JEREMY CORBYN'S TAX ON YOUR PENSION

Conservative Research Department
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CONTENTS

EXECUTIVE SUMMARY

The retirements of over 10 million people in the UK are being put at risk by Jeremy Corbyn's plans for a tax raid on people's pension savings.

On average, savers could lose over £11,000 and be forced to delay their retirement by over three and a half years due to Corbyn's Pensions Tax.

This analysis considers just two measures set out by Labour, the Inclusive Ownership Fund and a Financial Transactions Tax, that would have a serious impact on those saving into a pension.

The reality is likely to be even worse as these figures don't take into account the wider damage to the economy that Corbyn's plans for spending another £1.2 trillion over the next five years would cause.

The effects of Corbyn's Pension Tax across the country

Region	Labour's Pension Tax (£)	Extra Months to work
England	11,167	44
East Midlands	6,150	50
Greater London	12,871	45
North East	9,758	38
North West	6,835	47
South East	14,270	40
South West	7,407	45
West Midlands	10,729	41
Northern Ireland	13,718	35
Scotland	10,653	41
Wales	11,691	36
United Kingdom	11,253	43

This analysis does not take into account the effect of Labour's policies on wages or other savings.[1] Neither does it attempt to cost the impact of Labour's renationalisation plans for Water, Energy, Rail, the Post Office and now parts of BT.

PENSION HOLDINGS IN THE UK

According to HMRC, the latest statistics show that the number of people paying into a pension scheme has now increased to 10.4 million in 2017-18, while there are now 32.75 million people in work in the UK.[2]

Of the 1,300 pension funds in the UK, 22.9 per cent of their assets are invested in equities and a further 22.3 per cent are invested in other assets that are reliant on or linked to equities.[3] These are the main investment categories that would be affected by an Inclusive Ownership Fund, however it is reasonable to assume that the total value of these funds – as financial products – would be negatively impacted by a Financial Transactions Tax similar to that proposed by Jeremy Corbyn. Similarly, while the Inclusive Ownership Fund would only affect UK-based funds or equities, the Financial Transactions Tax would affect all equity holdings.

Forecasted pension pots at age 65 by region[4]

Region	**Average projected pension pot at age 65 (£)**
England	117,300
East Midlands	64,600
Greater London	135,200
North East	102,500
North West	71,800
South East	149,900
South West	77,800
West Midlands	112,700
Northern Ireland	144,100
Scotland	111,900
Wales	122,800
United Kingdom	118,200

Typical gross pension contributions by region[5]

Region	**Gross monthly pension contribution (£)**
England	256
East Midlands	123
Greater London	284
North East	255
North West	145
South East	353
South West	166
West Midlands	264
Northern Ireland	388
Scotland	261
Wales	329
United Kingdom	259

LABOUR'S PENSION TAX PLANS

Labour would reduce the values of shares and investments held in pension funds. This is primarily as a result of two separate policy proposals, which taken together make up their new Pensions Tax.

Inclusive Ownership Fund

Labour have outlined plans which will force firms with more than 250 employees to place 10 per cent of their shares into an 'inclusive ownership fund'.

Overall this is expected to cost businesses £300 billion which would represent one of the biggest tax raids to take place in a western democracy, according to the Financial Times and Clifford Chance.[6]

It is correct to characterise this as a 'tax grab', as the British Chamber of Commerce have done, because the majority of this fund would go directly to the Government not workers. Employees would be limited to a maximum benefit of £500 each with the rest going to the Government. In some cases, this could see employees accessing as little as 0.3 per cent of the overall fund.

To give an example, Shell has around 6,500 employees in the UK, and reported a dividend of £12.1 billion pounds. Employees would collectively receive £3.3 million, while the government pockets more than £1.2 billion.[7]

Share prices would fall by 10 per cent

The real negative impact is however on savers, including those saving towards retirement.

Analysis by the CBI has concluded:

> *"The inclusive ownership fund grabs headlines, but would amount to a tax on workers, pensions and savings."* [8]

Put simply by taking away 10 per cent of shareholdings the policy would mean diluting existing shareholders and in a perfect market, shares would fall by about 10 per cent to correct for this.

Of course, given the wider effect of such a measure on business confidence it would be possible, perhaps even likely, that the price of shares would fall even further. It would not be unreasonable to assume that some businesses would relocate ahead of the introduction of this measure. However, to be fair to Labour losses will be assumed to be limited at 10 per cent of the share price and of the current business population with no migratory effect taken into account.

Such an approach has been taken by CBI Director General Carolyn Fairburn who said:

> *"[Share prices] would fall because what you are effectively doing is taking money from shareholders …the effect is to dilute shareholders: you'd expect share prices in perfect markets fall by about 10 per cent"* [9]

Pensions would be hit hard by the plan

This fall in share prices would of course hit savers who invest in shares directly, however the most widespread impact would be on the millions of people who have a personal pension.

Many people don't pay close attention to where their pension pot is invested. However, given that over 45 per cent of pension fund assets are invested in or rely upon equities, this proportion of their pension savings would be exposed to the fall in value caused by the Inclusive Ownership Fund.

Financial Transaction Tax

In their last manifesto, Labour estimated that they would raise £4.7 billion a year by expanding the existing 0.5 per cent stamp duty on share transactions to apply to market makers and other asset classes including share options and derivatives.

Now they want to go further and expand the tax to transactions of foreign exchange and commodities, increasing costs for our leading international firms.

John McDonnell has said Labour's plans to increase taxes on financial transactions would be a 'Robin Hood tax'.[10]

Even Labour's Mayor of London Sadiq Khan has described the tax as 'madness' and warned it would drive business away to 'other parts of the world'.[11]

In the past, John McDonnell promised that a Labour government would introduce a Financial Transaction Tax, a wealth tax, and a land value tax – all in the first 100 days in power. Therefore we are assuming that the introduction of a Financial Transaction Tax would be an priority for an incoming Labour administration.

Labour's Financial Transaction Tax would reduce share prices by 5 per cent

Labour's manifesto pledges an 'Extension of Stamp Duty Reserve Tax to derivatives and removal of exemption'. The CBI has warned that 'increases in financial transactions tax could also ultimately reduce the benefits of savings for households and the returns on people's pensions'.[12]

The Financial Transaction Tax proposed by Labour has some commonalities with the now stalled European Union Financial Transaction Tax, that the Danish proposal is also based on, according to the law firm Clifford Chance. Consultants at Oliver Wyman found that the EU's Financial Transaction Tax was estimated to have a one off 5 per cent fall in the value of investment funds.[13]

Pensions would be hit hard by the plan

Jeremy Corbyn described this as a 'very sensible proposal', and while John McDonnell may claim this is Robin Hood Tax on the rich, 'the reality is many people's pensions are invested through the very financial system Jeremy Corbyn is targeted … the bottom line is some of these costs will seep through to ordinary investors'.[14]

According to the independent experts the Institute of Fiscal Studies, Labour's Financial Transaction Tax would be a tax on transactions, not profits and could hit pensions including 'those saving in private pensions'.[15] The Chief Investment Officer of Royal London Asset Management warned that:

> *'[Those hit by a Financial Transactions Tax] are pensioners and those saving for pension, who will see the value of their savings impacted by the levy'.*[16]

This was a warning echoed by Angelien Kemna, the Chief Investment Officer at APG, who said that a financial transactions tax on equity, bonds and derivatives could take an "obscene amount of money" from pensioners and force some companies to relocate outside the area that they operate in. Independent economic consultancy Oxera said the tax would end up 'affecting transactions undertaken by pension funds and would reduce the returns of pension products'.[17]

For example, according to independent experts in Denmark, a proposed Danish financial transaction tax – similar to Labour's proposals – has been estimated to leave worker's pension pots worse off to the equivalent of €13,400.[18]

This new tax alone would hit millions of workers' pension pots across the country, reducing the amount that pensioners would have in retirement. It would also hit those firms who are marginally profitable, forcing them to relocate to areas that have introduced a Financial Transaction Tax. Countries that have introduced a Financial Transaction Tax in the past have experienced business migration in this way.

When Sweden introduced a Financial Transaction Tax in 1984, it gradually led to a migration of bonds with half of all financial trading in Sweden moving to London by 1990. Sweden's Financial Transaction Tax was declared a failure and repealed the following year, however before it was repealed the vast majority of affected businesses moved out Sweden.

CALCULATING THE COST OF LABOUR'S PENSIONS TAX

The effect of the Inclusive Ownership Fund is applied to the proportion of the expected pension pot at 65 which is reliant on equities.

The effect of the Financial Transactions Tax is applied to the whole expected pension pot at 65.

No attempt is made to mode the wider economic impacts of Labour's policies which would undoubtedly further reduce the value of these holdings.

The gross pension contribution is then used to calculate how much longer a typical person would need to work in order to make up the shortfall.

Such analysis shows that on average across the UK the average person saving towards their pension would lose £11,253

On average savers could lose around £11,253 and be forced to delay their retirement by over three and a half years.

This cost would be the impact felt on defined contributions schemes only. The impact of defined benefit schemes has not been conducted as part of this analysis, however it would be reasonable to assume that some of the remaining defined benefit schemes could be pushed to close down.

In the event that this were to happen, under-funded defined benefit schemes would close leaving the members to be covered by the Pension Protection Fund. The PPF would protect qualifying members, however they may be subject to the compensation cap and therefore would not receive the same amount under the pre-existing defined benefit scheme.

The full calculations of the impact on defined contribution schemes, including a regional breakdown, can be found on the next page.

Regional calculation of the cost of Labour's Pension Tax

Region	**Average projected pension pot at age 65 (£)**	**Value underpinned by equities (£)**	**Cost of Financial Transactions Tax (£)**	**Cost of Inclusive Ownership Fund (£)**	**Total Cost of Labour's Pension Tax (£)**	**Gross Monthly Pension Contribution (£)**	**Extra Months to work**
England	117,300	53,020	5,865	5,302	11,167	256	44
East Midlands	64,600	29,199	3,230	2,920	6,150	123	50
Greater London	135,200	61,110	6,760	6,111	12,871	284	45
North East	102,500	46,330	5,125	4,633	9,758	255	38
North West	71,800	32,454	3,590	3,245	6,835	145	47
South East	149,900	67,755	7,495	6,775	14,270	353	40
South West	77,800	35,166	3,890	3,517	7,407	166	45
West Midlands	112,700	50,940	5,635	5,094	10,729	264	41
Northern Ireland	144,100	65,133	7,205	6,513	13,718	388	35
Scotland	111,900	50,579	5,595	5,058	10,653	261	41
Wales	122,800	55,506	6,140	5,551	11,691	329	36
United Kingdom	118,200	53,426	5,910	5,343	11,253	259	43

RENATIONALISATION WOUD FURTHER HIT PENSIONERS

The broader effect of renationalisation on the pension pots held by UK workers is much more difficult to determine. Therefore we have no included this in any of the costs provided in this analysis.

While the scale can be determined, for example almost 8 million workers (at least 7.67 million) have investments that would be hit by the renationalisation of Water, Rail, Energy Networks and PPP; the impact is much harder to quantify without further details from the Labour about the mechanism and compensation.[19]

Labour's announcement to renationalise parts of BT, to offer broadband for free to everybody in the country, is a further measure that would have an impact on the savings of those contributing to a pension or those currently receiving a pension. John McDonnell's promise that parliament would set the price of the renationalised industries, rather than the market rate, undercutting investors would also reduce the value of the pensions of these workers. However, given the lack of detail offered by Labour on the payment offer following renationalisation, and in the interests of being reasonable, this further cost has not been factored into the overall pensions tax.

However, it would be unreasonable to assume that renationalisation would not have an effect on the pension investments of workers across the country. The Chief Executive of Water UK said renationalisation would 'be an absolutely devastating blow for millions of pensioners'.[20] Earlier this year, the CBI said that the mooted renationalisations is already having an impact on current pension income:

> *'Labour's plans would leave individual savers and international investors alike asking the question "is my money safe?" Loose talk of re-nationalisation is already hitting the pockets of nearly six million pensioners. This will only increase if the plans are delivered'.*[21]

This is why the real cost of Jeremy Corbyn's Pensions Tax is much higher, and the cost identified in this analysis is at the bottom end of the range.

REFERENCES

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