Several times during the course of my remarks I have hinted that investing for a Pension Fund is rather different from investing for, say, an insurance company or for a private individual, particularly because of the taxation situation. Pension Funds, as you know, pay no United Kingdom tax on their investment income. Tax, however, is deducted at source from the dividends they receive and the Pension Fund makes a reclaim of tax deducted from the Inland Revenue. They can only reclaim, however, the United Kingdom tax deducted from the dividends. Many companies which operate abroad suffer various local taxes and under various reciprocal arrangements to avoid double taxation the amount of United Kingdom income tax is reduced. This means that Pension Funds can in such cases only claim part of the 7/9d. in the £ which has been deducted from their dividend remittance.

Pension Funds, therefore, in considering investments in such companies need to pay careful attention to the probable rate of United Kingdom tax deducted from the dividend as this has a direct effect on the net yield obtained by the Pension Fund.

Companies, for their part, have hitherto paid little attention to the type of investors which are included amongst their shareholders and as Pension Funds are still in the minority (certainly by number), the Company Boards have frequently made decisions which have not particularly suited Pension Funds and their immunity to tax but rather favoured a higher tax payer. Such examples are when there have been arrears of dividend and a suggestion is made for meeting the arrears out of tax-free profits rather than in the form of dividends which has been to the advantage of the individual tax paying shareholders.

Recently, however, one firm Rael Brook the shirtmakers have appreciated the differeing taxation situation ~~and~~ of its shareholders and have offered dividends in an alternative form, either the dividend can be paid in the normal way out of taxed profits and therefore paid less income tax at the standard rate, or the same net sum can be paid out of capital profits free of income tax and which therefore do not require to be grossed up for tax purposes. This means that the option is exactly the same for shareholders who pay tax at the standard rate of tax but is of advantage to persons who pay tax at greater than the standard rate of tax if they exercise the option in the appropriate manner but the cost to the Company is exactly the same.

In the particular instance this does not benefit the Pension Fund shareholders because they can take their dividend in the normal form and reclaim the tax deducted, but on this occasion they derive benefit from the fact that the benefits given to the surtax payers have not cost the Company any more. In other words, the normal method of such tax-free payments out of capital profits is to make the payment the same to all types of shareholder and the Pension Funds derive no benefit from this but only the surtax payers.

17th August, 1964.