



Inland Revenue
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Your reference

Our reference

Date

7 October 1983

Dear Andrew

REDISTRIBUTION OF INCOME *attached*

We discussed your letter of 4 October to John Kerr. I am replying direct and copying the reply to him to save time.

I have calculated the effects of taking the current income tax regime but choosing a level of taxable income beyond which the tax rate would be 100%. This would not be practical but it illustrates the theoretical maximum tax yield which could be redistributed. The table below shows the yields for thresholds between the upper decile of taxable income (£9,600) and the existing threshold for the top (60%) rate of tax (£36,000).

You felt that you might focus on the present threshold for 45% tax - taxable income of £17,200. Allowing for tax allowances and reliefs this corresponds to gross incomes over about £22,000 - say 2½ times average earnings. The yield is £1750 million at 1983-84 levels of income etc. This could be redistributed in any of the following ways:

- (a) Reduce basic rate tax from 30p to 28p in the pound.
- (b) Give £1.40 per week to each taxpayer.
- (c) Give 82p per week to each adult.
- (d) Give 60p per week to every man, woman and child.

I would advise caution in using this illustration. The £1¾ billion would produce large sums per head if distributed more selectively - for example £8 per week for the 4 million or so who receive supplementary benefit.

I also mentioned the yield from increasing all higher rate taxes by 20p in the pound. This would produce a maximum tax rate of 80% for earned income (95% where the investment income surcharge also applied). The yield would be just over £1 billion.

YIELDS FROM INCREASING HIGHER RATES OF INCOME TAX TO 100%

| Threshold of taxable income* | Current tax rate at this level | Percentage of taxpayers affected | Yield** |
|------------------------------|--------------------------------|----------------------------------|-----------|
| £ | % | % | £ million |
| 36,000 | 60 | 0.2 | 400 |
| 17,200 | 45 | 1.9 | 1750 |
| 14,600 | 40 | 3.2 | 2500 |
| 12,600 | 30 | 5 | 3500 |
| 9,600 | 30 | 10 | 6000 |

* After deduction of allowances and reliefs.

** In a full year at estimated 1983-84 levels of income.

Note :- Adding allowances and reliefs implies actual income perhaps £4,000 higher on average. Thus the £17,200 threshold implies total income of about £22,000 or $2\frac{1}{2}$ x average earnings.

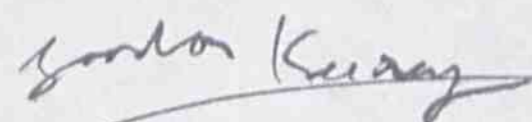
The source of information on income tax changes is the annual survey of personal incomes. We project the most recently completed survey using assumptions compatible with the Treasury economic forecast and the results are used extensively for budget costings, PQ's etc. The income tax figures above have been obtained from this system and relate to 1983-84.

Published tables are usually based on completed surveys and therefore for earlier years. I enclose the 1980-81 version of the Social Trends table which will come out in the next edition. It differs from the 1979-80 table in that the quantiles take account of low earners not covered by the survey. I also enclose the taxpayer numbers table from Inland Revenue Statistics 1983 which is about to be published.

We also looked at the effect of redistributing the top slices of wealth. If the top 1% of the adult population (in terms of marketable wealth) were reduced to the second percentile all adults could be given £1950. If the top 5% were reduced to the sixth percentile the figure becomes £3600. These figures are for 1981, the latest available.

Please do not hesitate to contact me if you want any further information.

Yours sincerely



G A KEENAY

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