



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

12 December 1984

A Turnbull Esq
10 Downing Street
LONDON
SW1

Dear Andrew

As you know there has been a good deal of speculation that the Budget will bring in a tax on lump sums paid on retirement, which are now tax-free. This has now reached the point at which a number of people are actively considering early retirement, before the Budget, so as to make sure of getting a tax-free lump sum.

The plain fact is that, even if we were to decide that the lump sums should be brought into tax, we should certainly want to avoid retrospection by exempting that part which could be apportioned to past service. Hence nobody would gain by bringing his retirement forward so that it occurred before the Budget. Despite the normal and necessary practice of neither confirming nor denying Budget speculation, the Chancellor thinks that exceptionally in this case this should be made clear now, in fairness to those concerned. It is clear that the speculation may lead many people to take important personal decisions on the basis of rumours that are - and will in due course be seen to be - mistaken.

A suitable opportunity will arise tomorrow during Treasury first order questions. Mr Gary Waller has an oral Question down about the tax treatment of pensions, on which the Financial Secretary proposes to use, in answer to a supplementary, the attached draft reply.

This would be sufficient to prevent the threatened rash of early retirement. The Chancellor believes it would be wrong to go any further than this in breaking the important principle of neither confirming nor denying pre-Budget rumours.

The Chancellor would be grateful if you could let him know if the Prime Minister is content with this, by lunchtime tomorrow.

*Yours ever,
David*

D L C PERETZ
Principal Private Secretary

Answer

My hon. Friend will understand that Treasury Ministers can neither confirm nor deny rumours about the contents of my RHF's Budget. I am, however, concerned at the number of people contemplating premature retirement on the basis of ~~such~~ ^{about tax treatment of pension lump sums} rumours. I can assure the House that ~~there is no reason for anyone to retire early on this account.~~ even if there were to be measures in the Budget relating to pension lump sums, they would not be such as to make it advantageous to retire before Budget day.

This just isn't
clear and will
raise more problems
than it solves

look at the wording we had
prepared. It was clearer.



10 DOWNING STREET

Prime Minister

The Chancellor would like to know if you are content with the line which he suggests taking on lump sum pens at questions tomorrow (and which you could take subsequently at your questions)

AT

12/12

CONFIDENTIAL



FROM: P WYNN OWEN
 DATE: 19 December 1984

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
 PS/Minister of State
 PS/Economic Secretary
 Sir P Middleton
 Mr Cassell
 Mr Byatt
 Mr Battishill
 Mr Monger
 Mr Allen
 Mr St Clair
 Miss Page
 Mr Lord
 Mr Cropper
 PS/IR
 Mr Munro - IR
 Mr Turnbull - No.10

CORRESPONDENCE ON LUMP SUMS

— and request if required

The Chancellor has seen Mr Munro's minute of 14 December and your minute of 17 December. He has redrafted the standard .. letter on pension lump sums as attached.

A handwritten signature in cursive, appearing to be 'P. Wynn Owen'.

P WYNN OWEN

DRAFT LETTER

Thank you for your letter of [to]
enclosing this correspondence from
who [is considering premature retirement]* because of
the rumours that a tax charge on pension lump sums may
be proposed in the next Budget.

I can set [your constituent's] mind at rest. Questioned
on this point in the House of Commons recently, the
Chancellor of the Exchequer said this:

"My hon Friend will understand that I can neither confirm
nor deny rumours about the contents of my Budget. I
am concerned, however, about reports that some people
may be contemplating premature retirement on the basis
of rumours about the tax treatment of pension lump
sums. I can assure the House that there is no reason
for anyone to retire early on account of such rumours.
This Government would not propose and the House would
not accept retrospective legislation of that kind."

*precise wording may vary from case to case