JIA 81 (1955) 0015-0050

THE TAXATION TREATMENT OF PROVISIONS FOR RETIREMENT

THE Sessional Meeting held on 22 November 1954 was devoted to a discussion on the *Report of the Committee on the taxation treatment of provisions for retirement* (Cmd. 9063).

By permission of the Controller of H.M. Stationery Office the summaries of recommendations contained in Chapters 10 and 4 (IX) of the Report are reprinted below.

CHAPTER 10

SUMMARY OF RECOMMENDATIONS

This chapter contains a brief summary of recommendations made in previous chapters. The figures in brackets refer to the relevant paragraphs.

CHAPTER 2

LIFE ASSURANCE RELIEF

The present basis of relief should continue unchanged except that (*a*) relief should be withdrawn for the future from payments which will qualify for expenses relief and from premiums on deferred annuity contracts taken out before 23 June 1916, and (*b*) the one-sixth upper limit should be modified as recommended in Chapter 6* (45, 414).

CHAPTER 4

FUTURE RETIREMENT BENEFIT SCHEMES FOR EMPLOYEES

(i) All future schemes should be submitted to the Board for approval (143).

(ii) *Our recommendations regarding the conditions of approval and the treatment to be accorded to future approved schemes have already been summarized in paragraph* 229.†

(iii) Employees should be immune from tax on contributions or notional contributions by their employers to schemes satisfying all the conditions of approval except that requiring contributions to be effectively alienated (232, 233).

(iv) Employees should be immune from tax on contributions by their employers to provident funds, if the contributions for each employee do not

* As regards self-employed persons, controlling and other directors and employees having no pension rights 'any individual falling within any one of the four classes now being dealt with who takes out a policy for temporary life cover (provided it is not for death after the chosen retirement age), shall be entitled to life assurance relief on so much of the annual premium payable as is equivalent to one-fourth of the permissible percentage of his qualifying earnings for the year in question; and that this relief shall be given notwithstanding that it might cause the total amount on which life assurance relief can be claimed for that year to exceed one-sixth of his total income for that year'.
EDS. *J.I.A.*

† Reproduced on pp. 20–23. EDS. *J.I.A.*

exceed 10 per cent. of his remuneration or £100 a year, whichever is less, and do not exceed £1000 in aggregate throughout his service (235).

(v) Staff assurance schemes paying lump sums should be treated similarly (236).

(vi) Employers' contributions to unapproved schemes should be allowed as trading expenses, either in the year of payment or spread forward, but employees' contributions should not qualify for expenses relief and investment income should not be exempt (239).

(vii) Employees should be taxed on the amount of their employer's contributions or notional contributions to unapproved schemes (246).

(viii) The consequences of failure to secure approval of a scheme should be made known widely to employers and employees (248).

(ix) Ex gratia pensions, other than those paid purely on compassionate grounds, should be taxed, whether paid by the former employer (or his successor) or by some other person (251).

(x) Ex gratia lump sums not exceeding £1000 should be exempt. Those between £1000 and £4000 should be exempt to the extent of £1000. Of those over £4000, one-quarter, or one-quarter of the capital value of the maximum contractual benefit that would have been approvable, whichever is less, with an overriding limit of £10,000, should be exempt. Successive benefits should be aggregated for the purpose of the £10,000 limit, and abuse of the £1000 limit by frequent changes of employment should be prevented. Any excess over the exemption limit, up to the capital value of the maximum approvable benefit, should be taxed by a top-slicing method. Any excess over the capital value of the maximum approvable benefit should be taxed as additional remuneration for the last complete year of service (252).

(xi) Legacies to employees should not be taxed (253).

(xii) Ex gratia lump sums to the dependants of deceased employees should be exempt up to £1000 or twice the amount of the deceased employee's final remuneration, whichever is greater, with an overriding limit of £10,000, less any benefits already received if the employee had retired before he died. Any excess should be taxed by a top-slicing method (256).

(xiii) The Board should be consulted before statutory schemes are set up by public general Act of Parliament. Schemes set up by private Act should require approval (257).

(xiv) Employees' contributions to statutory schemes, whether compulsory or not, and whether made to secure retirement benefits or benefits for widows and orphans, should rank for expenses relief (258, 260).

(xv) Employees' non-annual contributions to statutory schemes should rank for expenses relief. The aggregate amount on which relief is given in any year should not exceed 15% of the employee's remuneration, and any excess should be carried forward to subsequent years (259).

(xvi) Lump-sum death benefits from statutory schemes, to the extent that they exceed the tax-free limit recommended for non-statutory schemes (see paragraph 229 (*m*) (xii) and (xiv)), should be converted into pensions or taxed at the standard rate (261).

(xvii) Lump-sum payments to newly engaged employees should be taxed as income of the year of receipt (266).

(xviii) Lump-sum payments for the surrender of future pension rights should be taxed as income of the year of receipt, except to the extent that the build-up has been taxed as a result of the disapproval of the scheme (268).

Chapter 5

Existing Retirement Benefit Schemes

(i) Existing members of existing schemes should have an option to remain as they are or to become subject to the new treatment. New members of existing schemes should all be subject to the new treatment (283).

(ii) Existing members who opt for the new treatment and who subsequently receive a refund of their contributions should be taxed according to the new treatment on so much of the refund as exceeds the refund to which they would have been entitled immediately before the change. The latter part should be subjected to the old treatment (294).

Chapter 6

Self-employed Persons, Controlling and Other Directors, and Non-provided-for Employees

(i) Schemes for individuals in these classes, and group schemes, should require approval by the Board. Approval should be automatic where certain conditions are fulfilled, and discretionary where they are not all fulfilled (373).

(ii) Schemes should provide for retirement at a selected age between 65 and 70 (60 and 65 for women), but the Board should have power to fix lower ages for particular occupations (375).

(iii) Contributions to approved schemes should attract full income tax and surtax relief if they are within the limits summarized in paragraph 419 (386, 392, 400).

(iv) The Board should have power to waive wholly or partly the scaling down of the percentage rate of contribution on self-employed persons' and controlling directors' earnings over £5000, with a right of appeal to the Board of Referees (394).

(v) The limit of one-sixth of total income applicable to life assurance relief should be increased by one-quarter of the permissible percentage of earnings for premiums on temporary life assurance policies providing a lump sum on death before the attainment of a stated age, if that age is not more than the chosen retirement age (414).

(vi) Any excess of a contribution over the allowable limit should be carried forward and allowed in the first subsequent year in which the limit is not reached (422).

(vii) Where earnings are found to have been under-assessed, additional relief for the year concerned should be allowed if the appropriate additional contribution is paid within six months after the additional assessment has become final (422).

(viii) Subject to these two exceptions, relief for any year should be confined to contributions paid in that year (422).

(ix) Earnings, in relation to the self-employed, should comprise earned income as defined for income tax purposes, excluding income from woodlands not assessed under Schedule D, and excluding income derived from the mere owning of land or investments, but including income derived by a dealer in investments from the investments he holds, and including an inventor's income from patent rights (423).

(x) Profits should be computed in accordance with the Rules of Cases I and II of Schedule D, but with modifications regarding interest and other payments made under deduction of tax, capital allowances, and losses (424).

(xi) Earnings, in the case of directors and employees, should be the remuneration assessable under Schedule E for the year concerned (425).

(xii) Relief in Schedule E cases should be confined to contributions paid in the year of claim, but subject to modifications similar to those applicable to the self-employed where the assessable remuneration is not finally determined until after the end of the year (425, 426).

(xiii) Remuneration of controlling directors of investment companies (as defined for surtax) should not rank as earnings for this purpose (427).

(xiv) Married women should be dealt with separately from their husbands, as though they were unmarried (428).

(xv) Income from the investment of contributions should be exempt (429).

(xvi) Contributions to a fund should not be permitted to exceed the maximum qualifying for relief, and any surplus shown to have arisen in a fund should be used, as far as possible, to increase annuity rates (429).

(xvii) Apart from the temporary life assurance for a lump sum if death occurs before the chosen retirement age, benefits must be non-assignable life annuities, non-commutable except as indicated in (xxi) below. Provisions for the refund of contributions on death or incapacity before the retirement age, and for the conversion of the annuity wholly or partly into a life annuity for a surviving widow or dependent children, should be optional (430).

(xviii) Benefits should not be payable before the attainment of the chosen retirement age except on earlier incapacity or death (431).

(xix) Where incapacity is proved, surrender of the annuity for a lump sum or an immediate lesser annuity should be permitted. Arrangements for the payment in such a case of a larger annuity than the actuarial equivalent of the surrender value should be permitted if the total premium is within the permissible limits (433).

(xx) The refund of contributions in other circumstances should be prohibited (434).

(xxi) Commutation for a tax-free lump sum of up to one-quarter of the annuity, or so much as would produce a lump sum of £1000, whichever is the greater, but with an upper limit of so much as would produce £10,000, should be permitted (435–437).

(xxii) The £1000 and £10,000 limits should apply to the aggregate of all lump sum benefits an individual may receive (438).

(xxiii) Annuities received under approved schemes should be taxed in full (439).

(xxiv) Where the capital value of the balance of an annuity, after the permitted commutation, is under £500, that balance should also be commutable, subject to the taxation of the resulting lump sum by a top-slicing method (440).

(xxv) Any excess over the permissible tax-free lump sum which may be taken in lump sum form in a case of incapacity should be taxed by a top-slicing method (441).

(xxvi) Where the lump sum received exceeds the tax-free limit in any other case, the excess should be taxed without spreading, unless within three months it is converted into a non-assignable, non-commutable, and fully taxable, annuity (442–3).

(xxvii) Refunds payable on death before the retirement age should be converted into non-assignable annuities for the widow or children, if any, except that £1000 or one-quarter of the refund, whichever is the greater, but not more than £10,000, should be permitted to be retained as a tax-free lump sum. If there is no widow or child, the refund should be taxed at the standard rate (444).

(xxviii) Annuities under approved schemes should be treated as earned income (445).

(xxix) Lump sums received under temporary life assurance policies should be free of tax (446).

(xxx) Assets distributable on the winding-up of an approved fund should be used to acquire appropriate annuities for the members (447).

Chapter 7

Employees with Existing but Inadequate Retirement Benefits

The treatment recommended for non-provided-for employees should be applied, with these modifications:

(*a*) the permissible percentage should be computed on the remuneration plus the estimated annual cost to the employer of regular annual contributions which would secure the benefit he is in fact providing, and

(*b*) the maximum relief should be the permissible percentage, as above, less the estimated cost to the employer (as added to the actual remuneration in (*a*)) and the employee's own contribution to the employer's scheme (466).

Chapter 8

Changes of Occupation

(i) An employee becoming self-employed or a director should be permitted, without tax liability, to pay into a scheme relating to the new occupation any sum withdrawable from his former employer's scheme (471).

(ii) If an employee who was formerly self-employed or a director receives an ex gratia lump sum retirement benefit from his employer, any lump sum benefit from any scheme he has belonged to should be taken into account in determining the exempt part of the ex gratia lump sum (473, 476).

(iii) An approved fund for employees should be permitted to pay a member's actuarial interest to an approved fund or scheme for self-employed persons which he has joined, without any tax liability, and to receive in respect of a new member any sum he has withdrawn from an approved fund or scheme he has left (475).

Chapter 9

Purchased Annuities

(i) The part of each periodical payment representing the estimated capital content should be exempted from tax. The similar treatment already accorded to annuities-certain should be made statutory (503).

(ii) The capital content in each year's payments should be computed by dividing the actual sum paid as purchase money, whether by a single premium or a series of premiums, by the average expectation of life at the age when the annuity commences (505).

(iii) The investment income of the annuity funds of life assurance companies should be exempted from tax. All tax deducted from annuities paid should be paid over to the Revenue. The profits of the annuity business should be computed on ordinary Schedule D lines, bringing in investment income gross, deducting annuities gross, and excluding management expenses (511).

(iv) Surpluses in an annuity fund should not be permitted to accumulate improperly (512).

(v) The interest content of a lump sum paid out of the annuity fund under an unapproved pension scheme should be taxed (514).

(vi) Cash bonuses on deferred annuity contracts should be taxed (515).

(vii) Any profit arising to an annuity fund from a change in the basis of valuation resulting from the change in the method of computing the profits should be taxed (516).

(viii) The current year's annuity profits, not those of the preceding year, should be deducted from the management expenses of the company (517).

(ix) The interest content of the surrender value of an annuity should be taxed (518).

(x) Existing annuities should be taxed on the new basis in future if the annuitant establishes that his annuity is a purchased annuity (520).

(xi) Life assurance relief for premiums on deferred annuity contracts effected before 23 June 1916, should be withdrawn (521).

CHAPTER 4 (IX) PARAGRAPH 229

Summary of Proposals for Future Approved Schemes for Employees (other than statutory superannuation schemes)

(*a*) The treatment described below should apply to any future approved scheme made by an employer for the provision for any of his employees of benefits on retirement or death, including benefits for widows, children, and dependants. Benefits payable solely in the event of death or disability as the result of an accident of the sort described in paragraph 188, however, we regard as being outside the definition of retirement or death benefits.

(*b*) It should apply to schemes made by any body corporate or unincorporate for the benefit of any of its employees, or by any other employer for the benefit of an employee engaged in the employer's trade, profession, or business or in the management or maintenance of the employer's real property.

(*c*) It should not be affected by the transfer of an employee who has been employed in this country for more than a merely nominal period by a resident company to the service of an overseas subsidiary company.

(*d*) Subject to safeguards against abuses such as those referred to in paragraph 145, the contributions of an employer to an approved scheme should be treated for taxation purposes as trading expenses, management expenses, or costs of maintenance, as the case may be. Annual contributions should be allowable in the years in which they are paid. Other contributions should be allowable either in the year of payment, or in instalments in that and future years, as the Board may direct.

(*e*) Reasonable pension payments by an employer himself to a former employee or to the widow or dependant of a former employee should be allowed as trading expenses (or management expenses or costs of maintenance, as the case may be).

(*f*) Reasonable lump-sum benefits paid by an employer himself to an employee, or to the estate, widow, or dependant of a deceased employee, and lump sums paid by the employer to purchase benefits for an employee or his widow or dependant should be allowed as trading expenses (or management expenses or costs of maintenance, as the case may be) either in the year of payment, or spread over that and future years, as the Board may direct.

(*g*) An employee should not be taxed in respect of the employer's actual or notional contributions to the scheme.

(*h*) An employee should receive expenses relief in respect of his own contributions, whether made annually or otherwise, up to a limit of 15% of his remuneration in any year. Any excess contribution should be available for relief in a later year in which the 15% limit is not reached, so long as he is in the same employment.

(*i*) Investment income arising from accumulating contributions to an approved scheme should be exempt from tax. This should extend to the income of the annuity fund of an assurance company, and, if the necessary segregation can be achieved, to the income of so much of the life fund as relates to assurance contracts forming part of the scheme.

(*j*) Pension benefits should be taxed year by year as they arise. Approved lump sum benefits paid to a retiring employee, or to the widow, child, or dependant of a deceased employee, should be tax-free. Any excess over the tax-free limit which takes lump sum form, because the pension it would buy would be trivial, should be taxed by the 'top-slicing' method (see paragraph 162). A lump sum paid in commutation of a pension on an employee's retirement in an exceptional case of serious ill-health should be exempt from tax up to one-quarter or £1000, whichever is the greater, but with an overriding exemption limit of £10,000. Any excess over this exemption limit should be taxed by the 'top-slicing' method. Lump-sum benefits (including refunds of contributions) paid to the estate of a deceased employee who left no widow or dependant should be taxed at the standard rate, but should not be treated as taxed income of the estate or of any beneficiary of the estate for any other purpose.

(*k*) Where an employee's contributions to an approved scheme are refunded to him in his lifetime, with or without interest, the refund should be taxable. Income tax should be deducted from the amount of the refund at the standard rate, but the employee should be entitled to claim that it should be adjusted to tax on the amount of the refund at the average rate at which he obtained relief on his contributions in the last six years of his service. Surtax equal to the aggregate surtax relief allowed on the contributions which are refunded, and on any addition by way of interest, should be separately charged. The income tax and surtax should be repayable if within twelve months the employee pays the net refund into another approved scheme, and also gives a mandate for the repayment of tax to be made directly into that other scheme. Where a policy is taken instead of a cash refund, the tax appropriate to its surrender value at that time should be deducted from any subsequent cash proceeds of the policy paid in lump sum form, and paid over to the Revenue.

(*l*) An employer's contributions to an approved scheme which are refunded to him, or a surplus paid to him on the winding-up of a fund, should be treated as taxable income.

(*m*) A scheme should be entitled to automatic approval if it satisfies all the following conditions, and one that does not satisfy them all should be capable of approval if the Board in their discretion see fit:

(i) The employer is resident in the United Kingdom and the undertaking to which the scheme relates is carried on wholly or partly in the United Kingdom.

(ii) The employer contributes at least one-third of the total cost of the scheme, either by making advance payments to a third party or by himself paying the actual benefits.

(iii) Each employee is given a prescribed title to defined benefits and the terms of the scheme are made known to the employees concerned.

(iv) The diversion of the employer's own contributions to the scheme to any other purpose and their refund to him except where circumstances arise which defeat the purpose of the scheme are prohibited. The refund to an employee of *his* contributions before he has become entitled to the benefits provided by the scheme is similarly restricted to cases in which the employee leaves the employment.

(v) The benefits afforded by the scheme will accrue only on retirement at a specified age or on earlier incapacity, or on death (approval should not be required, however, if the benefits are payable solely in the event of death or disability as the result of an accident arising in the course of or in connection with the employment).

(vi) The nature of the benefits afforded will be the same in relation to all the persons to whom the scheme relates, but a scheme relating to more than one class of employee may be regarded as so many separate schemes for this purpose.

(vii) The scheme is exclusively for the benefit of the employee or employees and his or their widows, children, surviving dependants, or legal personal representatives, but on an employee's taking up different employment, transfer payments to an approved scheme connected with the new employment may be permitted.

(viii) On a winding-up of a scheme, the assets are required to be used primarily to meet the claims of existing and prospective pensioners, and are to be applied in the purchase of non-commutable and non-assignable annuities for them, except to the extent that the scheme could itself pay lump-sum benefits in the ordinary course. If a surplus should remain after all such claims have been fully satisfied, provision may be made for it to be used to augment the annuities appropriately, or for it to be paid to the employer.

(ix) The aggregate value of the benefits payable on retirement will not exceed that of a pension of one-sixtieth of final remuneration, as defined below, multiplied by the number of years of service with the employer, up to a maximum of two-thirds of final remuneration, except that if service with the employer exceeds forty years and is extended beyond the age of sixty, an additional sixtieth of final remuneration may be added for each such additional year of service, up to a maximum of five additional sixtieths.

(x) Where the total value of the benefits payable on retirement does not exceed £4000, not more than £1000 may be payable in tax-free lump sum form. In other cases, at least three-quarters of the value of the benefits payable on retirement or, where they exceed £40,000 in value, the excess over £10,000, will be in the form of non-assignable and non-commutable pensions. Where the pension would be trivial, however, and in exceptional cases of ill-health where the expectation of life is very short, provision may be made for the payment of the whole benefit in lump sum form.

(xi) The aggregate value of the benefits payable on death or disability during service will not exceed the value of the maximum benefits on normal retirement that would have satisfied condition (ix) if the employee had survived and remained in the employer's service to the specified retirement age, but had had no further increases in remuneration.

(xii) On the death in service of an employee who leaves a widow, child, or dependant, not more than twice the annual amount of the employee's final remuneration, or £1000, whichever is greater, but in any event not more than £10,000, can take tax-free lump sum form, and the remainder will be non-assignable and non-commutable pensions to the widow, child, or dependants, or any of them.

(xiii) The aggregate value of the benefits payable on the death of a former employee after his retirement will not exceed the value of the benefits to which he himself became entitled on his retirement, less any benefits actually paid to him or, if it is greater, the value of a life pension to his widow half the size of the pension he had been receiving.

(xiv) The benefits payable on the death after retirement of a former employee who leaves a widow or dependant will be mainly non-assignable and non-commutable pensions. The tax-free benefits should not be greater than twice the annual amount of the employee's final remuneration, or £1000, whichever is greater, but in any event not more than £10,000, less the total benefits actually paid to him on and after his retirement, up to the time of his death.

(xv) No period of service of a person, in whatever capacity, rendered by him while he is a director of a company, other than a whole-time service director, will be taken into account for any of the purposes of a scheme made by that company.

(xvi) Final remuneration, for the purposes of these conditions, should be the average remuneration over the last three years' service with the employer concerned.

A reservation signed by two members of the Committee dissociated them from some of the recommendations of Chapters 6 and 7 and from the arguments upon which they were based.

An abstract of the evening's discussion follows.

The President (Mr J. F. Bunford) said that the subject which was to be discussed was probably one of as wide an interest as any that had come before the Institute in recent years. The subject was of vital and personal interest to almost the whole of the population of the country, while certain sections of the Report recommended measures which might be taken to enable the self-employed members of the community to enjoy somewhat similar treatment in the provision of retirement benefits to that which was available to those who were in employment.

On such an occasion, it was a great pleasure to have present a number of important visitors who had all concerned themselves closely with the problems involved in the Report. No one could be more closely involved than Mr Millard Tucker himself, and he wished, on behalf of those present, to say how very sincerely they appreciated the fact that Mr Millard Tucker had spared the time to come and join them in the discussion that evening. Mr Millard Tucker had indicated that he felt bound to adhere to his self-imposed rule not to take part in any public discussion of the Report while it was, in a manner of speaking, *sub judice.*

Mr Geoffrey Heywood, in opening the discussion, said that the first meeting of the new Session of the Institute, after the election of the President, was traditionally taken up by the Presidential Address. The Millard Tucker (No. 2) Report had been published almost at the end of the previous Session, and the second meeting of the new Session was therefore really the first opportunity which the Institute had had of discussing the subject. In view of its importance and the widespread interest in the Report, it was indeed most appropriate that the Council had taken the opportunity of bringing it forward for discussion at the earliest possible moment, and possibly with the advantage that the time which had elapsed had given members an opportunity to ponder on their first impressions.

As opener, he would range briefly over the whole Report and direct attention to some of its more interesting aspects rather than comment in detail on those parts which he personally found most interesting.

The growth since the war in the number of retirement benefit schemes and the number of employees covered had been quite phenomenal. That fact alone indicated the importance of the subject not only as a professional one affecting actuaries, but as a national one affecting the lives, as the President had said, of such a large proportion of the community.

With such rapid expansion, it was only to be expected that the legislation governing taxation had evolved somewhat piecemeal, and certainly had not kept pace with development. As a result, many anomalies had arisen, some of which were indicated in paragraph 272 of the Report. That situation had been recognized in 1948, when a Joint Report had been submitted to the Chairman of the Board of Inland Revenue by the Federation of British Industries, the Association of Chambers of Commerce, the Life Offices' Association and the Association of Superannuation Funds. The Committee had been only an informal one, but it had nevertheless indicated the need for the whole problem of the taxation of retirement benefit schemes to be thoroughly examined.

It was not until August 1950 that the Chancellor had set up, with wide terms of reference, the Committee under the chairmanship of Mr Millard Tucker, which had generally come to be known as 'Millard Tucker (No. 2)'. Evidence had been given before the Committee by the Institute and also by the Faculty, and the memoranda which had been submitted were set out in full in *J.I.A.* (77, 452 and 463).

The Report of the Committee was indeed voluminous. He did not think it could be looked upon in any sense as light reading, and some of them were probably eternally grateful to the genius who had thought of putting the important bits in heavy type!

He wished first to draw attention to the fundamental principle of the taxation of those schemes, namely, to exempt from taxation the build-up of *bona fide* and reasonable schemes, but to tax the benefits as and when they emerged. That principle was the basis of the 1921 Act legislation. It had been recommended by the 1948 informal Committee, and it also had the blessing of the Institute in the memorandum to which he had referred. It was therefore gratifying to find that the Committee accepted that fundamental principle and accordingly recommended that all contributions both of employees and employers, whether annual or lump sum, should be allowable as expenses for taxation purposes, subject, of course, to certain limitations with which members were familiar.

At the time of speaking, however, investment income was only exempt from tax in self-administered 1921 Act schemes; but it was recommended in the Report that investment income should be exempt from tax in all approved schemes. Where the scheme was operated by the purchase of deferred annuities from an insurance company, that part of the investment income of the annuity fund which related to those deferred annuities should be exempt, and the investment income of a life assurance fund should be exempt from tax to the extent that it arose in respect of benefits forming part of an approved scheme. That removal of anomalies in the treatment of interest income was a direct consequence of the acceptance of the fundamental principle to which he had referred, and he was sure that the proposal was one which would receive a warm welcome.

As regards benefits, pension payments had been treated as earned income, and it was recommended that that should continue. In schemes under the 1947 Act lump-sum payments on retirement were tax-free, subject to certain limitations, but they were not permissible if full approval was to be obtained under the 1921 Act. In his opinion, the payment of a tax-free lump-sum retirement benefit was quite inconsistent. If remuneration in its broadest sense was to be relieved of tax, it was surely economically more desirable, and certainly more equitable, to reduce the standard rate of tax rather than to exempt lump-sum benefits on retirement to those few who were fortunate enough to receive them. The desirability of lump-sum benefits as such was very much open to question, but he had not the time to pursue that argument in detail; he would say, however, that he was not in favour of lump-sum benefits except in special circumstances. There was, he felt, a great deal more than was sometimes appreciated in the simple statement that the purpose of a pension scheme was to provide pensions. It was unfortunate, he thought, that the Committee, while fully appreciating the lump-sum anomaly, had reached the conclusion that tax-free lump-sum benefits should be continued, subject to certain limitations, and had given as a reason the fact that the practice was firmly established. Such a slender justification, however, applied to many other anomalies which the Committee sought to remove, and could hardly, therefore, justify the continuance of what was admittedly an illogical and anomalous situation. He preferred the alternative of either taxing lump sums on the basis of some forward spread, or making their exclusion a requirement of approval.

The problem of return of contributions on withdrawal was also an interesting one. The logical arrangement was that such returns should be subject to income tax and that the rate of tax should be the actual rate at which relief had been allowed during the period when the contributions were paid. That principle was recognized by the Committee, and it was recommended that refunds should be charged to tax at an average rate at which relief had been received during the previous six years, or the whole period of service, if shorter. It was also recommended—and he thought rightly so—that returns of contributions which had received surtax relief should have surtax levied if they were refunded. In the case of returns of contributions on withdrawal, the theory was, he thought, crystal clear, but the difficulty was to keep the administration simple.

He was sure that all members would agree that it was essential that approval should be restricted to *bona fide* and reasonable schemes, and there were no less than sixteen conditions laid down in the Report which were to be satisfied if approval was to be granted. It was also proposed that the approval should be automatic if those conditions were satisfied. The current arrangement was that the Inland Revenue were allowed considerable discretion as to whether they should approve a fund or not. While discretion might still be necessary for certain aspects in the future, he thought it was obviously desirable that automatic approval should be introduced to the maximum practical extent.

Dealing with the proposed treatment of existing schemes he said that, if the recommendations for the future were to be applied automatically to existing schemes, it might well be that certain existing employees would be treated less favourably than formerly. The principle of the preservation of existing rights was a time-honoured one and, he thought, a sound one, and he felt that it should be accepted even at the expense of some of the complications that it might involve. After considering all aspects and possible suggestions on that particular problem, the Committee admitted that no ideal solution could be found, but they recommended that existing schemes should be divided into two parts as from a specified date: one part would consist of existing members, and would continue to be treated according to the old rules but closed to new entrants; and the other part would be approved under the new conditions and would receive all new members of the scheme. Existing members, however, would have the option during a period of two years of changing over to the new section if they so desired. That procedure, he was aware, had been subjected to certain criticisms already, but it seemed to him to be a fair way of dealing with the matter, although he appreciated that it meant that the old rules might well continue in existence for some forty years or so.

The most controversial part of the Report was undoubtedly that which dealt with what he would call 'the depressed classes', the controlling directors and the self-employed, to which latter class, as a consulting actuary, he had the doubtful privilege of belonging. That was a subject on which the Committee had not been unanimous, and it would be remembered that a reservation in that connexion had been signed by two members and included at the end of the Report.

There were four classes involved: the self-employed, controlling directors, part-time directors and employees who were referred to as 'non-provided-for employees'. It was significant to note that the self-employed were put at no less a figure than 2m., and that the other three classes combined were estimated to number 9½m. The number of people affected, therefore, by that particular section was almost twice the number who were known to be in existing schemes or to have existing rights. The problem was therefore of the greatest importance to many members of the community.

The difficulties in connexion with those classes were three: first, the difficulty of defining in advance a fixed retirement age; secondly, the method of dealing with fluctuations in remuneration which were likely to occur; and thirdly, the extent to which there was a capital element accruing to the individual during his working life. Nevertheless—and he thought that was most important—the Committee had arrived at the general conclusion that there was a very sound case that those classes should be able to provide for their retirement in accordance with the same principles as applied to employees. There could, indeed, be few, if any, who would disagree with that principle. But the difficulties arose in the safeguards necessary to avoid abuse and to meet the different circumstances of those particular individuals.

The detailed recommendations of the Committee were long, and it was sufficient at that stage for him to say that they envisaged that the contribution should be fixed at certain percentages of remuneration according to the type of scheme and the benefits left to emerge on money purchase lines. The Minority Report was based on the principle of extending life assurance relief into the surtax ranges, and while those proposals had the merit of simplicity, he personally leaned to those of the main Report. He hoped that in the subsequent discussion members would comment in detail on that section of the Report.

Dealing with the problem of transferability he said that in the early days of pension schemes it had been felt that one of their advantages was to keep individuals with their employers and so avoid the loss of valuable services. However, with the phenomenal growth a new idea had come to be considered, namely, that of deferred pay; in other words, the total remuneration of an employee was considered to be paid partly during his working life and partly after he had retired, and it was on the basis of that idea that the principle of free transferability was based. In the public service and in schemes of the nationalized industries, transferability was usually permitted, and there had in recent years been a mass of rules making provision for those interchanges. But in industry the need for transferability was being recognized much more slowly. There was still a feeling among some employers that it was not a good thing to let an employee go and work for a competitor. Nevertheless, it was his experience that there was undoubtedly a trend towards greater transferability, and it was a trend to which he would give full support. In fact, he felt it inevitable that free and complete transferability had to come, and it was therefore desirable that the taxation law should in no way hamper its introduction. He was consequently particularly glad that the Committee had decided to recommend that the existence of rules permitting transferability should not be an obstacle to approval.

The Report also considered the taxation of purchased annuities and the taxation of the annuity fund. The Committee said that that matter was the subject of more recommendations to them than any other, and, as might be expected, almost all those recommendations had concerned the point that annuity payments were being treated wholly as income, whereas part of each payment was really a return of the original capital invested.

That, of course, was an old problem. As long ago as 1851, a Select Committee had considered a great deal of evidence on the subject, but that Committee and all other subsequent Committees except the Millard Tucker Committee had taken the view that the whole of each annuity payment should be treated as income. The Millard Tucker Committee considered that an annuity payable for life should be split in such a way as to exempt the capital element from tax, although many actuaries would probably disagree with the view expressed that the capital and interest elements could not be calculated exactly until the death of the annuitant. He preferred the view that each instalment of an annuity was in fact divisible into three parts—interest, return of the annuitant's own capital, and the return of other annuitants' capital; and all those could be closely determined at the date of purchase. The difficult question, as he saw it, was whether the third of those elements—other annuitants' capital—should properly be taxed. The Committee's recommendation indicated presumably that it should not, because they recommended that the capital element be calculated by dividing the purchase price by the expectation of life. Whatever might be felt about what parts of annuity payments should be taxed, he was sure that among actuaries there would be a warm welcome for the new viewpoint which the Millard Tucker Committee had taken.

In the case of the annuity fund, profits were in general taxable by deduction from the management expenses of the whole company, but the tax which was deducted on the interest income of the fund might be recovered to the extent that tax was deducted from annuity payments made. It was a specialized subject and one which he would not pursue in any detail, but the proposals of the Committee did appear to have the merit of simplicity and would undoubtedly, if adopted, remove the complexity and some of the inequities which arose from the ruling system.

It was recommended, first, that the investment income of the annuity fund should be exempt from tax, and that the tax deducted from annuity payments should be paid over to the Inland Revenue, and secondly, that the profits arising in the annuity fund should be taxable by deduction from the management claim in the company's tax computation as a whole. It was a pity, however, that the Committee had preserved the anomaly whereby annuity profits in excess of the management expenses escaped tax completely because there was no existing machinery for their collection.

That brought him to the end of his comments on the Report itself, but he wished to conclude with a few general remarks. It was as long ago as 1660 that Samuel Pepys became Clerk of the Acts of the Navy Board and had to deal with his predecessor. Having successfully fobbed him off because he showed signs of trying to take on the job again, Pepys had eventually solved the problem by paying him a pension out of his own salary. Whether he deducted those pension payments as an expense in his tax computation had of course not been stated! (*J.I.A.* **76**, 34). But in all that long story the Report would stand out as a landmark on the whole subject of retirement benefit schemes. Its thoroughness was impressive; every point which arose in daily practice could be found somewhere in the Report, and while it might not be possible to agree—and in fact it would be unreasonable to expect everyone to agree—with the detailed proposals, they nevertheless represented a realistic effort to put the taxation of retirement benefit schemes on an equitable basis.

He made a plea of urgency regarding the need for the proposals to reach the Statute Book. If, as he feared, reasons of expense prohibited the introduction of relief for the 'depressed classes', he would urge that the proposals for rationalization and removal of anomalies be given a high priority. A system of taxation of schemes could be introduced which would be a great advance on current conditions.

There were many who sought advice on pension schemes; there were also many who advised. But every retirement benefit scheme embodied at its roots some actuarial principles, and he hoped that the discussion, which he had had the great privilege of opening, might remind some of the particular experience of actuaries in that sphere where, in the words of Mr W. F. Gardner, they sought to present the truth as according to their training and ability they could best discern it.

Mr P. R. Smith remarked that, although what he would say would be largely critical of the Committee's conclusions and recommendations, he wished at the outset to make it clear that he regarded the Report as a whole as being a masterly statement of the past history, present practice and issues involved in the taxation of retirement benefits.

It was clear that the Committee had received many representations that certain classes, particularly the self-employed and controlling directors, had grounds for some taxation relief because they found it impossible, in current circumstances, with rates of tax as high as they were, to maintain the standard of living to which they were accustomed and at the same time put by enough to provide themselves with what they regarded as a reasonable standard of living on retirement. He suggested however that, although it was true that many of those people were finding difficulties, that did not by itself constitute a ground for the taxation law being altered in their favour. There had been, since the war, big social changes which had altered the relative economic positions of different classes of the community, and it was not to him self-evident that there was a case for the State stepping in to try to rectify part of those changes in so far as they affected certain classes.

It was suggested that self-employed people were in an unfair position as opposed to employees of firms which provided pension benefits. He felt that when they were considering questions of fairness and equity, they must look at the whole picture. It was easy for a person, if he wished to arouse sympathy for himself, to pick on some particular aspect of his circumstances in which he compared unfavourably with somebody else and say, 'Now, isn't that unfair?' Surely it was right to consider the financial position of those people as a whole and not consider only the question of retirement benefits. He had more sympathy for the conclusions of the Minority Report on that matter than he had for those of the Majority.

The Committee themselves had obviously felt that the arguments were inconclusive, because they had sought to find a principle on which they could justify their proposals for affording relief to the self-employed, and the principle which they propounded was that where a person was employed his remuneration could be regarded as being spread not only over his working life but over his whole life and even over the lives of his widow and dependants. The Committee suggested that that principle was behind the recommendations of the 1920 Royal Commission, and that it was a principle which had become firmly recognized as forming part of the current income-tax system. He questioned those conclusions. So far from the principle being firmly recognized as forming part of the current system, he imagined that the great majority of people were not aware of the principle at all. The principle might or might not be a good one, but he felt that the Committee had attempted to give to it an appearance of venerability which was quite false.

If it were conceded, however, that something should be done to assist self-employed people and controlling directors—the 'depressed classes'—to provide for their retirement, would it really be necessary to set up a system so cumbersome to administer as the Committee had recommended? There he felt that the Committee had been too much bound by the past. He considered that that came out clearly, as the opener of the discussion had already said, in the Committee's treatment of lump-sum benefits. On the principle which the Committee propounded there was no justification at all for tax-free lump-sum benefits to be paid when the build-up had been exempt from tax. The Committee were not prepared to go as far (and he did not blame them) as suggesting tax-free lump sums of as much as £40,000, which it was said were available under the 1947 legislation to some individuals. He imagined that many would have been as surprised as he had been to find that there were fortunate individuals who could get £40,000 tax-free out of a build-up which itself had been exempt from tax.

No doubt the Inland Revenue could justify the practice, but he would be interested to know what the justification was. He thought it was a pity that the Committee had not had the courage of their convictions and decided that, if the build-up was to be tax-free, either lump-sum benefits should be excluded altogether or else they should be taxed.

He had mentioned the cumbersome arrangements which the Committee suggested. The Minority Report referred to them as 'the enormous administrative complexities inseparable from the Committee's recommendations', and he felt that that was a perfectly justified description.

Who would, in fact, take advantage of those proposals? In paragraph 303 of the Report, there were figures for the range of incomes of the self-employed, and it would be seen that of approximately 1,700,000, 1,500,000 had profits of under £1000. He thought that if the Committee's recommendations were implemented, it would be largely, if not entirely, the people in the higher range of incomes who would take advantage of them. How many of those present could honestly imagine their newsagent, their greengrocer or their baker knowing anything about the recommendations, let alone being prepared to take on all the complications of getting approval for his contributions? Surely it was obvious that it would only be the person with the large income who would take advantage of the recommendations to any great extent. He considered that something on the lines of the Minority Report recommendations for an increase in the life assurance relief, and its possible extension to surtax, would be an equitable and much simpler method of dealing with the problem.

There was also the suggestion implied in the Report of variable premium deferred annuities for the self-employed. He did not know how those policies would be written; would they be written as single-premium deferred annuities without any guarantee of rate of premium for future premiums, or would a rate guarantee be given—and if so, within what limits and up to what amounts? It seemed to him that, if a rate guarantee of that kind were given, a large option would be given to the assured, and he wanted to be sure that it would be paid for.

The necessary administrative arrangements would be extremely complex. He could imagine that many of the people concerned would not know for a considerable time what their permissible contributions were, and it seemed quite possible that the date when they knew how much they could pay by way of premium would vary widely from year to year. It seemed that offices would have great administrative difficulties in dealing with policies of that type where premiums might come in at widely irregular intervals and for widely different amounts. He had been unable to repress a smile on reading in the Report that those were really matters of administrative detail which the Committee felt it need not take up time to work out precisely. He felt that if the recommendations were adopted, many actuaries and many of the already hard-worked staff of the Inland Revenue Department would have to take up a great deal of their time in working out precisely the details.

Mr William Phillips said that, like the opener, he was a self-employed person; that statement was literally true, but it was not intended to be taken literally.

An elderly and distinguished solicitor had once favoured a young and inexperienced barrister with a conference, and had opened by saying, 'I'm old, I'm deaf, and I'm stupid.' 'Oh!' the young barrister had gallantly said, 'no one could accuse you of the last.' 'What do you mean, young man?' the solicitor had said, 'I am talking of our client.'

In the spirit of that story, he was 45 years of age; he was a self-employed person; he had nineteen employees. All the employees were capable of benefiting under a s. 379 scheme, but he was not—so there was no scheme! He was in the hands of the bank who would not allow him to draw as much money every week as the trade union compelled him to pay his foreman. But he was out!

They should not that evening think of the 200,000 people with over £1000 a year, but of the 1,500,000 self-employed persons having an income of under £1000.

The Committee had considered an enormous subject and produced an exceptionally good Report which would be useful for all time. The first half alone was the best text-book on the subject ever produced. He thought also that the personnel of the Board of Inland Revenue were doing an excellent job and, though they were sometimes found to be a little difficult, if they were subject to review they would not be able to do their work so well because they would be bound by precedents. In his opinion, however, it would be helpful if the Board of Inland Revenue would publish somewhere the decisions as they made them; it would save the time of the Board in the end if each individual did not have to find out those things himself every month or two by trial and error.

Having praised the Report he wished also to criticize—he felt that it was weak in its treatment of widows' benefits. He wished the Committee could have seen its way to go a good deal further in its recommendations of what could be provided for widows' benefits for self-employed persons. As a self-employed person, or one briefed thereby, he had been much impressed by the words of the past President of the Institute in his Presidential Address two years previously:

> It is, in my opinion, in the interests of all concerned that every employer who may consider setting up a scheme should know that there are two broad possibilities open to him and should weigh carefully their respective merits in the light of his own circumstances and preferences.

Self-employed persons wanted to be free either to set up their own scheme, or to go to an insurance company. He thought it would be very unfortunate if a scheme were legalized which could only be instituted through an insurance company. Furthermore, he did not think insurance companies would like that.

He thought the general tenor of the Report kept an even balance between private schemes and office schemes, despite some repeated references to 'premiums' in parentheses after the word 'contributions', and one unfortunate use of the word 'premium' alone in §(xix) on p. 149. He was sure that neither the Committee, nor anyone present at the meeting, wanted to show any bias between the two plans.

Ever since the eighteenth century it had been possible to get a life income for total incapacity. Perhaps he had misunderstood the reference in §433 to administrative difficulties; from what he knew, if there was a demand for something the insurance companies would fill the demand. So he hoped that Parliament would think only of what the self-employed person needed, and leave the private schemes and the insurance companies to find out how to give it to him.

He thought the self-employed should be split, all those who had employees being grouped with whole-time working directors as employed-employers. He would amend s. 379 to make it clear that a person who was manager of nineteen employees was just as much employed as were those employees. It would not take more than a few words to amend the section to make that clear. If there were then put into that section after the word 'employer' the words '(if any)' in parentheses there would be brought in the 'soloist' self-employed persons also.

His complaint against the Committee was that it was going to give a very handsome present—but not yet; perhaps in fifteen years' time. The self-employed would be better off with a much less glittering present at once. He could not see why s. 379 should not be modified in the manner he had suggested, since every scheme that wanted to amend itself to bring in those newly recognized employed persons would have to be amended, and amendment would involve the application of the new rules—the £2000 limit, the two-thirds limit, the 15 % limit. (That that would exclude tax-free lump sum payments other than upon death was in his view not the least advantage of the procedure.) If thought necessary s. 379 could at the same time be amended so that no scheme be approvable thereunder with a lower normal pension age for men than 65.

Mr G. A. Hosking felt that, as an employee, he could perhaps differ from the previous speaker in being unbiased. Being in industry, perhaps also he could differ from him in thinking in terms of the self-administered scheme rather than insurance companies.

It was suggested in the Report that the contribution from self-employed and non-provided-for employees should be limited to 10 % for type A benefits and 12 % for type B benefits, the type B benefit including also a death benefit—in fact, that was presumably the reason for the higher rate. There were also suggestions for higher amounts in certain circumstances, but those would disappear as time went on.

He was not sure whether the Report intended to convey that the limits of 10 and 12 % should be absolute maxima, or whether the Board of Inland Revenue should have the right to approve a scheme with higher amounts if they thought fit; but if they were absolute limits, he suggested that at least the 12 % for the type B benefit had been fixed so low as positively to discourage the provision of widow's pension benefits.

He had made a few quick calculations for a man who became self-employed at age 25, which was probably an unusually low age at which to become self-employed. He had taken what he regarded as a reasonable progression of earnings during the course of the man's lifetime, taking it as flat for the last ten years in an endeavour not to exaggerate the rate; and he found that, in order to provide himself with a pension based on one-sixtieth of his final income (which it had been necessary to assume) for each year of service and in order to provide his widow with a pension on his death in service of one-third of his current income and a pension of one-half of his pension, which would be one-third of his final earnings, a contribution of just over 18 % was necessary. So with a maximum of 12 % the pensions would be inadequate or the widow would not get a pension.

He found the estimates of cost given in the Report a bit puzzling. In order to arrive at those costs, it was assumed that all the self-employed, controlling directors, etc., would take advantage of the full benefits and one-half of the non-provided-for employees would take advantage of them. The cost was given as £65 million, a figure that had been largely quoted, and many people thought that it represented the cost to the Exchequer of self-employed persons' pensions. There was another estimate given, however, in which the whole of the self-employed were included and one-quarter of the non-provided-for. That figure was given as £50 m. That meant that one-quarter of the non-provided-for cost £15 m., and that one-half of the non-provided-for would cost £30 m.; taking the figures of £30 m. from £65 m., it followed that the self-employed cost only £35 m.—a very different story from that which had been widely publicized in the Press. In any case, he suggested that the assumption that the whole of the self-employed and either a quarter or a half of the non-provided-for would take advantage of the maximum benefits was putting the figure higher than was likely.

The opener had referred to the recommendation that, in the case of an employee scheme, tax on withdrawals should be levied on the basis of the average rate at which the employee had had relief from tax during the preceding six years. In practically every case that would mean charging more tax than the tax relief which the employee had had during the course of the payment of the contributions. If, for example, he had paid contributions for 20 years on a rising salary and therefore had a rising rate of tax relief, he would on withdrawal be charged on the basis of the six highest years. The effect might be that he would be charged one and a half or even three times as much tax on his withdrawal benefit as the relief which he had had.

It was proposed that if there was no widow or dependant (which it would be very difficult to determine without a lot of inquiries), the death benefit was to be taxed at the standard rate without any right for anybody to recover any of the tax. That seemed to him to be an entirely new principle in that certain money was to be treated as income for income-tax purposes but for no other purposes (not even surtax); moreover, it introduced again a principle which had been discarded a few years previously when legacy duty was withdrawn—namely, that a different rate of tax was to be payable according to the relationship of the beneficiary to the deceased. It was a great pity to have that principle introduced again, particularly as apparently the only reason for it was the provision of some compensation to the Revenue for loss of tax in other directions. The number of cases where there would be no widow or dependant would be rather small. It would not always be easy to discover whether they existed, and the amount of tax gained by the Revenue would therefore be comparatively small and would involve a great deal of trouble to everybody.

Another important point was the question whether an individual was to remain under the 'old tax rules' or the 'new tax rules'. It was suggested in paragraph 283 of the Report that when the new tax legislation came into operation, each individual should have two years from a specified date in which to make up his mind, presumably once for all, whether he would remain under the old or the new tax rules. It seemed to him that it would be very difficult for the individual to decide. Pension fund secretaries would be flooded with inquiries as to what would happen. In a scheme which provided pensions only, on the face of it the obvious choice for the individual was to remain under the old rules; he had nothing to gain by going on the new rules, and if he became a withdrawal under the old rules he would probably get a better tax position. Suppose, therefore, that an individual made such an election and that five years later the rules of the scheme were amended to provide for a tax-free lump sum. Having elected to go on the old rules, he could take advantage of that or, if he did not, presumably he would have to remain in a section of the scheme which would be partially approved under the old tax rules. There would then be a rather odd position arising.

He had given a great deal of thought to what the alternative could be to that two years from a specified date, and he confessed that he had not found what he could regard as a satisfactory solution. The only one which he thought had any hope in it was something on the lines that everybody was given one year in which to decide, which would greatly reduce the administrative difficulty in getting people to make up their minds quickly; and then, if at any time the rules of a scheme were amended, with Inland Revenue approval, everybody who had gone to the old rules previously would be given the opportunity to go under the new rules, subject again to, say, a 6 months' time-limit. They would have to change over within that time. Unless there were some reopening of the options, he could see all sorts of complications arising. Suppose, for example, there were an entirely new scheme coming into operation covering the same people but on their salaries above a certain limit; it might make a great deal of difference if they had made a different choice at an earlier stage, and it seemed hard that an election at, say, age 25 to remain under the old tax rules should remain in operation for the rest of life.

Mr F. W. Bacon had been glad to hear the opener of the discussion stress the fact that the primary purpose of a pension fund was to pay pensions, and he confessed that he shared the opener's doubts about the advisability of the recommendation about lump sums. There were constant warnings about the growth in the proportion of the old people that would take place during the coming years, and he thought it was generally agreed that pension schemes provided one of the best means whereby the old people could be assured of an adequate income. He was afraid that the lure of tax-free lump sums might divert pension funds from that end and result in inadequate pensions in many cases. The maximum retirement benefits would normally be limited to the value of a pension of two-thirds of final salary, but in practice, of course, there would be many pensions falling considerably below that maximum. The lump sum was to be in lieu of part of the pension and not in addition to it, and it therefore reduced the maximum pension to one-half of the final salary. Furthermore, in the case of small pensions up to, say, £2 a week, the whole of the pension could be commuted. (He was referring, of course, to the position if the Millard Tucker recommendations were put into force.)

Nor would the reduction stop at the member's pension. The provision of a widow's pension in addition to a retirement pension on the maximum scale was quite a costly business, and in many funds the widow's pension was provided by way of allocation of part of the member's pension. Even with a full pension, there was already extreme reluctance to exercise the option to allocate, on the ground that it was difficult enough to make ends meet on the full pension, and such reluctance would almost certainly be increased if the retirement pension should be reduced by one-quarter to enable a lump sum to be paid. Widows were likely to constitute about one-quarter of the population over pension age, and proper provision for them was as important as it was for the men.

As he understood the recommendation, it was that approved funds should be permitted to give lump sums within the limits proposed, and not that members necessarily should have the option to take lump sums. For the reasons he had given, he did not feel happy about the recommendation, and if it should be adopted he sincerely hoped that employers and trustees would consider long and carefully before incorporating it in their own schemes. Incidentally, it would be interesting to know by how much the estimated cost of the Millard Tucker proposals would be reduced if tax-free lump sums were not permitted. His own guess was that the reduction would be quite considerable, especially in relation to the cost of the proposals for the self-employed.

He did not know whether dropping the lump sums would mollify Mr Smith. He gathered that his case was that because the self-employed had been left in the cold in the past, they should continue to be left in the cold in the future.

The second point that he wished to raise concerned the provision of widows' benefits for self-employed persons. Speaking as one who was once a salaried employee and had since become a working man, he naturally welcomed the proposals to enable the self-employed persons to make provision for their old age. He was only sorry, however, that the Committee had not been able to go further and allow self-employed persons to make provision for their widows on as generous a scale as was permitted in the case of employees. For employees it was proposed that a widow's pension could be provided up to approximately one-half of the member's actual or prospective pension, in addition to a maximum retirement pension of two-thirds of final salary. It appeared, however, from paragraph 381 of the Report that the maximum contribution for self-employed persons, derived in the first instance from comparison with the cost of the average Civil Service pension, was based on the assumption that the widow's pension on death after retirement was to be provided by way of allocation of part of the member's own retirement pension and not in addition to it. Similarly, in the case of death before retirement the widow's pension was to be limited to that which could be purchased by a return of the contributions already paid. Was there any reason why a separate contribution to provide for a widow's pension should not be allowed, at least where schemes on a group basis could be set up?

Incidentally, he was glad to note that the members of the Committee who had signed the minority reservation were apparently prepared to allow schemes for groups of self-employed professional persons to be set up.

He had in his remarks naturally concentrated on the two main points on which he found himself in disagreement with the recommendations of the Report, but he wished to conclude by adding his tribute to those which had been paid by previous speakers to the exhaustive examination of the problem which the Committee had carried out and the comprehensive nature of the solutions which they had put forward. He was sure that everybody, even those who had voiced criticisms, hoped for early legislation to carry out the recommendations of the Committee, and although they would naturally like to see their criticisms taken into account, they would prefer to have legislation to carry out the recommendations just as they were rather than to have no legislation at all.

Sir Edwin Herbert (a visitor) said that, since he was only a plain lawyer, he could not enter into the actuarial mind, and there was a great deal of what had been said in the discussion that he did not understand at all; but there were some things in the Millard Tucker Report which were very obvious to him. He would mention them only because he had found, to his surprise, that they were not always obvious to everybody.

The first, of course, related to that part of the Report which dealt with the cleaning up of anomalies in existing employees' schemes. All he would say about that was that everybody concerned now had the opinion of Mr Millard Tucker on every conceivable point that could arise for the price of 5*s.*!

As regards the proposals to extend the pension schemes, he wished to make the following propositions, which seemed so simple to him but which did not seem to have penetrated the mind of Mr Smith or the minds of many other people.

The first proposition was that if he were fortunate enough to find an employer who would give him an approved pension scheme and pay all the contributions, he got his pension without paying anything out of his own pocket or suffering anything by way of additional tax at all, and the employer would get his contribution allowed as a deduction from his profits for tax purposes. That was the best position.

Proposition two was the second-best. If he found an employer who would permit an approved contributory scheme, the employer would pay part of the cost and he would pay part; the employer would get his cost allowed as a deduction from profits subject to tax, and so would he so far as his taxable income was concerned; and again he would be in a happy position. (He expected that Mr Smith was in one or other of those categories, because generally people who fired ammunition against the Millard Tucker proposals did so from behind the secure rampart of an approved pension scheme.)

Point number three was that if he was an employed person and could not find a benevolent employer, he could not provide any pension for his own retirement except by buying a deferred annuity and paying the premiums required for that out of his net income after tax. If he was a self-employed person, he could do absolutely nothing except seek for an employer, and preferably a benevolent employer, who would bring him either within proposition one or proposition two.

Were they not logically in the position, that either the existing law with regard to approved pension schemes was utterly wrong and should be abolished, or, on the other hand, there was some principle behind it which ought to be extended? Nobody would get up and say that the existing law with regard to approved pension schemes should be abolished, the reason being that, whatever Mr Smith might have said in the discussion, there was a sound principle behind it which went back for many years in income-tax legislation, namely, that remuneration during working life should for tax purposes be treated as spread over the working years and the retirement years. That principle existed. It was the basis of the law of existing approved schemes, and he submitted that either they had to argue for the abolition of existing approved schemes or they had to argue for the extension of that principle to cover those who at the moment were out in the cold. He did not think it possible to escape the logic of that, and when he was told, as he had been from time to time, that there was no principle behind the Report, and that it was merely an attempt to give tax relief to the middle classes, he asked such people to put themselves in that position and ask themselves whether logic did not require them to face that dilemma.

With regard to self-employed persons, in principle he thought that permission should be granted to have approved schemes for all kinds of self-employed persons, whether they were professional or not. He agreed that in many cases the non-professional self-employed person did build up capital or assets which he could, if need be, sell and turn into cash, and thereby provide a retirement benefit. But why should he have to do that? He might have children coming on, he might have a hundred and one reasons why he should not have to sell his business when he got to that period of life when 65 began to look rather near. It was wrong that he should have to do so. On the other hand, there was no escaping the fact that there were many people who could provide retirement benefits in that way. The professional man could not do so, and therefore he took the attitude that they ought to have Millard Tucker, the whole Millard Tucker, but not nothing but Millard Tucker. But if they could not have the whole, a start ought to be made with the self-employed professional person who was regarded as being in a state of necessity by both the Majority and the Minority sections of the Millard Tucker Committee.

He hoped that all that was fairly simple, although he knew that it was not actuarial. It was the way the thing appealed to his mind, and he had found that in advocating the scheme it was a fair way of getting it into the minds of people who were not perhaps so familiar with the subject as were those present that evening.

Mr T. A. E. Layborn (a visitor) remarked that, as one who loved freedom and hated compulsion of any kind and who liked to have a little say in his own destiny, he disliked any suggestion that he had to have a benefit in the form of a pension only and should not be allowed even to commute a portion of it. Looking ahead, he hoped that there would come a time when, if only for a fleeting moment, owing to commutation his bank balance would pass from the red to the black. He would therefore like to thank the authors of the Report for making the recommendation that commutation should still be allowed.

Mr H. P. Clay felt that the long-term tax treatment of pension rights should not be changed in the course of a man's employment. The standard rate of tax went up and down; there had also been changes in the personal allowances, so that, contrary to what Mr Hosking had said, it was possible, if the allowances had been going up, to have a rising rate of pay and then be charged less tax on the last-six-year basis.

He preferred the 1916 tax-change system. He thought that they should not offer new schemes to old and new employees, with new tax treatments, but that new tax treatments, if any, should be given to new schemes.

He entirely failed to see why any employer should pay money to provide a lump sum at a man's retirement. An employer wanted the man to be looked after for his lifetime in retirement (he emphasized—not 'on' but 'in') and he wanted his good name as an employer protected. Lump sums had a habit of being dissipated. In saying that he was casting no aspersions, for he knew of one case where a person had come back to his employer for more money at a very old age because he had spent his lump sum on an operation for his sister.

He thought it would be wrong, simply because the Civil Service (probably for some quite extraneous reason) had started one-quarter commutation, to extend it. Moreover, he did not think that the employee who had gone into a scheme with commutation rights should be charged unexpected tax; he had worked with that tax-free cash expectation, so let him have it; but let others use their ingenuity to find some method of taxing the employer on the commutation right which he had given, incorrectly and contrary to the thrift motive. It was the thrift motive which had led to the pre-1916 life assurance ruling; its purpose was to encourage people to save so that they themselves would look after their old age, their parents, etc.

He would not say anything about the idea of moving from the simplicity of the current Regulation 8 liability to the proposed administrative nightmare, or about the deferred pay heresy. But he did object to the two-thirds of final salary previously described correctly as a maximum being called a normal in paragraph 450. If the Phillips Committee published any statistics about pension schemes in industry, he did not expect to find the real normal and the two-thirds within speaking distance of one another.

Mr G. W. Pingstone, dealing with the more practical aspects of the Report, remarked that reference had been made to a point in connexion with the taxation of refunds. He mentioned the difficulty which some present would have experienced with annuities which were subject under one set of tax arrangements to something rather like the procedure referred to in the Report where the recipients were left to reclaim the excess tax from the inspector. It could be done, but it was not a happy arrangement for the ordinary type of working man. There were strong grounds for thinking that a practical compromise on the lines of that which existed at the moment was much more sensible.

He found it extremely difficult, in reading the Report, to know exactly what was implied in the two-year option period. He might be doing Mr Millard Tucker an injustice, and if so, he apologized if he had not picked up the point in the Report; but it seemed to him that they had to think in terms of thousands of schemes and had to formulate something which was inherently capable of being handled. If the two-year option in any way implied that the scheme had got to be altered within that period, it was an impossibility. He did not think it would be practicable to put through all the changes to bring schemes into line with the new requirements in less than five years. That did not necessarily mean that the benefit of the new arrangements could not be brought into force for individual members by some simple practical arrangement. It seemed to him that the individual member could be given forms to sign of which one copy could go to the tax inspector and one to the administrator of the scheme which would authorize the new set of tax treatment regulations to be applied, and that that would give time for the actuarial and documentary changes in the scheme to be put through within, say, a five-year period on a specific undertaking from the employer.

He felt that that was an aspect of the bringing into effect of the recommendations which had not received the weight of thought that it should have done. Sympathy had already been offered by *The Times* to all those who would be concerned with the administration of the schemes. He was convinced that if something on the lines he had suggested was not done, they would deserve it!

He was not quite clear from the Report what had to be done to an existing scheme to get the new set of tax treatment regulations applied. As many members would know, there were two general types of scheme, known as the '1918 Act' and the '1921 Act'. Those had really come into being to satisfy an almost fictitious state of affairs which turned on the fact that to get approval under the so-called 1921 Act the employer's contributions had to be divorced from him; he could never have them back. In actual fact, he could in effect do so by reducing his future contributions, but that was just another fiction. It seemed to him that there were no real grounds for requiring wholesale changes in the constitution of schemes to implement the new arrangements.

There was one other aspect of the Report which he found a little confusing. In the reference to the death benefits, there was an inference that the maximum scales had to be linked with the pensions. That was in paragraph 198, but under the earlier paragraph 166 the tax-free limit could go up to two years' salary. That might have escaped the attention of the Committee or not, but it did seem to be a point that the maximum limit in some cases would be less than the tax-free limit. Coupled with that, there did not appear to be any specific indication whether the employee's contributions came within the same limits.

If he might make one reference to the question of commutation, without going into the rights or wrongs of any commutation, he would suggest that it was possible to draw a clear distinction between the 100 % commutation suggested, in effect, for pensions of up to £150 a year—because that was permissible, although the last £50 was subject to tax on a novel basis known as 'top-slicing'—and the 25 % commutation which was generally applied elsewhere. It seemed to him that possibly for the average type of workman it might be very undesirable to put the temptation into his way of taking the whole lot. He did not want to suggest that there should not be freedom and that everybody should not be treated equally, but he could not quite see that it was an advantage to give those with the smaller pensions the greatest temptation to take the cash and within a few years be back upon the employer's doorstep with nothing to live on except the pension under the National Scheme.

Mr F. H. Spratling, in closing the discussion, said that in three half-hours they had sought to discuss the fruits of the labours of six wise men for three years, and if six wise men could not reach unanimity in three years, it was not to be expected that a meeting so much larger would reach unanimity in three half-hours.

Much had been said and much more could be said, but in seeking to close the discussion, he had to compress and discard or risk starting a new discussion.

There was no doubt that the Committee had done a most valuable job. There was a hope, he thought, of constructive legislation. All purposeful comment at that stage had to be directed to what was practical. The existing law and practice was a jungle, and to some extent it was a jungle because it had been fertilized by misplaced ingenuity. Was it too much to hope that all concerned in that field in the future would try to play fair? For, if they did not, another No. 2 Committee might be considering the problem afresh in 20 years' time and be faced again with just such confusion as existed at the time of speaking.

One of the principal matters on which the Committee's logical approach had failed to penetrate the jungle had been the question of taxation of lump-sum retirement benefits. It was clear that the question which arose from the Report was not whether lump-sum retirement benefits were desirable or not, but whether, if they had been generated by a tax-free build-up, they should escape tax. He thought that to recommend that lump sums should be paid free of tax from a tax-free build-up and also to recommend that purchased annuities should enjoy the projected tax privilege was wholly unrealistic. In his view, the two were incompatible, because together they would mean that a device would be legalized for providing part of a pension in effect tax-free. That, of course, was only a personal view. But having arrived at that view, he wondered very much whether the Committee would not have done better to grasp the nettle firmly and recommend that lump-sum retirement benefits should be subject to taxation on some equitable basis. The Chancellor could then try to justify preferential treatment for public servants, if he thought fit—and he, the speaker, had sufficient confidence in the Chancellor's advisers to believe that a tolerably convincing case would be made.

There seemed to him to be one important actuarial point which had not been brought out in the discussion or perhaps even in the Report. If the future accrual of interest on the lump-sum element in an approved fund was to escape taxation, there must surely be some revision of the terms of membership in respect of future service of existing members of private funds and life-office schemes.

Another point of consequence which had not been mentioned in the discussion was that if the Committee's recommendation were accepted as to the form of contracts which life offices might issue—the type A and the type B annuities and the temporary life assurances, with remission of tax on the annuity fund—it would have a profound effect on the tax position of the life offices, and would probably lead incidentally to a position where the terms separately quoted for the pension and life assurance elements would have to be more realistic than they were at the time of speaking.

While he could welcome the principle of taxing benefits generated by the build-up of a tax-free fund, he wondered whether it was right to extend that principle beyond the taxpayer's death. He thought that the recommendations in relation to death benefits were extremely complicated, and that they would be difficult to administer. He suggested that it was carrying logic too far to subject a death benefit to income tax while a complex system of death duties already existed. It seemed, too, that the recommendations which implied the payment of annuities, many of them quite small, for long periods to young widows were out of harmony with the principles of the State scheme in relation to widows' benefits; there were surely many cases where a lump sum was of more benefit to a young widow than a small pension.

Then there was the thorny question of options. He suggested that four members out of every five would not understand an option to change to the new tax basis if it were given. It was, of course, a commendable principle to preserve existing rights, but it had not so far been a notable feature of the tax system. The principle was, indeed, in jeopardy with every Budget. If there were to be options, could not the options be given scheme by scheme rather than member by member?

With regard to the self-employed, the recommendations appeared to be the most expensive in the whole Report, but he submitted that it was wrong to talk of expense in that context. The Chancellor would raise the revenue he needed whether he made a concession to the self-employed or not, and the problem at issue was not the saving of tax but the re-spreading of the tax burden. He had no mandate from fellow-taxpayers under Schedule E to say that they would gladly take up the slack. Indeed, if asked, he thought some of them might say that, if there was to be equality between Schedule D and Schedule E taxpayers in respect of retirement benefits, there were various other respects in which equality was desirable; that was a matter for the Royal Commission.

But in principle he had no doubt that the self-employed had a strong case for consideration. The problem, from the Chancellor's point of view, was a political problem, and there it was necessary to remember that the weight of numbers was below the surtax area. The Majority recommendations would involve very considerable administrative complications, and he thought that on grounds of simplicity there was much to be said for the Minority Report. He suggested that if the principles of the Minority Report were accepted, there would be no need to limit the application of life assurance relief to the payment of premiums to life offices. There was no reason that he could see why the same type of relief should not be applied to contributions paid to other schemes established by, and for the benefit of, the self-employed.

The one doubt that he had in relation to the Minority recommendations was that they might not go far enough; they seemed to take care of the income-tax payer, but he did not think they went far enough to help the surtax payer. Nobody loved the surtax payer, but he discharged an important function; he carried a heavy burden in the management of the country's economy. He suggested that consideration should be given to carrying life assurance relief into the surtax area; it might be that there lay the germ of a neat and practical solution.

He concluded with the observation that if the Committee's proposals found their way into legislation the actuarial profession would be faced with a heavy burden of work.

The President said that, the discussion having been closed, there was nothing left for him to add. Normally, after a business meeting, he had the privilege of expressing the thanks of the Institute to the contributor of the Paper. The 'Paper' that had been discussed that night had not been, he supposed, written primarily for discussion at the Institute, but it was of such importance that it had gained a hearing at the first discussion meeting during the Session. He did not see why they should deny themselves the pleasure of thanking the author for the Report that bore his name. As thinking men and women, with some knowledge of the complications of Mr Millard Tucker's task, they had nothing but admiration for the way in which he and his Committee had found their way through the mass of difficulties which had confronted them.

He thanked those who had taken part in the discussion, including especially the visitors who had spoken.

Without calling upon Mr Millard Tucker for a reply, he asked members to express their appreciation of Mr Millard Tucker's presence and their thanks for the great work of which he was the chief author.

Mr J. Millard Tucker, Q.C., in acknowledgement, said that he did not intend to take part in any discussion, but he wished to thank the Institute for allowing him to attend the meeting and listen to the criticisms which he had known would fall thick and fast and from all directions. Practically all those raised in the discussion had been considered by the Committee, so he thought it could be taken that nearly all the objections that had been put forward had been weighed and considered.

In the end (and he was speaking for the Committee on that point) the Report had consisted in the main of what they hoped would be a workable document, while recognizing that it could not be a perfect one. It could be taken that with some of the criticisms that had been advanced some members of the Committee had been in agreement; some, however, had given way on some points and some had given way on other points, as must always be the case when a body of people were considering matters.

The President had been kind enough to refer to the Report as being under his authorship; but it was not a Report under his sole authorship. It was a Report of all the Committee, except in so far as they expressly made reservations and disagreed. He could not himself take all the credit for it.

The following written communications have been received by the Institute:

Mr H. A. R. Barnett: It was argued several times in the discussion that the object of pension funds is to provide pensions; but we should not lose sight of the fact that the Report deals not merely with pension funds, but with the wider group of concerns which have become known as 'retirement benefit schemes'. I do not think anyone will deny that a lump sum payable on retirement is a retirement benefit, and in the administration of schemes I have learnt that it is often a desirable benefit. If the argument were to be taken literally, we should object to refunds on death or withdrawal.

To my mind the one-sided arguments against lump sums are advanced through considering the pension and the pension scheme purely in terms of cash; I think anyone—actuary or otherwise—who is connected with the administration of a pension fund would agree that these schemes must also be considered in terms of those important but often forgotten commodities, flesh and blood. There are numerous possible flesh and blood examples of the advantages of having the option to commute a limited part of the pension. There is the man who, on retirement, wishes for reasons of his own health or his wife's health to resettle in the country or by the sea; admittedly commutation of one-quarter of his pension would not, unless he was a very high-salaried employee, enable him to purchase a house outright, but it could not be denied that it would be easier to buy a house if he had £1000 to put down than if he had not. Following on this example, we might well consider the desirability of as many employees as possible moving out of the town on their retirement; a number of people who work in towns prefer to live a long way out, but there must be hundreds of thousands of people who live farther out and have longer travelling than they would choose merely because they cannot find suitable accommodation nearer their place of employment, and this situation would be eased if other employees were encouraged to settle farther out when they retire.

The next type of case we might consider is the employee who wishes to buy his own house but is financially unable to start considering this until he is between 45 and 50; even then, he may not be able to afford it unless he can take a mortgage with repayments spread over 20 years, and he would normally be deterred if these 20 years extend beyond his retirement date; however, if he knew he could look forward to a moderate lump sum on retirement, it would probably make all the difference. I am not, of course, suggesting that the lump sum itself should be charged in advance, and indeed such a charge or alienation would not normally be allowed under the rules.

All these cases so far are concerned with the question of buying a house, but another case can be quoted where the flesh and blood is not so directly concerned with owning his own bricks and mortar. Many of the lower salaried employees nowadays find they are unable to save appreciably for their retirement beyond their pension contributions, and on retirement they are faced with some drop in income which they have been unable to neutralize by saving; it may therefore become necessary on retirement for such a person to move into cheaper rented accommodation and, quite apart from furniture removals, he will find that a number of extra items of 'once only' expenditure will arise; it would be a godsend if he could take a small lump sum in place of part of his pension—this example would, however, be unlikely to necessitate the commuting of the full 25%.

These cases are recognized by the not inconsiderable number of employers who frequently grant their employees a parting tax-free gift on retirement—without the option of an additional pension in lieu.

The arguments advanced against the lump-sum facilities are threefold:

(1) The reduction of the pension benefit will mean an inadequate pension for a reasonable standard of living, and in extreme cases may result in the pensioner asking his former employer for more;

(2) The tax-free lump-sum option is an unnecessary burden on the Exchequer and therefore on the taxpayer;

(3) As the build-up is recommended to be tax-free the benefits should be taxed.

Argument (1) is purely a question for the employer when putting in a scheme. He need not have lump sums at all if he does not want to. Alternatively, if he is concerned that his pensioners will exercise their option unwisely he can include the safeguard that the option to commute will be subject to discretionary rather than automatic acceptance by the trustees. Or perhaps automatic acceptance could be confined to the commutation of up to 10% of the pension. There will always be some pensioners who will get themselves into financial difficulties, whatever the scheme, and the case quoted in the discussion of the pensioner who took a lump sum and spent it on an unsuccessful operation on a relative would arise in a different form if there were no lump sum, since the same person would find some means of borrowing the money and getting into difficulties in a different way. The fact that these cases may arise seems to be no reason for preventing the *bona fide* cases where lump sums are desirable from receiving them, and I consider most unnecessary the opener's suggestion that the inclusion of a lump-sum option might still be considered a ground for non-approval. If the trustees have the right to satisfy themselves as to the reason before accepting an application for commutation, the possibility of abuse would be reduced to a minimum.

The alternative to non-approval is, in the views of those who oppose lump sums, that such lump sums should be taxed and these, of course, are concerned with arguments (2) and (3). But with the exception of the opener, none of the speakers indicated that such taxation should not necessarily be at the full rate, and even the opener only mentioned this possibility parenthetically. I will not insult the Institute with detailed calculations of how an employee who pays, under present tax arrangements, 5*s.* in the £ and who, after retirement, would pay no more than 2*s.* 6*d.* in the £, might be brought well into the 9*s.* bracket for one year if he commuted 25% of his pension and the lump sum were taxed on the basis of aggregation with the rest of his income for the year in which it is paid; or how an employee with an income slightly over £1000 per annum might be brought into the surtax range for one year. These possibilities seem to be an unnecessary penalty for those who have a genuine need of a lump sum.

I would raise no objection at all if such lump-sum commutations were to be taxed on a spreading forward or top-slicing method or even by an arbitrary method such as our old friend 'one-quarter the standard rate'—though the latter has obvious disadvantages—and such methods would be a complete answer to arguments (2) and (3). My objection is to those who say lump sums should be taxed, without making it clear that for reasons of equity measures should be taken to prevent aggregation of the whole lump sum in one year for tax purposes.

I am disappointed that no speaker mentioned an actuarial problem which will arise in privately administered funds if the Committee's recommendations become law. I am referring to the question of options against the fund. Hitherto commutation options have only been available in schemes secured through assurance companies, and the latter have their own method of dealing with options against the scheme by using select annuity rates, thereby assuming that all those who elect for annuities or pensions are in good health. A similar assumption will also be necessary in the financial investigations of a private fund incorporating a lump-sum commutation option, and the substitution of select annuity rates for ultimate will result in an increase in contributions. In the same way, mortality assumptions in the event of ill-health retirement will have to be suitably modified where commutation is allowed on such retirement.

Mr G. C. Crook: The recommendations contained in the Report which deal with the taxation of annuities are not consistent with the remarks concerning the general taxation treatment of life offices made in the report of the Committee on the Taxation of Trading Profits ('Millard Tucker No. 1').

When dealing with the taxation of life interests, the Committee gave their views on the general taxation treatment of life offices in paragraph 317, as follows:

> This is based on the conception that, broadly speaking, their profits (apart from profits allocated to share-holders) are, in substance, profits from the collective investment of money by the policyholders. Accordingly, just as a private individual does not pay tax on profits from the realization of his investments, so any such profits made by a life office are excluded from charge (if, as is normally the case, they are reserved for the policyholders). In other words, the treatment of a life office in this matter is assimilated to that of an individual and not that of a company dealing in investments.

If these principles are accepted for life assurances, I cannot see why they are not equally valid for annuities. Life assurance policyholders make payments over a period of years, at the end of which a return of capital and interest is made. Annuitants make capital payments and then receive their return with interest over the ensuing years. Does this difference warrant a different conception of taxation principles, namely, that annuitants do not form a body making a collective investment?

It is interesting to note that a pure endowment policy would be taxed according to life assurance principles, but an annuity which is equivalent to a series of pure endowments would be treated quite differently.

How can it be justified that the payment of the sum assured under endowment assurances and family-income policies by instalments should be tax-free and yet an annuity option should not? Is the introduction of the probability of a life surviving in the calculation of the annuity sufficient to justify quite different principles of taxation?

In many offices the profits from non-participating business are distributed amongst 'with profits' policyholders. In return they accept some responsibility for its losses and they probably accept similar responsibilities for annuity business. There seems to be some justification that capital profits from mortality and investments arising from annuities, which are allocated to with profits policyholders, should be free from income tax in the same way as those arising from other non-participating business.

It is suggested that the annuity business other than that arising from approved pension schemes should be taxed according to the same principles as the life assurance business, that is to say, interest less expenses. Annuity payments should be made free of income tax.

The interest content of the annuity payments will have been taxed at source, and the necessity of dividing annuity payment into capital and interest would be avoided.

It might be argued that income tax at the rate applicable to life assurance funds being charged on interest arising from the capital of annuitants with small incomes would be unfair. It is considered that this argument is not important since such annuitants would probably not have, in any event, facilities to earn rates of interest as high as life offices.

The Inland Revenue might not be too happy about annuitants whose incomes are high, and it might be conceded that surtax should be assessed on the interest content of the annuity. It should not be difficult to evolve a method along the lines suggested in the Report for splitting an annuity payment into capital and interest for this purpose.

The problem of giving justice to existing annuitants without involving the life offices in a considerable loss remains to be solved. This would not be difficult if the recommendations concerning interest earned on approved pension schemes transacted through life offices are accepted.

The life offices would be required to separate their funds for taxation purposes into: (i) life assurances (including new annuity business) and (ii) pensions.

The existing annuities, both deferred and immediate, should be included in the pensions fund. The life offices would receive interest, tax free, but the annuitants would continue to be taxed as before; the tax so deducted would be passed to the Inland Revenue. In fairness to these annuitants, the life offices should be prepared to pay a reduced annuity, tax free, provided the Inland Revenue would give a certificate that the annuity did not arise from an approved pension scheme. The necessary reserve would be transferred from the pension fund to the life assurance fund, and the reduced annuity calculated so that the office did not suffer a loss.

Mr A. W. Joseph: The plan propounded in the majority report for dealing with the self-employed man, the controlling director, etc., whilst no doubt workable, is in my opinion unnecessarily restrictive and complicated. I propose to put forward a simpler plan that is based fundamentally on the ideas set out in §340 of the Report in the hope that it will not be rejected merely as being too simple.

In §187 the Committee show their dislike of giving income-tax relief on a device for spreading remuneration over a longer period than that of actual service, but I wish the Committee had indicated their reasons for that attitude. For no matter how cleverly a man may spread his income there is, owing to the progressive nature of income tax and surtax, a limit below which the tax that he pays cannot fall, that lower limit being the tax that he would pay if his income were spread evenly over his lifetime. Is it not reasonable to maintain that any tax received by the State above this level-income-throughout-life tax is a windfall to which the State has no equitable claim? A man in receipt of irregular annual income pays more tax than the man with regular income even though the total incomes of the two men are identical. Now far be it from me to set Millard Tucker No. 1 against Millard Tucker No. 2, but the Committee on the Taxation of Trading Profits recognized the hardship of the situation I have just described and put forward a plan for ameliorating it. Although at one time I was rather attracted to the scheme set forth in §§84–93 of that first Millard Tucker Report, on reflection I do not think it is workable, and the simpler plan I am putting forward here not only gives relief for the extreme cases of wildly fluctuating income that the first Millard Tucker Committee were considering but also gives a solution of the second Millard Tucker Committee's problem of the self-employed man. It does so because the two problems are in reality one problem, namely, what income-tax reliefs to give because a man's income at one time of life is different from that at another time of life. It depends on the proposition that a transfer of income from one period to another is perfectly harmless from the Inland Revenue's point of view provided that, and only provided that, it is not allowed to lose its quality of being taxable income. No restrictions regarding reasonableness or *bona fides* are required, because if a man abstracted too much income from one period of life he would find himself paying tax at an unnecessarily high rate at some other period of life. In fact the best thing he could possibly do would be so to order his income that it was level throughout life and this in practice he would be quite unable to achieve.

The specific proposals are as follows:

(1) A man should be allowed to spread income *in any manner that he wished* over his future lifetime and the lifetime of his wife or the period of dependence of his children.

(2) The transfer of income would be effected by means of a policy to be taken out with a duly registered financial body, e.g. a bank or an insurance office or possibly some new organization formed for carrying out short- or long-term transfers of income, not involving life. Thus if the purpose of the policy was to flatten out the fluctuating income of, let us say, an architect, the policy might be a fixed term contract providing perhaps five payments of £100 each in years 2–6 in consideration of a premium of £500 payable in year 1. On the other hand, if the purpose of the policy was to equalize the higher income of working life with the lower income when working life was over—in simpler words, to provide a pension—then the policy would be a deferred annuity policy starting at some specified age, the premiums for which could either be single or annual. If the purpose of the policy was to provide pension to a widow then the policy would be a reversionary annuity, and so on.

(3) A premium under the policy would be allowed, both for income tax and surtax, as a deduction from the taxable income of the year in which the payment of premium was made. It might, however, be some time before a man knew what the income of any particular financial year was, and thus it might be necessary to allow him a certain latitude, say, 12 months, to backdate the payment of premiums under his policy.

(4) The benefits as and when received would be aggregated with any other income of the same financial year belonging to the policyowner, his wife or his dependent children, as the case might be, and be liable year by year both to income tax and surtax. Arrangement would be made for the equitable taxation of any benefits that might happen to be received after the man's own death or that of his wife or the emergence from dependence of his children. §164 (*b*) of the No. 2 Report deals quite well with this point; the suggestion is that in such cases the benefits should be taxed at the standard rate but that they should not be liable to any surtax, nor should they be treated as taxed income of the estate or of any beneficiary for any other taxation purposes.

(5) In order to prevent an undue loss of revenue to the State at the inception of the scheme the organization to which premiums were paid would abstract

tax at the standard rate from premiums and remit it immediately to the Inland Revenue. The benefits provided by the policy would be regarded as income received after deduction of tax at the standard rate in the same way as net dividends, and if the policyowner, after grossed up benefits had been taken into account, was liable to tax at a lower rate than standard, he could claim a rebate in the usual way.

Thus in the case of the architect mentioned earlier £225 of the premium of £500 would be remitted to the Inland Revenue, assuming income tax at the rate of 9*s*. in the £ in the year of receipt. The benefits payable in each of the years 2–5 would be £55 net, equivalent to £100 gross, if income tax in a year of payment was also 9*s*. in the £, but to some other gross amount if income tax was different.

This provision would act as a further safeguard to the Revenue because it would discourage a person from transferring income from a period when tax was high to a later period, merely because he expected tax to be lower later on.

It should be noted that the proposals would not disturb the present progressive nature of income tax and surtax. The greater a man's average income the higher the rate of tax he would pay. Relief would only be given for the haphazard additional tax that a man must at present pay because of the fluctuating nature of his income throughout life.

I believe that the safeguards given to the Revenue make the plan very practical. The primary safeguard is, of course, that income, though translated in time, remains income. But the second safeguard is particularly potent because under it the Revenue would receive income tax at the standard rate on contributions, which is not the present situation for approved pension schemes.

Mr E. C. Layton: Although some people are pleased to see the lump-sum benefit incorporated in pension schemes, I think the general opinion is that such arrangements are not only contrary to the basic principles of the taxation of pensions, but may lead to considerable difficulties in schemes where the pension benefits are small. I am personally against any lump-sum payment being granted to members of pension funds in any shape or form. If they are desired, then provident funds should be established.

The proposed amendments to the taxation principle on withdrawal benefits are going to be very difficult to operate, and will involve the Inland Revenue in more work. This is certainly not desirable! As many more firms are installing pension schemes, and no doubt the practice will continue, it would be quite easy for a person moving from job to job to build up adequate pension benefits. At present there is too much opportunity for them to take cash whenever employment is changed, with the result that many of them will reach their retirement ages with very little pension to fall back upon, and tax-payers ought not to be called upon to subscribe to their upkeep through the Public Assistance authorities when their own thoughtlessness is to blame.

To safeguard pensions I would suggest that, apart from very minor amounts contributed to funds, no withdrawals should be permitted, except when a member dies or emigrates. This would probably result in many schemes being amended so that transfers of benefits could be allowed. If not, they would have to retain deferred pension benefits for the employees who have left the employment of the companies concerned. Most important, pension fund accumulations could not be squandered on unnecessary luxuries.

Mr M. E. Ogborn: Most persons will welcome the Committee's recommendations about purchased annuities. But I have some doubts about the arguments which are used to support those recommendations. In paragraph 498 on p. 136 it is said:

> In the case of an annuity-certain it is possible from the beginning to say how much of each periodical annuity payment will represent the return of the original capital invested, and how much will represent the interest allowed upon that capital. But it is said, and rightly said, that this cannot be done where a life annuity is concerned, because when the annuity is first purchased no one can tell how long the annuitant will live or how much he will receive.

For the word *rightly* should be read the word *wrongly*. In my view the statement is fallacious. In my paper, *The taxation of annuities* (*J.I.A.* **74**, 31), submitted to the Institute in 1947, I endeavoured to controvert this error.

When an assurance office sells an annuity—whether it is payable for a fixed term, or for life, or some other period—the purchase price is the value placed upon the annuity payments that have to be made under the contract, taking into account, where necessary, the probabilities that the payments will have to be made. Just in the same way that the payments can be so valued when the contract is granted, a schedule can be constructed showing, on the same bases on each anniversary, the value of the payments which will remain to be paid, assuming that the life or status still exists. These scheduled values effectively show how the purchaser's own capital decreases from time to time. Hence it follows that the difference between these values year by year is the part of the purchaser's capital returned in the year.

In dealing with annuities-certain the principle affords a complete description of the annuity since the annuity consists of the instalment of capital that is returned together with interest on the outstanding balance and the sum of the two items of interest and capital together makes up the whole amount of the annuity. There is, however, no essential difference between this division of an annuity-certain and the division of a life annuity.

With life annuities there is a third item making up the total annuity. This third item is a payment by the assurance office by way of compensation because the capital is not to be returned at death. If the experience works out exactly as assumed, the amounts paid by the assurance office by way of compensation to the surviving annuitants will exactly equal the amounts of capital falling into the office's hands by deaths of annuitants, subject to any charge the office may make for profit. The Committee's arguments effectively assume that these amounts are equal but in this imperfect world it is unlikely that there will be an exact equality and it is best to regard the balance of the annuity as being a sum paid by the assurance office by way of compensation for the possible loss of capital.

Whether this third item should be taxed is a matter which is perhaps open to question, but it seems to me indisputable that in every type of purchased annuity a part of the purchaser's own original capital is returned in each instalment, and that this part of the annuity at least ought never to have been taxed.

Mr F. C. T. Keene: The Committee have examined the problem of the self-employed person very minutely and the Majority Report outlines a system designed to be fair, legally and mathematically, to all income groups. In such a complex society as ours, any scheme of this nature must be complicated and within these limits they have probably produced as simple a plan as could be expected.

The plan is not simple, however, and I feel that the Minority Report is fully justified in referring to the 'enormous administrative complexities' of the Majority Scheme. One has only to read through paragraphs 419–438 of the Report once to feel this, while the more one thinks about it the worse it becomes whether from the angle of the offices or from that of the Inland Revenue. None of it is impracticable—not even the prospect of contributions varying from year to year—but it would probably need a completely new set-up in each office. Even if the additional man-power could be found it is a burden which should not be placed on the Country at this time.

In addition to the self-employed and non-provided-for employee we have a potential group of 3m. or more of partially-provided-for employees which is, legally and mathematically, fitted very neatly into the self-employed scheme. The recommendation on this in paragraph 466 is ingenious but even the Committee recoil at the work involved and hint at some tolerance being allowed in practice. Then there are the complications arising from change of occupation—they are likely to be a much bigger headache than the two pages in the Report would suggest.

I do not wish to examine the proposals in detail but before considering any possible alternative there are two comments I would like to make. They are my own personal views.

The proposal under all types of schemes to allow 25% of the value of the benefit on retirement to be taken as cash entirely tax-free is justified by reference to the Civil Service Superannuation Scheme (which is non-contributory) and to 'Top-Hat' arrangements. The Committee say 'If we were dealing with the matter without any reference to existing practice we should have found it very difficult to recommend that any part of the benefit should be in tax-free form'. It seems to me a great pity that they have so recommended and I do not see on what moral grounds an extension of this arrangement can be justified.

The proposal that all contributions by employed and self-employed should be treated as an expense is reasonable so long as effective taxation is a moderate proportion of income. Its full extension to higher income groups, while it can be justified morally, is in my view progressively undesirable in relation to the main body politic. An alternative solution giving a substantial degree of justice is preferable.

The Minority Report puts forward a modified life assurance relief based on two-thirds of the premiums to be taken in conjunction with the purchased annuity proposals. Taken over all, this is more generous to the under-£2000-a-year man than the plan of the Majority Report, but less so for the remaining 5% of self-employed surtax payers. The cost to the Exchequer in the short run would be somewhat less than under the Majority proposals, but the overall cost will almost certainly be greater, as after pension age the income by purchased annuity will be subject to much less taxation than the ordinary pension.

Assuming the acceptance of the annuity taxation proposals, a modification of the Minority Report seems to me to afford a reasonable compromise between the *status quo* and the effect of the Majority proposals. The principle I have followed is to try and steer a middle course between life assurance relief which is too low and expense allowance which in the higher surtax ranges I consider to be too high. I suggest that for all retirement policies on self-employed or partially-provided-for persons half the premiums should rank for relief at whatever rate of tax or surtax is paid, subject to the usual limits on ranking premiums. To meet the criticism that an excessive death benefit may be provided by a normal endowment assurance, the 7% premium limit on double-endowment assurances should be applied to the endowment sum assured. To assist the Inland Revenue a special form of life assurance premium certificate should be issued by the offices for all such retirement policies.

I am aware that this only partially meets the complaint that saving is difficult under high taxation but it does help considerably and has the merit of evening out the cost to the Exchequer over the future. It would moreover avoid a vast amount of work by the Inland Revenue as well as by the offices, in itself a considerable advantage in the current man-power and economic position.