

6 March 2012
Dr Julian Lewis MP
House of Commons
London SW1A 0AA

Dear Julian

YELLOW NOTE: NO REPLY EXPECTED — SOAKING RICH FAMILIES

Soaking the rich used to be the Labour cry. Now the Coalition appears to have adopted the idea, but with a twist. Let's get the richer people *with families* to cough up more.

The idea of cutting child benefit for families where the major earner just crosses the higher tax threshold has at least two obvious disadvantages:

- a) poor value for money, because the necessary means testing will require increased bureaucracy, and as pacifying measures are forced in, the inevitable administrative complications will serve only to intensify that effect
- b) the crude sudden jerky effect on family income without marginal relief will be perceived as unfair and lead to electoral disadvantage amongst the people affected: probably three quarters of a million families (see below)

Consider the facts:

Child benefit is £20.30 a week for the first child, £13.40 for the second; so a (normal) family with two children gets £33.70 a week, or £1,752.40 a year. There are about 10,400,000 children of child benefit age (i.e. aged 0-16) in the country, living in (say) 5,200,000 families. Of these families, we are led to believe, about 15% include an earner who pays tax at the higher rate. So the coalition must be expecting to cut payments from 15% x 5,200,000 or 780,000 families. That implies savings in family benefit of 780,000 x £1,752.40, or about £1.367 billion. That is a lot of saving. I can see why you want to do it.

However, a fairer, simpler, easier to implement, flexible alternative is available:

Raise the higher rate of tax by 1.5p to 41.5p. That could be instituted rapidly, would require no additional administrative expense, and could be sold as a temporary measure to be reversed as soon the deficit reduction targets are met. Taxpayers in the higher bracket would still pay more, but the burden would be shared rather than plonked onto young families. The effect in 2013-14 of a 1p rise in higher rate tax calculated by HMRC is shown in the attached table as £910 million, so the benefit to HMG of a rise of 1.5p must be £910 million times 1.5, or £1.365 billion — almost exactly the same as the gross saving before administrative costs that Mr Osborne is planning.

I urge you to consider this alternative.

Yours sincerely

John Dexter

HMRC table predicting the effect on public income or expenditure of possible changes to taxation and benefit regime

Source: http://www.hmrc.gov.uk/stats/tax_expenditures/table1-6.pdf

Direct effects of illustrative changes ^{1,2}

£ millions

	2012-13	2013-14	2014-15
Income Tax			
<i>Rates</i>			
Change starting rate for savings income by 1p ²	0	10	10
Change savings basic rate by 1p	50	50	60
Change basic rate by 1p ³	3850	4500	4550
Change basic rate in Scotland by 1p ³	330	380	380
Change higher rate by 1p ⁴	620	910	900
Change additional rate by 1p ⁴			
Increase (yield)	60	110	100
Decrease (Cost)	70	120	120
<i>Allowances and reliefs</i>			
Change personal allowance by £100	490	590	570
Change age-related personal allowances by £100	75	85	90
Change aged income limit by £500	15	20	20
Change all personal allowances by 1 per cent	480	570	560
Change all personal allowances by 10 per cent	4700	5650	5700
<i>Limits</i>			
Change starting rate limit for savings income by £100	Neg	5	5
Change basic rate limit by 1 per cent	200	310	310
Change basic rate limit by 10 per cent:			
Increase (cost)	1850	2800	2800
Decrease (yield)	2250	3350	3350
Change higher rate limit by 1 per cent	25	55	50
Change higher rate limit by 10 per cent:			
Increase (cost)	170	360	340
Decrease (yield)	200	430	410
<i>Allowances, starting and basic and higher rate limits</i>			
Change all main allowances, starting, basic and higher rate limits by 1 per cent	720	930	920
Change all main allowances, starting, basic and higher rate limits by 10 per cent:			
Increase (cost)	6700	8700	8750
Decrease (yield)	7850	10200	10300
Working Tax Credit			
Increase basic element by £100 (cost)	350	350	350
Decrease basic element by £100 (yield)	360	360	380
Increase 30-hour element by £100 (cost)	260	260	270
Decrease 30-hour element by £100 (yield)	260	260	270
Increase additional elements for couples and lone parents by £100 (cost)	310	340	340
Decrease additional elements for couples and lone parents by £100 (yield)	320	310	340
Child Tax Credit			
Increase family element by £100 ⁵ (cost)	440	440	450
Decrease family element by £100 ⁵ (yield)	460	460	470
Increase child element by £100 (cost)	880	860	930
Decrease child element by £100 (yield)	840	910	930
Common Features			
Increase first income threshold by £100 (cost)	120	120	120
Decrease first income threshold by £100 (yield)	120	120	120
Change second income threshold by £100 (cost/yield)	0	0	0
Corporation tax			
Increase small companies' rate by 1 percentage point ⁶	20	440	590
Increase main rate by 1 percentage point ⁶	400	700	800
Increase small and main rate threshold by £10,000	Neg	-10	-10
Capital gains tax			
Increase entrepreneurs' relief rate by 1 percentage point	0	50	50
Increase lower capital gains tax rate by 1 percentage point	0	5	5
Increase higher capital gains tax rate by 1 percentage point	0	70	70
Increase annual exempt amount by £500 for individuals and £250 for trusts	0	20	25
Inheritance tax			
Change rate by 1 percentage point	25	60	70
Increase threshold by £5,000 (cost)	15	40	50

National insurance contributions

Rates			
Change Class 1 employee main rate by 1 percent point	3500	3600	3850
Change Class 1 employee additional rate by 1 percent point	620	670	710
Change Class 1 employer rate by 1 percentage point ⁷	4200	4400	4650
Change Class 2 rate by £1 per week	140	150	150
Change Class 4 main rate by 1 percentage point	240	250	260
Change Class 4 additional rate by 1 percentage point	110	110	120
Limits			
Change employee entry threshold by £2 per week	-250	-250	-250
Change employer threshold by £2 per week	-290	-290	-300
Change lower profits limit by £104 per year	-15	-15	-15
Change upper profits limit by £520 per year	10	10	10
Change upper earnings limit by £10 per week	150	160	190
One per cent change			
Beer and cider duties ⁹	Indicative level of current duty on a typical item ⁸		
Wine duties ¹⁰	Pint of beer: 44p	25	20
Spirits duties ¹¹	75cl bottle of table wine: £1.81	25	25
Tobacco duties ¹²	70cl bottle of spirits: £6.92	10	10
Petrol	Packet of 20 cigarettes: £4.12	25	15
Diesel	Litre of petrol: 57.95p	100	95
Rebated oil	Litre of diesel: 57.95p	150	155
Vehicle Excise Duty ^{13, 19}	Litre of gas oil: 11.14p	5	5
Air passenger duty ¹³	e.g. Petrol/diesel cars band G: £165	50	50
Landfill tax	e.g. Band A economy flight: £12	20	90
Climate change levy	Tonne of waste: £2.50/£56	10	10
Aggregates levy	100kWh of business electricity: 48.5p	5	5
	Tonne of aggregate: £2.00	5	5
VAT			
VAT: change reduced rate by 1 percentage point	350	400	400
VAT: change standard rate by 1 percentage point ¹⁴	4950	5100	5350
Insurance premium tax			
Change standard rate by 1 percentage point ¹⁵	340	450	460
Change higher rate by 1 percentage point ¹⁶	5	10	10
Stamp duty land tax			
Change 1 per cent rate by 1 percentage point ¹⁷	710	830	950
Change 3 per cent rate by 1 percentage point ¹⁷	460	570	710
Change 4 per cent rate by 1 percentage point ¹⁷	530	590	680
Change 5 per cent rate by 1 percentage point ¹⁸	190	230	280
Change rate on leases by 1 percentage point ¹⁷	240	260	320
Increase £125,000 threshold by £5,000 (cost) ^{18, 18a}	25	35	40
Increase £250,000 threshold by £5,000 (cost) ¹⁷	55	85	100
Increase £500,000 threshold by £10,000 (cost) ¹⁷	15	25	30

Table Updated December 2011

¹ Estimates are measured from the relevant standard indexed base, i.e. they show the impacts of the various illustrative changes on top of what is already assumed in the indexed baseline (generally revaluation plus any announced pre-commitments).

² Starting rate available for savings income only from April 2008

³ Excluding savings income taxed at the starting rate and dividends at the ordinary rate

⁴ Excluding dividend income.

⁵ Excluding family element, baby addition.

⁶ Estimates exclude North Sea oil and gas companies, but include the impact of a main rate change on marginal small company receipts.

⁷ Estimates include Class 1A and Class 1B national insurance contributions paid by employers.

⁸ These figures are illustrative as at December 2011.

⁹ Beer and cider: revenue figures are based on duty increases on beer below 22% abv, still cider exceeding 1.2% but less than 8.5% abv and sparkling cider exceeding 1.2% up to 5.5% abv. A typical item of beer is assumed to be 4.2% abv.

¹⁰ Wine: revenue figures are based on duty increases for wine and made wine from 1.2% but not exceeding 22% abv. Also including sparkling cider from 5.5% to 8.5% abv. A typical item of wine is assumed to be still wine of 5.5% to 15% abv.

¹¹ Spirits: revenue figures are based on duty increases on products of 22% abv and over. A typical item of spirits is assumed to be 38.7% abv. Also included are spirits based RTDs.

¹² Duty on cigarettes has specific and ad valorem elements. The figures shown are for a one per cent change in specific duties for all tobacco products. For cigarettes, it represents the duty at the weighted average price; previous ready reckoners have used the most popular price category.

¹³ Change applies to all VED and APD rates.

¹⁴ Change applies to the standard rate of VAT at 20%.

¹⁵ Change applies to the standard rate of IPT at 6%.

¹⁶ Change applies to the higher rate of IPT at 20%.

¹⁷ Estimates include both residential and commercial transactions.

¹⁸ Applies to residential transactions only

^{18a} Adjusted for the impact of disadvantaged areas relief

¹⁹ VED rates are charged at £5 intervals. Unrounded rates are uprated and then rounded to the nearest £5. We have changed the methodology so VED rates in future years are now uprated based on an underlying unrounded rate series. This can give us a "lumpy" costings profile.