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PRIME MINISTER

I have consulted Inland Revenue about the effects of redistributing income from high taxpayers to the generality of taxpayers.

Inland Revenue have calculated what revenue would be produced by setting the marginal rate of income tax at 100 per cent above certain levels. The attached table illustrates the effects if the 100 per cent rate were introduced where the 60, 45, 40 and 30 per cent bands currently start.

For example, if all taxable income over £17,200, after allowances and reliefs, were taken away, the yield would be £1.75 billion.

This could be redistributed in the following ways:

- a) Reduce basic rate tax from 30 per cent to 28 per cent 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.

If the starting point were where the 60 per cent band now starts, the yield would be £400 million and the effects about a quarter of the size.

These figures do not produce as telling a story as I had expected. It can be argued that by redistributing more selectively, significant benefits could be achieved.

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The real objection is not that the amounts received are trivially small but that such a basis of taxation would totally destroy incentives and whatever the majority had gained, any redistribution would be lost as the functioning of the economy deteriorated.

ANDREW TURNBULL

7 October, 1983