100/252

TAXATION OF PENSIONS

NOTE OF A MEETING HELD IN THE FINANCIAL SECRETARY'S ROOM IN HM TREASURY ON THURSDAY, 29 NOVEMBER 1984 AT 9 AM

__Those present:__

Financial Secretary
Sir Robin Ibbs

Sir Robin explained that he had come to discuss the enormous wa ve of agitation created by the recent flurry of reports about proposals to tax pensions funds. His prime concern was with ICI's pension fund and the effect of taxation measures on the good health of the business as a whole. He wanted to show that all criticism of the proposal did not appear as the outrage of the pensions industry afraid of being hurt.

2. He promised a note setting out the effect of various different tax proposals on ICI's pension fund. It was a funded fund with assets of £2½ billion to provide pensions for 70,000 pensioners and 50,000 prospective pensioners, currently employed. Income from the fund averaged £250 million per annum so if taxed at a rate of 25% this would be a cash flow loss of £60 million per annum. The business would have to find this money itself since it guaranteed the fund and the loss of £60 million could well make the fund insolvent. Sir Robin feared that this increase in labour costs would seriously reduce ICI's competitiveness and necessitate further retrenchment. His main concern was with the proposal to tax the income and capital gains of funds. But clearly, taxes on lump sums and contributions would also, indirectly, raise the cost of providing pensions.

3. The Financial Secretary began by explaining that no Treasury

Ministers could confirm or deny rumours about Budget proposals. However, he had received similar representations from other businesses. He asked whether ICI's pension fund was under or over-funded and the interaction of that with any possible tax changes. He also pointed out that any reduction in the company's cash flow would affect the pre-tax and post-tax profits differently. He asked that any note provided by ICI should clarify this.

4. Sir Robin also commented that the proposal to tax lump sums would distress a large number of people, including those who did not have particularly high incomes. Even if the Government had transitional arrangements people would be likely to feel disappointed. Finally this would reduce the attractiveness of early retirement schemes, which industry needed to improve their efficiency. The Financial Secretary noted Sir Robin's points and thanked him for making them so concisely.

5. The meeting ended at 9.10 am.

HG.

H C GOODMAN

ECON POL: Budget Pt 13

-7 DEC 1984

Mr. Turnbull - to see

NBPM

→ JR to see & return to CF please AT 6/12

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

5 December 1984

Robin Butler Esq
10 Downing Street
LONDON SW1

Dear Robin

You wrote to me on 14 November about the points which Sir Robin Ibbs made to you on the effects on ICI of rumoured proposals to tax pension funds.

Responsibility for direct tax matters falls initially to the Financial Secretary here. He agreed to a request from Sir Robin to discuss these matters and I enclose a note of that meeting.

Yours ever
David

D L C PERETZ
Principal Private Secretary