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THE POSITION AND FUNCTION OF THE INCOME TAX IN THE BRITISH FISCAL SYSTEM

ONE of the chief defects of the British fiscal system is the want of a settled order for its component parts, and of a due proportion of the several parts to each other and to the whole. The absence of well-understood and generally-accepted traditions on these points has produced evils of two kinds. One is the tendency to adopt the easiest method of meeting a temporary increase of expenditure without reference to principle ; the other is the capricious and spasmodic manner in which the opportunities for remitting taxation are utilised. There has been, in recent times, no consensus of instructed opinion as to the order in which the several sources of revenue should be drawn upon for the supply of the enlarged funds required to meet the growing ordinary expenditure of the State, or for extraordinary purposes. And, in like manner, the order in which the supplies from the several sources should be dispensed with as opportunity arose has not been regulated by established usage or settled principle so much as by the supposed political exigencies of the moment.

The history of the Income Tax is especially instructive as illustrating the absence of uniformity of design and of continuity of purpose which has prevailed during the last forty years in the management of the national finances. Imposed by Pitt in 1799 as a war tax, it was at once repealed upon the conclusion of the Peace of Amiens in 1802, notwithstanding that its abrogation involved the raising of a large sum by additional taxation of other kinds. The tax had been very unpopular, and, when it was re-imposed in the following year upon the re-commencement of the war, an effort was made to render it less obnoxious by judicious reforms of procedure and by the reduction of the rate from ten to five per cent. The tax was, nevertheless, only impatiently endured until the conclusion of the war, and was then again wholly repealed in obedience to a singularly emphatic expression

of the popular will, and in spite of official warnings of the very serious dislocation of the national finances which must necessarily ensue. The function of the Income Tax was thus, down to 1815, declared to be the raising of supplies for the war, and that alone. Its position was clearly defined as that of a fiscal expedient temporarily added to the tax list for this purpose.

No attempt was made to revive the Income Tax from 1816 to 1842, but in the latter year we find its re-imposition recommended by Peel in the following words:—‘I propose that the income of the country should bear a charge not exceeding sevenpence in the pound, for the purpose of not only supplying the deficiency in the revenue, but of enabling me with confidence and satisfaction to propose great commercial reforms, which will afford a hope of reviving commerce, and such an improvement in the manufacturing interests as will react on every interest in the country, and by diminishing the prices of the articles of consumption and the cost of living, will, in a pecuniary point of view, compensate you for your present sacrifices, whilst you will be, at the same time, relieved from the contemplation of a great public evil.’¹ The House of Commons responded to this appeal and imposed the tax for three years. Peel in 1845 and Gladstone in 1853 and 1860 asked for and obtained renewals of the life of the tax for the like purposes. On each of these occasions large schemes of tariff reform were carried through, and afforded a justification for the retention of the tax which ordinary financial exigencies would not then have sufficed to furnish. Other occasions there were prior to 1860 when no such justification had been forthcoming, but the renewal of the tax had not at such times been secured without some loss of credit, and had been somewhat grudgingly conceded for a single year at a time, instead of for terms of years. During the Crimean War the tax was again used as a war tax, and proved once more its exceptional fitness for this purpose. It may, therefore, be fairly stated that the function of the tax from 1842 to 1860 was the double one of providing the extra funds needed in time of war, and of securing tariff and financial reform in time of peace.

In 1864 Mr. Gladstone, then Chancellor of the Exchequer, expressed his intention of so far reducing the tax as to allow of a practical discussion of and decision upon the question of its future use or abolition. He pointed out the undesirability of allowing the tax ‘to creep unawares into perpetuity’ as the result of yearly renewals without reference to any decided policy

¹ Budget speech, March 11, 1842.

as to the 'proper mode of dealing with this great instrument of taxation.'¹ But the discussion he desired has never taken place, and the result he wished to avoid has come about.

The decision taken in 1874, in the heat and turmoil of a general election, has, undoubtedly, settled the question of the permanence or otherwise of the Income Tax; but there still remain for settlement the questions of its normal level, and of its function, either as 'an instrument of ordinary finance for the satisfaction of ordinary purposes,'² or as an engine to be held 'ready only for some great emergency, and not to be called upon for trivial occasions.'³ Sir Stafford Northcote, in his 1875 Budget speech, argued in favour of the maintenance of the tax at a normal level of twopence in the £; its use at higher rates to be reserved for great emergencies only. This proposition was endorsed by the House of Commons, but a year later the same assembly authorised its violation, with the result that the tax has never again fallen to so low a level. Indeed, since the year 1877-78 the lowest rate has been fivepence, and the average something over sixpence in the £.

The questions of the proper function and normal level of the Income Tax are bound up together, and the decision of the latter will be largely governed by that of the former. It is proposed, therefore, to consider first the reasons, both theoretical and practical, which should determine the settlement of the question of the true function of the Income Tax. Few questions of the present day in the region of national finance are so important, and a period of comparative freedom from disturbance, such as the present, is eminently the time for its dispassionate discussion.

The Income Tax was not a product of theoretical economic science. Such support as it might be supposed to have derived from the teachings of Adam Smith would be referable chiefly to its larger measure of compliance with the first of the four fundamental maxims on taxation laid down in the *Wealth of Nations* than in the case of taxes on commodities. But, although Adam Smith placed 'equality' first in order of the desiderata of taxation, he by no means gave it the first place in importance. On the contrary, he expressly states 'his opinion that 'a very considerable degree of inequality is not near so great an evil as a very small degree of uncertainty.'⁴ Speaking of a general Income Tax, he says:—'A year seldom passes away,

¹ Budget speech, 1864, Gladstone.

² *Ibid.*

³ Budget speech, 1875, Northcote.

⁴ *Wealth of Nations*, Ward and Lock's reprint, p. 654.

frequently not a month, sometimes scarce a single day, in which it (the profit to be taxed) does not rise or fall more or less. An inquisition into every man's private circumstances, and an inquisition which, in order to accommodate the tax to them, watched over all the fluctuations of his fortune, would be a source of such continual and endless vexation as no people could support.' He shows that such a tax would violate the maxim in which he lays it down that 'the tax which every individual is bound to pay ought to be certain and not arbitrary.' Uncertainty he appeared to regard as the greatest of evils in taxation, as exposing the tax-payer to the extortion and insolence of the tax-gatherer, and favouring the corruption of the officials concerned in the levying of the tax.¹ Ricardo does not discuss the merits and demerits of a general tax on property and income; but, incidentally, he lets fall the observation² that 'the burdens of the state should be borne by all in proportion to their means,' and elsewhere indicates rather loosely³ that he uses the word 'means' in the sense of revenue or income. McCulloch, writing soon after the revival of the Income Tax by Peel, combats the view that equality of taxation is of primary importance. He contends that 'the *salus populi* is in this, as it should be in every similar matter, the prime consideration; and the tax which is best fitted to promote, or least opposed to, this great end, though it may not press quite equally on the different orders of society, is to be preferred to a more equal but otherwise less advantageous tax.'⁴ He cites as examples the taxes on malt (beer), spirits, wine, and tobacco, which he considers superior to any practicable form of *direct* taxation, notwithstanding that the principle of equality might be more fully embodied in the latter. He concludes an exhaustive review of the subject by declaring his opinion that a really equal tax on property and income 'is a desideratum which is not destined ever to be supplied.' He rejects the existing tax, and will only allow the fitness of such a fiscal expedient for periods 'when money must be had at all hazards; when the ordinary and less exceptionable means of filling the public coffers have been tried and exhausted; and when national independence must be secured at whatever cost.'⁵

Mill, after analysing the term 'equality of taxation' and showing it to mean 'equality of sacrifice,' or such an apportionment of the expenses of Government as will cause 'each person

¹ *Wealth of Nations*, Ward and Lock's reprint, p. 654.

² Gonner's *Ricardo*, p. 184.

³ *Ibid.* p. 149.

⁴ McCulloch's *Taxation*, p. 19.

⁵ *Ibid.* p. 137.

neither more nor less inconvenience from his share of the payment than every other person experiences from his,'¹ describes this as a standard of perfection not attainable in practice.

Dealing with the existing Property and Income Tax, he points out the impossibility of obtaining uniformly fair returns from, or of accurately estimating the profits of, traders and professional men, and the inevitable result that the scrupulous are taxed to the full, whilst the unscrupulous largely escape the payment of their due share. He sums up as follows:—'It is to be feared, therefore, that the fairness which belongs to the principle of an income tax cannot be made to attach to it in practice: and that this tax, while apparently the most just of all modes of raising a revenue, is in effect more unjust than many others which are *primâ facie* more objectionable. This consideration would lead us to concur in the opinion which, until of late, has usually prevailed—that direct taxes on income should be reserved as an extraordinary resource for great national emergencies, in which the necessity of a large additional revenue overrules all objections.'²

Fawcett deals at some length with the subject of equality of taxation, and demonstrates the impossibility of devising any means of measuring the ability of *an individual* to pay taxes, inasmuch as this ability is governed by his obligations and liabilities as well as by his possessions. He also shows that, were it possible to gauge the ability of each person, it would be impossible to measure out to him his share of taxation without abolishing every tax but one and levying that one directly on the payer. He, however, suggests that it might be possible to secure an approximation to equality 'by giving to one class, with regard to some taxes, certain advantages which will, in a rough kind of way, provide a compensation for disadvantages which the same class may suffer from inequalities of taxation, perhaps inseparably associated with other portions of the national revenue.'³ But even this is unattainable. It would involve the abandonment of a large portion of the revenue now derived from the taxation of intoxicating drinks and tobacco, which has hitherto been regarded as the least objectionable part of our fiscal system. Of the seventy-five millions of tax revenue received in the last financial year (1891–92) no less than forty millions were drawn from these sources in entire disregard of the principle of equality. The truth appears to be, as asserted most forcibly by McCulloch,

¹ *Political Economy*, People's Edition, p. 484.

² *Ibid.* p. 500.

³ *Political Economy*, p. 523.

that the practical aspects of taxation are the most important, and that such matters as the nature of the subject of the tax, and the mode and time of payment, are necessarily and properly given precedence, whilst the more abstract element of equality is relegated to a secondary position.

Having shown that the Income Tax was not a product of theoretic economic science, and that its continued existence is not due to any support derived from a supposed embodiment of the principle of equality, it will be well to explain, somewhat more minutely, the reasons for its retention in spite of its undoubted unpopularity, and the causes which still combine to make the tax obnoxious, notwithstanding that repeated efforts have been made to reform it and to eradicate abuses of administration. The great merits of the tax are its productiveness and its expansiveness. The estimated yield for the present financial year (1892-93) at the rate of sixpence in the £ is £13,400,000, or £2,233,000 for each penny. Large as this sum is, the rate could, upon adequate occasion, be multiplied threefold or even fourfold without any great loss of relative productiveness, and without the dislocation of any portion of the trade or commerce of the nation. A further great merit in the tax is the promptitude with which its machinery can be brought into operation, the flow of funds in response to an increase of the rate beginning almost at once, and the full addition for the year being brought into account within from nine to fifteen months according to the period of the year at which the increased rate is decided upon. There is, also, an entire freedom from the complications which arise from changes of rate in connection with taxes on commodities, and which, beside causing loss to the trader, sometimes involve the allowance of time for the disposal of stock or the payment of drawback on unsold stocks. These are merits which distinguish the Income Tax above all other taxes as a fiscal resource for great emergencies, when, as Mill observes, the necessity for an additional revenue overrules all objections. In order, however, that the maximum of advantage obtainable from the use of the Income Tax as an emergency tax may be realised, it is obvious that the normal level should be as low as possible. Only in this way can its capacity for expansion be fully utilised, and any unnecessary encroachment upon the maximum margin for increase must inevitably limit its usefulness and hamper its efficiency in the one sphere where its superiority is undisputed and incontestable. The machinery of the tax is as applicable to a rate of a penny in the pound as to one of a shilling, and the

cost of collection is extremely small ; but the machinery is of such a character that its utility can only be maintained by constant use. The particulars of every kind recorded in the assessments under Schedule D need continual revision, and the administration of this portion of the tax requires an unbroken continuity of oversight, alike in the interests of the taxpayers and of the revenue. Any breach of this continuity of revision and oversight would quickly destroy the value of the assessments for past years as guides for the future, and, when once the officials engaged in the administration of the Income Tax were dispersed, the revival of the tax upon the occasion of any sudden emergency would be attended with great difficulty and loss of productiveness. In times of peace and prosperity its capacity for expansion is not of immediate importance, and its productiveness has been associated with a tendency to extravagant expenditure by some writers upon the subject. But even as a tax for ordinary use it is not without merits of its own. These chiefly reside in its character as a Property Tax, applying the term to both real and personal estate. As applied to many forms of property, the tax complies with all four of Adam Smith's maxims. It is equal, so far as 'income' is the criterion of 'means,' and so far as can be effected by an equal rate in the pound ; it is certain, being proportionate to the income receivable ; it is paid at a time and in a manner convenient to the payer, viz. at the time the income is received and by way of deduction from the income ; and the cost of collection is trifling. The chief causes of objection to the Income Tax, viz. its inquisitorial character and the facilities it offers for evasion and fraud, are not applicable to this department of its operations, no return or statement of income being called for, unless total or partial exemption is claimed by the owner on the ground of smallness of means.

The main sources of income to which these remarks apply are lands and buildings, the national debt, foreign and colonial securities, municipal stocks and loans, railway and other joint-stock enterprises of all kinds, and the numerous industrial and other limited-liability undertakings, the accounts of which are periodically published. In none of these cases is the owner of property or the investor of capital, as such, brought necessarily into direct contact with the assessor or the collector of the tax (except for the purpose of obtaining relief, as already stated), and less friction is experienced in charging and collecting the duty than in raising an equal revenue from any other source. Such friction as exists relates almost wholly to the tax on lands and

buildings, in respect of which some reforms are possible which would go far to remove all objection. The non-allowance of deductions for repairs and insurance is a grievance, the removal of which has been most illogically and unwisely refused on the ground that it is balanced by grievances afflicting certain other classes of income-tax payers, and by privileges accorded to a third set of taxpayers in respect of Succession Duty. If the removal of this ground of objection were accompanied or supplemented by a comprehensive and judicious system of valuation for rates and taxes, little or no fault could be found with the Income Tax as a tax on property of the descriptions enumerated above.

The numbers of persons whose income from property is thus wholly or partly taxed is unascertainable, but some figures are available as to the amount of income from such sources laid under contribution. In the year 1889-90, the last for which the statistics have been published,¹ the net amounts of income charged with tax were as follows :—

TABLE No. 1.

SOURCES OF INCOME						NET ASSESSMENT
*Lands, Buildings, Tithes, &c.	...	...	...	...	(Sch. A)	£176,980,907
Ditto, Abatements allowed ²	...	...	...	...	...	1,373,619
National Debt and certain Foreign, Colonial, Indian, and						
Local Stocks and Loans	...	...	...	...	(Sch. C)	43,002,070
*Other Foreign and Colonial Securities, &c.	...	...	...	...	(Sch. D)	13,461,395
British and Irish Railways	...	...	...	...	„	34,643,179
*Other Railways	...	...	...	...	„	5,952,823
*Municipal Loans, &c.	...	...	...	...	„	5,807,094
Foreign Dividend Coupons, &c.	...	...	...	...	„	7,481,133
Gasworks	...	...	...	...	„	5,328,164
Waterworks	...	...	...	...	„	3,416,134
Canals	...	...	...	...	„	3,186,831
Other Concerns	...	...	...	...	„	47,558,731
Total	...	...	...	...	...	<u>£348,192,080</u>

Some small portions of the items in this table marked with an asterisk were assessed on the returns of the individual owners, but nothing has been included in respect of the large sums invested in quarries, mines, ironworks, saltworks, and markets,

¹ This article was in print before the publication of the figures for 1890-91. The latter, however, leave the proportions of Tables Nos. 1 and 2 to each other and to the sum of both practically unchanged.

² This item consists of deductions of £120, or parts thereof, allowed to persons whose total incomes severally amounted to £150 and upwards, but were less than £400 a year.

owned by public bodies and public companies, no distinction being drawn in the printed tables between these and the private concerns of the like nature. As the total income from these sources was £10,612,276, it will probably be within the mark to put the total income from property assessed at the fountain-head in the unobjectionable manner just described at £350,000,000. The total amount of the incomes of every kind charged to the Income Tax was £599,937,638, the official figures for the classes not embraced in the foregoing table being as follows :—

TABLE No. 2.

SOURCES OF INCOME	NET ASSESSMENT
Farmers, Nurserymen, &c. (Sch. B)	£10,932,440
Ditto (Sch. D)	4,970
Ditto, Abatements (Sch. B)	2,025,600
Trades, Professions, Vocations, &c. (Sch. D)	141,606,066
Ditto, Abatements „	39,684,822
*Quarries „	834,469
*Mines... .. „	7,192,873
*Ironworks „	1,540,842
*Saltworks, &c. „	447,374
Fishings and Shootings „	696,353
*Markets, Tolls, &c. „	596,718
Cemeteries (Scotland) „	2,333
Other Profits „	1,427,732
Abatements under last eight heads „	488,649
Salaries, Fees, and Pensions of Officials of Crown, Public Bodies, and Public Companies (Sch. E.)	34,325,446
Ditto, Abatements „	9,974,471
Total	£251,781,158
Add Total of Table No. 1	348,192,080
Total	<u>£599,937,638</u>

As previously stated, a portion of the income from the sources marked with an asterisk would properly fall within the scope of Table No. 1; and, of the remainder of the items in Table No. 2, it should be noted that the profits of farming are assessed under Schedule B in a fixed ratio to the rent, and that the salaries and pensions of Crown officials are taxed at the fountain-head by way of deduction. Were these subtracted, the balance of income charged with income tax by the methods to which the graver objections chiefly apply would be reduced to a sum not greatly exceeding £200,000,000, the bulk of which falls under the head of ‘Trades, Professions, Vocations, &c.’

It is thus seen that, to a not inconsiderable extent, the objections of Adam Smith to a tax of this description for ordi-

nary purposes have been overcome. The necessity for watching over and inquiring into the fluctuations of the taxpayer's fortune does not arise unless he is engaged in a private business concern of some kind, or in a private profession or occupation for profit or wages. The tax on (practically) all other kinds of income is levied at the source of the income, and is automatically allotted with the income itself.

If the inquiry is further pursued as to the extent to which the income tax succeeds or fails *as a tax on property*, it becomes necessary to ascertain what proportion of the incomes comprised in Table No. 2 bears the character of interest on capital, as distinguished from the remuneration of personal exertion. No assistance in the pursuit of this inquiry is at present obtainable from the official Income Tax statistics, and little of a reliable character elsewhere. In 1887 Mr. T. H. Elliott read a paper before the Statistical Society, in which he embodied an estimate, based on a House of Commons Paper (No. 345 of 1885), of the interest on capital *charged with income tax* under various heads in 1883-4. Both the compiler of the official return and Mr. Elliott appear to have fallen into error in dealing with the capital invested in farming stock and implements of husbandry,¹ and the whole of the figures put forward by them are confessedly highly conjectural. They are, however, the best which have come under the writer's notice, and are reproduced in the following table (except as to farming capital) so far as they are required for the purpose in view.

TABLE No. 3.

NATURE OF INVESTMENT	INTEREST ON CAPITAL
Farming Stock, &c. (revised estimate) ²	£6,000,000
Trades, Professions, &c. (exclusive of Public Companies) ...	21,600,000
*Quarries	255,640
*Mines... ..	1,978,200
*Ironworks..	481,760
*Saltworks, Fishings, Markets, &c.	1,053,600
Miscellaneous	1,044,800
Total	<u>£32,414,000</u>

¹ The compiler of the return has erroneously included the whole capital value of 'Farming stock and implements of husbandry' as under Income Tax, and Mr. Elliott has followed him. Less than one half is so taxed, the remainder being owned by persons who are exempt from Income Tax.

² The net duty charged under Schedule B for 1890-91 was £265,478 which at 6*d.* in the £ gives an income of £10,619,120. £2,200,000 must be added for Abatements allowed and incomes charged under Schedule D, making a total of £12,819,120. Of this I assume the smaller half (£6,000,000) to represent Interest on Capital invested in Farming stock and implements, this *proportion* being substantially the same as that in Mr. Elliott's paper.

Assuming the substantial accuracy of these figures, and remembering (1) that since 1883 a large number of private business concerns have been transferred to limited-liability companies, and are now comprised in Table No. 1, and (2) that a large portion of the items marked with an asterisk also properly belong to that table, we reach the conclusion that the incomes *from property* assessable to the income tax within the United Kingdom are, to the extent of eleven-twelfths of the whole, made subject to the tax by methods to which little or no objection can be raised.

This branch of the subject has been pursued at somewhat greater length than would otherwise have been necessary, in order that it might be seen how far the Income Tax performs with success the function of a property tax, and that the limits might be more precisely defined within which arise those difficulties and disadvantages in the performance of this function which have chiefly contributed to the disfavour with which the tax has been and is still regarded. Those limits are now seen to be very narrow, and, if at any time it should appear desirable to confine the operations of the tax to incomes from property, no great difficulty need be apprehended in devising tolerably satisfactory methods of dealing with any of the classes comprised in Table No. 3 except the second. The taxation of the interest on capital invested in private trading and industrial undertakings and other unclassified business concerns, will (except as to lands and buildings, which are included in Table No. 1) always be attended with considerable difficulty; but it may assist the discussion of the larger question of the restriction of the tax to property to know more precisely the area and nature of the region in which difficulties are to be apprehended. As regards the larger question itself, it appears that, when Pitt levied his famous Triple Assessment in 1798, his intention was to lay 'a general tax on persons possessed of property commensurate as far as practicable with their means.'¹ We learn that 'shameful evasion, or rather scandalous frauds,'² caused the yield for the year to fall greatly below his expectations, and that he was driven, in the following year, to impose a general tax 'upon all the leading branches of income,' of which he drew up a list. In this the 'profits of skill and industry' occupy the last place, as an addendum to the 'profits of capital employed in domestic trade.'³ It appears to have formed no part of Pitt's original

¹ Dowell's *History of Taxation*, vol. ii. p. 221, Pitt's speeches quoted.

² *Ibid.* vol. ii. p. 223.

³ *Ibid.* pp. 224, 225. See also pp. 213 and 220 as to Pitt's policy and intentions.

intention to tax industry and skill, and there can be little doubt that some of his successors would gladly have limited the scope of the tax in this direction, if a satisfactory plan had been forthcoming.

It now remains to examine the chief grounds of objection to the Income Tax in its present form.

The fact that widespread evasion is practised by persons of all degrees of fortune in those categories where dependence has of necessity to be placed upon the taxpayers' own returns, is attested by the numerous detections effected every year, and by the 'conscience-money' remitted by a remorseful fraction of the undetected defrauders of the revenue to the Chancellor of the Exchequer. The only check on such evasion which is really operative is the power of arbitrary assessment possessed by the Commissioners charged with the thankless duty of revising the taxpayers' returns. Penalties have been found to inspire but little respect for Income Tax law, and prosecutions for their imposition are for various reasons seldom resorted to. But the power of rejecting returns is one which, however carefully exercised, is bound to inflict injustice and hardship in a large proportion of the cases to which it is applied. Many persons prefer to bear the injustice of an over-assessment rather than expose the state of their affairs. Some fear damage to their credit, and distrust the secrecy of the proceedings. Others dread the ordeal of examination which they and their accounts must undergo, even in the prosecution of a successful appeal. But the greater number of the sufferers do not keep their accounts in such good order as would admit of their preparing a three-years' summary at short notice. Many retail cash traders of the smaller sort keep no accounts at all; but, when smarting under a sense of the injustice of what they believe to be, and what may be, an over-charge, their resentment is rarely subdued by any consciousness of blameworthiness on this score. Even those who appeal successfully are frequently and not unnaturally annoyed by the unmerited distrust of their returns, and by the trouble to which they have been put to vindicate their veracity. But so very invidious a power can never be exercised with sufficient freedom to make it completely effectual, and is naturally sparingly applied to the returns of persons and firms of good standing commercially and socially. Yet these are sometimes the greatest sinners, and the pleas put forward by them in extenuation of detected frauds show that a special code of morality obtains, in relation to Income Tax, amongst men whose probity in other matters is beyond dispute.

This part of the case is admirably summarised by Mill, who remarks that 'the variable gains of professions, and still more the profits of business, which the person interested cannot always himself exactly ascertain, can still less be estimated with any approach to fairness by a tax-collector. The main reliance must always be placed, and always has been placed, on the returns made by the person himself. No production of accounts is of much avail except against the more flagrant cases of falsehood; and even against these the check is very imperfect, for if fraud is intended, false accounts can generally be framed which it will baffle any means of inquiry possessed by the revenue officers to detect—the easy resource of omitting entries on the credit side being often sufficient without the aid of fictitious debts or disbursements. The tax therefore, on whatever principle of equality it may be imposed, is in practice unequal in one of the worst ways, falling heaviest on the most conscientious. The unscrupulous succeed in evading a great proportion of what they should pay. Even persons of integrity in their ordinary transactions are tempted to palter with their consciences—at least to the extent of deciding in their own favour all points on which the smallest doubt or discussion could arise; while the strictly veracious may be made to pay more than the State intended, by the powers of arbitrary assessment necessarily entrusted to the Commissioners as the last defence against the taxpayer's power of concealment.'¹

Turning from the objections to the Income Tax arising out of the methods of procedure necessarily pursued in assessing certain classes of incomes, to those due to primary defects of structure, we are at once confronted with an old grievance arising out of the imposition of an equal tax on temporary and precarious and on permanent incomes. Mill allows the soundness of this objection, and, whilst recognising the impossibility of effecting an accurate adjustment, suggests that the taxation of the former should be one-fourth less heavy than that of the latter class, 'it being thus assumed that one-fourth of a life-income is, on the average of all ages and states of health, a suitable proportion to be laid by as a provision for successors and for old age.' In pursuance of this distinction he divides the profits of a trader into two parts, one permanent, and the other terminable and precarious. A Committee of the House of Commons was appointed in 1861, at the suggestion of Mr. Hubbard, who presided over its deliberations, mainly to investi-

¹ *Political Economy*, People's Edition, p. 500.

gate the grounds of this objection, and to consider the best means of rendering the tax more equitable. The Committee, however, reported adversely upon the proposals submitted by its Chairman, and, indeed, expressed the opinion that 'the objections urged against it (*i.e.* the tax) are objections to its nature and essence rather than to the particular shape which has been given to it.' They proceeded, in the next paragraph, to formulate the plea which has since sufficed to obstruct all efforts to secure reform in this direction, as follows:—'Your Committee also feel that it would be unjust to make any alteration in the present incidence of the income tax without, at the same time, taking into consideration the pressure of other taxation upon the various interests of the country.' This plea has also been successfully used to obstruct the removal of the injustice (previously alluded to) resulting from the non-allowance of the cost of repairs and insurance of property charged under Schedule A, and a similar one in the case of the Succession Duty; and thus one abuse is made the excuse for others, and a vicious circle is established. Without suggesting that any satisfactory mode of remedying the main defects of the Income Tax has yet been devised, it is obviously good policy from all points of view, to encourage inquiry and discussion having for their object the improvement of the tax, without waiting for some far-off reform of the entire fiscal system. Such an object has, moreover, become doubly laudable since the tax has taken a position of permanence in that system.

Having thus passed in review the chief reasons for and against the retention of the tax, we are enabled to form a judgment alike upon the policy of abandonment proposed by Mr. Gladstone in 1874, the policy of a minimum normal rate advocated by Sir Stafford Northcote in 1875, and the policy of extensive utilisation for ordinary purposes pursued still more recently. Weighing up these reasons, and remembering the great things achieved by Pitt, Peel, and Gladstone by the aid of the Income Tax, much of which would have been impossible of achievement without it; and remembering its even greater potency in more recent times and at present for the strengthening of the national arm in the day of battle, or for the solution of the great economic problems yet remaining to be grappled with by their successors, the conviction becomes almost inevitable that the decision taken in 1874 to retain the tax was a wise and right one. Its potentialities for the hour of need are so great, so valuable, and so unique as to justify its permanent

retention in the British tax list ; and, to ensure perfect readiness and efficiency for the emergency, its constant use at a minimum rate is, as has been already shown, indispensable. The disadvantages attending the use of the Income Tax even at a minimum rate, are grave, and, apparently, in the main, incurable. But they are a not excessive premium for the insurance of almost incalculable benefits in the times of national danger which few peoples can hope wholly to avoid ; and for the further benefits, possibly comparable with those conferred by Peel and Gladstone, in the yet untrodden regions of economics towards which mén's thoughts have latterly been so generally directed.

It may be argued that, since the tax, with all its evils, is to be retained in constant use to secure its perfect readiness for unforeseen emergencies, it might as well be utilised also 'for the satisfaction of ordinary purposes.' This course has much to recommend it in the eyes of the Chancellor of the Exchequer. It enables him to adjust his Budgets to the fluctuations which, even in normal circumstances, more or less arise, both in revenue and expenditure, year by year, without touching the taxes which affect particular interests. It is also, as already shown, a means of bringing property under contribution for the service of the State by a regular and uniform tax, operating with a degree of certainty and equality altogether unattainable in any other way. Such taxation of property, within the very reasonable limits hitherto maintained, is extremely proper and desirable ; and, with regard to the great bulk of income-yielding property, the operations of the tax are singularly free from serious objection. Against these advantages must be set the consideration that every penny added to the minimum rate of the tax in normal times reduces the margin for expansion, and limits its potency as an emergency tax. Its primary function is thus greatly impeded, and the main object of the retention of the tax defeated. There is also the undoubted fact that some of the evils of the tax are considerably lessened when the rate is low. A nominal rate of twopence in the £ would certainly not present so great an inducement to evasion as the higher rates of recent years ; and in those cases where, from various causes, the Revenue receives more than its due the injury inflicted is minimised. The hardships of the possessors of temporary and precarious incomes, and of the owners of property requiring frequent repair, are likewise reduced in gravity by the adoption of the lowest possible normal level. Some regard should, moreover, be given to the consideration that whilst the tax-paying public may

properly be asked, and will almost always agree, to endure certain evils in order to secure great national benefits not otherwise so largely or so certainly attainable, it very justly expects that these evils shall be minimised to the utmost, and naturally resents their aggravation for commonplace purposes. The principal of the ends now secured by maintaining the sixpenny rate instead of one of twopence is the commonplace one of procuring £9,000,000 of revenue for ordinary purposes. As it would be absurd to contend that the supplies obtainable by the taxation of intoxicating drink are incapable of enlargement—to say nothing of the peculiar taxation of land, minerals, and other forms of property—the conclusion is irresistible that the present normal level is a serious mistake from all points of view. The alternatives appear to be limited to the reduction of the normal level to a nominal rate of (say) twopence in the £, or the restriction of the tax to property. The latter course would require a fuller justification than appears at this moment to be forthcoming. Its discussion lies somewhat outside the scope of this paper, and no attempt is made herein to deal with it fully. Of the three policies to which attention has been chiefly devoted in the foregoing pages—viz. abolition, reduction of normal level, and free utilisation for ordinary purposes, the second appears to be the wisest and best. It is recommended alike by the considerations springing from an elevated and far-seeing patriotism, and by a careful estimate of possible present advantages. Neither of the other two policies combines these merits, whilst the last carries with it the grave disadvantage of encouraging and perpetuating the evils of easy, resourceless, and ill-regulated finance referred to in the opening paragraph of this paper.

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