies to the growth on the fund over the original investment. A 'chargeable event' is one of the following:

- Maturity of the policy, including on death
- Encashment of the policy, either full or partial
- Assignment of the policy, either full or partial
- On the 8th year anniversary and every 8th year thereafter.

There have been several changes to the individual exit rates since 2009, as the below table illustrates.

Date Range	Percentage
01/01/2001 – 01/01/2009	23% (Standard rate of income tax plus 3%)
01/01/2009 – 07/04/2009	(Standard rate of income tax plus 6%)
01/01/2009 – 07/04/2009	28%
01/01/2012 – 31/12/2013	30%
01/01/2013 – 31/12/2013	33%
01/01/2014 to present	41%

Current Exit Tax rates applicable as at 01/08/2025

Category	Percentage
Individual	41%
Company	25% (amended in line with corporation tax on non-trading income)

Examples

The figures and scenarios presented in the following examples are for illustrative purposes only and do not represent actual investment returns.

1

Full Encashment

Suppose you fully encash the policy. To work out the taxable gain, simply subtract the total amount invested (the premiums) from the amount received (the surrender value).

How to calculate the gain:

Gain = Amount received - Amount invested
Gain = €200,000 - €100,000 = €100,000

How to calculate the tax:

Tax = Gain × 41%
Tax = €100,000 × 41% = €41,000

So, in this example, you would pay **€41,000** in tax on the gain.

2

Full Encashment after 10 years (or following previous Chargeable Event)

Let's say you invested in a policy and paid some tax earlier – see example above. Here's how the final tax is worked out after ten years.

Amount invested (premiums paid): €100,000
Value after 8 years: €200,000
Value on maturity after 10 years: €250,000
Tax already paid after 8 years: €41,000 (from the earlier example)

How to calculate the total gain:
Total Gain = Final value on maturity + Previous tax paid – Amount invested
Total Gain = €250,000 + €41,000 – €100,000 = €191,000

How to calculate the tax owed:
Tax = Total Gain × 41%
Tax = €191,000 × 41% = €78,310

Offsetting tax already paid:
Subtract the €41,000 tax already paid from the final tax bill.

Final tax payment
€78,310 – €41,000 = €37,310

So, the final tax to pay is **€37,310**, after accounting for the tax paid earlier.

Note: The deemed disposal on 8th anniversary occurs on the value of the policy. So, where an individual has regular payments, any exit tax due is based on the full value of the policy.

3

Partial/Regular Encashment

If you only cash in part of the policy, you pay tax on the gain related to the portion withdrawn. Here's how to work it out:

Amount invested (premiums paid): €100,000

Value of policy before encashment: €200,000

Amount withdrawn (partial encashment): €50,000

How to calculate the gain:
Gain = Amount withdrawn – (Amount invested × Amount withdrawn) ÷ Policy value before encashment
Gain = €50,000 – (€100,000 × €50,000) ÷ €200,000
Gain = €50,000 – €25,000 = €25,000

How to calculate the tax:
Tax = Gain × 41%
Tax = €25,000 × 41% = **€10,250**

For future partial withdrawals: Each time you make a partial encashment, repeat this calculation using the remaining balance of the original investment.

For example, after the first encashment, the remaining original investment is: €100,000 – €25,000 (the gain already taxed) = **€75,000**

So, for the next partial withdrawal, use €75,000 as the new starting amount invested.

Exemptions to Exit Tax

The table below outlines various exemptions that may apply to certain policyholders and transactions. To ensure that 'Exit Tax' is not deducted where one of the below exemptions may apply, a declaration form must be completed before the chargeable event occurs. This declaration form is available through your designated service team.

Exemptions	
Non-residents	Non-resident policyholders (neither resident or ordinarily resident)
Certain State entities	A Life Assurance Company
	A Registered Charity
	An investment undertaking/Investment Limited Partnership/Special Investment Scheme
	A Personal Retirement Savings Account (PRSA) or Pan-European Personal Pension Products (PEPP) Provider
	A Credit Union
	National Asset Management Agency (NAMA)
	Court Services
	Pension Scheme
	Approved Retirement Fund (ARF)
	Certain investments made by Motor Insurance Bureau
Assignment of policy as security for debt	Where used as security on a debt or discharge of debt due to a financial institution.
Assignment of policy between spouse/ civil partners	May be due to granting of divorce or judicial separation for spouse or decree of dissolution of civil partnership. Whether occurring in this State or recognised as valid in this State.

There are certain categories of individuals who may reclaim the Exit Tax deducted from their investment policies, who do not fall into the exemptions list. The life company is obliged to deduct Exit Tax. However if the individual falls into any of the below categories, they may reclaim that Exit Tax from Revenue.

Repayment of Exit Tax	A permanently incapacitated individual in respect of compensation payments from a personal injury claim
	Where policy held in trust for the benefit of incapacitated individual, the income/ investment returned must be the sole or main income for the individual.
	A Thalidomide victim where investment is a result of compensation by Minister for Health and Children or the foundation Hilfswerk fur behinderte Kinder.
	The income arises or is derived from the investment of a relevant payment by a relevant individual (as defined under section 205A, relating to Magdalen Laundry payments);
	The income arises or is derived from the investment of a relevant payment by a relevant person (as defined under section 205B, relating to payments under Mother and Baby Institutions Payment Scheme Act 2023)
	The income arises or is derived from the investment of a relevant payment by a relevant woman (as defined in section 2 of CervicalCheck Tribunal Act 2019) (TDM Part 07-01-23B)
	A company within the charge to corporation tax.

It should be noted that, although these entities may be exempt from the deduction of exit tax at source in the circumstances outlined above, a liability to tax may nevertheless arise for some of the entities concerned.

In some cases where Exit Tax may be an exemption, the life assurance company must still deduct the exit tax in the normal manner, but the individual or trust may be entitled to a repayment of the tax. Where appropriate, the tax can be reclaimed when the annual tax return is submitted to Revenue.

Other relevant Tax issues

Inheritance Tax

Exit tax deducted on death of policy owner may be offset against inheritance tax due on the same policy for the beneficiary. The inheritance tax liability is calculated before Exit Tax is applied.

Both below conditions must be met:

- the same event must give rise to both the exit tax and inheritance tax
- the exit tax can only be used to offset against inheritance tax in respect of the same policy.

No additional tax liability or returns to Revenue Commissioners

The Gross Roll up system simplifies the tax for individuals, as the exit tax is paid and filed by the life office. The funds are not subject to Pay Related Social Insurance (PRSI) or Universal Social Charge (USC). Exit Tax should not be confused with Deposit Interest Retention Tax (DIRT) which applies only to deposit accounts in banks, building societies etc.

Offsetting of losses within the fund only

As the funds of a unit linked life savings or investment policy allow the funds to grow tax free within fund, it is then not possible to offset against any other individual losses.

However, if the client was to take a partial encashment from policy and pays tax on the growth, if the fund were to then fall below original investment after taking into consideration for the previous partial encashment, there would be a refund of the previous tax paid.

Stamp Duty

While assigning a policy to an individual outside of spouse/civil partner or as security for a loan is a chargeable event, it may be possible to assign a policy to Trust.

This is on the basis that the original policy holders are the trustees of the trust attaching to the policy.

Switching funds within a policy

The switching of funds within a life assurance product is not a chargeable event. There is normally a number of free switches per year and then a nominal charge thereafter.

Exit Tax paid on the 8-year anniversary of policy

As the investment is wrapped in a life assurance product, the exit tax occurs on the 8th year anniversary. For this reason, any additional single premium contributions (not regular contributions) would be set up under a new policy.

Government 1% Life Assurance levy

The investment amount for the purposes of calculation of growth on policy, will be based on the amount invested after the Life Assurance levy has been deducted and paid to Revenue. The exemptions that apply to exit tax for certain entities does not apply to the Life Assurance levy.

Residence Definitions

Residence - Individual

An individual will be regarded as being resident in Ireland for a tax year if s/he:

- spends 183 days or more in the State in that tax year; or has a combined presence of 280 days in the State, taking into account the number of days spent in the State in that tax year together with the number of days spent in the State in the preceding year.
- presence in a tax year by an individual of not more than 30 days in the State will not be reckoned for the purpose of applying the two-year test. Presence in the State for a day means the personal presence of an individual at any time during that day.

Ordinary Residence - Individual

The term "ordinary residence" as distinct from "residence" relates to a person's normal pattern of life and denotes residence in a place with some degree of continuity. An individual who has been resident in the State for three consecutive tax years becomes ordinarily resident with effect from the commencement of the fourth tax year. 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. Thus, an individual who is resident and ordinarily resident in the State in 2015 and departs from the State in that year will remain ordinarily resident up to the end of the tax year in 2018.

Residence - Company

A company which has its central management and control in Ireland (the State) is resident in the State irrespective of where it is incorporated. A company which does not have its central management and control in Ireland, but which is incorporated in the State is resident in the State except where:

- the company or a related company carries on a trade in the State, and either the company is ultimately controlled by persons resident in EU Member States or countries with which the Republic of Ireland has a double taxation treaty, or the company or a related company are quoted companies on a recognised Stock Exchange in the European Union (EU) or in a tax treaty country.

or

- the company is regarded as not resident in the State under a double taxation treaty between the Republic of Ireland and another country. It should be noted that the determination of a company's residence for tax purposes can be complex in certain cases and declarants are referred to the specific legislative provisions which are contained in section 23A Taxes Consolidation Act, 1997.

Further information

If you have any questions or would like to discuss anything covered in this guide, please feel free to contact our Technical Services team at **01 209 2020**. We're here to help.

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