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THE PRIME MINISTER

21 January 1988

Dear Mr. Brown.

Thank you for your recent letter.

The figure of £450 million is the estimate of the direct revenue cost in a full year of a reduction of the 60p and 55p rates of income tax to 50p. This takes the present level and distribution of incomes as given, and does not include the effect of changes in taxpayers' behaviour in response to the tax changes nor of changes in other economic factors. It is of course extremely difficult to estimate these effects. However, as you know, since the cuts in top rates of tax of 1978-79, the share of income tax paid by the top one per cent of taxpayers (in broad terms those liable at the highest rates) has increased from about 11 per cent to over 13 per cent.

Government policy is to provide real incentives to enterprise and effort, so that we continue to generate the growth in national wealth needed to pay for better public services.

I cannot of course comment on what the Chancellor may or may not include in his Budget. But at a time of economic growth, it is quite possible both to cut taxes and to increase the real resources available to the National Health

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Service. We have done just this by giving priority to the NHS within public spending, while reducing both tax rates and public sector borrowing. I am confident of strong Parliamentary and public support for this policy.

Yours sincerely

Raymond Stalder

Gordon Brown, Esq., M.P.