

cases, those which I would seek to have reserved for the judge of assize, in eight cases out of ten the accused have been able to procure the usual necessary bail required.

Although, from the absence of statistics, and accurate information upon this subject, not to speak of my own short-comings, I am unable to do more than glance at it, I shall not have failed of accomplishing my object, if, by attracting to it public attention, I shall provoke enquiry and discussion; and if I am right in my views, I have little fear but that, with the temper of the present day, considerate as it is of all that concerns the humbler classes, the evil will be remedied. It would, perhaps, be somewhat premature to offer suggestions as to the mode by which the present objectionable system should be altered. The precedent, however, offered by the act already referred to in force in England, would seem to present a very simple and practical means of effecting a change.

VI.—*On the General Principles of Taxation, as illustrating the Advantages of a perfect Income Tax.* By W. Neilson Hancock, LL.D.

[Read, 18th November, 1850.]*

GENTLEMEN,

The duties of government, as enumerated by Adam Smith, are four in number:—

1st—To guard against foreign aggression.

2nd—To secure against internal fraud or violence.

3rd—To maintain public institutions which private individuals cannot support with profit.

4th—To make all the subjects of the state contribute their fair share towards the necessary expenses of government, by the payment of taxes.

Now, in this paper, I propose to direct your attention to the last duty, or in other words, to explain the general principles of taxation.† There are few branches of political economy more interesting in themselves, or of more importance at the present time, than the subject of taxation, and yet there is scarcely any on which greater errors are prevalent.

I shall, in the first instance, direct your attention to some of those errors, involving general principles; which, in fact, arise from a wrong way of looking at the subject, and which are, conse-

* Published by the Society in 1850, and now reprinted at the author's expense.

† There are very few treatises on the general principles of taxation. The following are the principal English authorities on the subject:—Smith's *Wealth of Nations*, Book V.; Ricardo's *Principles of Political Economy*, chapters VII. to XVI. inclusive; Sir Henry Parnell (afterwards Lord Congleton) on *Financial Reform*; R. J. McCulloch on the *Principles and Practical Influence of Taxation*; J. Stuart Mill's *Principles of Political Economy*, Book V.; and Professor D. C. Heron's *Three Lectures on Taxation*.

quently, sources of an infinite number of minor errors in the cases where these mistaken principles come to be applied.

The first error is that of looking upon government as *trading* in taxation; that is, endeavouring to obtain the largest sum possible to be raised without rebellion. In fact, on this theory it is supposed to be the interest of our rulers, like village hucksters, to give the least possible amount of good government, and to charge the highest price for it. But a little reflection will convince you that the circumstance of a government affording protection has some characteristics quite distinct from an ordinary exchange; so that it is an absurd and forced attempt to discover truth by analogy, to deduce the principles by which a government should be guided in discharging the duty of raising taxes, from the principles by which a trader should be guided in selling coals.

The inhabitants of any state must submit to the government that is placed over them, and must pay the taxes imposed, unless they are prepared to emigrate or to raise a revolution. In buying coals, on the other hand, if the purchaser do not like the quality or price of the coals offered, he can try elsewhere for an article more agreeable to him, without either of the alternatives I have above referred to; so that competition enters into the sale of commodities in a way in which it does not enter into the dispensing of the security afforded by government. In short, those entrusted with the exercise of government have a serious duty laid upon them to discharge their trust in the manner most beneficial to the persons placed under their power: so that rulers should afford the best possible kind of government that the existing knowledge of the social sciences enables them to discover, and should impose on the community the least possible burden; in short, only what is sufficient to defray the necessary expenses of such government.

In M'Culloch's work on Taxation you will find this view of the subject entirely disregarded. Thus he says, page 6, "Governments have, therefore, precisely the same interest as their subjects in facilitating production, inasmuch as its increased facility affords the means of adding to the quantity of produce at their disposal, without really adding to the weight of taxation; whereas, on the contrary, a diminished facility of production must either diminish in an equal degree the produce appropriated by government, or compel it to lay heavier burdens on its subjects."

Now, governments, as governments, have no interest whatever in facilitating production, because the amount of taxation should depend on the duties required to be discharged, and the expenses necessarily incurred in discharging them. In a year of scarcity, when production is least, it is often necessary to increase taxation, in order to defray the expenses consequent on the increased protection required against the dangers arising from distress. In a year of plenty, again, when the expenses of government begin to diminish, taxation should be reduced. Such is what we actually see take place in our poor-law taxation.

This error of Mr. M'Culloch arises from confounding the private interests of public officers paid by fees, with the duties of governments as trustees for the public. And it is one great argu-

ment in favor of paying public officers by salaries proportioned to their services, that it not only secures more regular performance of their work, but prevents their minds being filled with an erroneous conception of their duties to the public, by considering their sole object to be, to realise the largest amount of fees.

Another erroneous theory is that of representing taxation as no burden at all; in fact, as rather a benefit. This error has found great favor with Mr. M'Culloch, and is certainly a most inestimable means of defending every possible system of taxation that may chance to be established. "It is," he says, "however, abundantly certain that *all* taxes, when judiciously imposed, and not carried to an oppressive height, occasion an increase of industry and economy, and but rarely encroach on capital. Under these conditions, they operate as motives to restrain expense, and as incentives to labor and ingenuity, frequently occasioning the production of more wealth than they abstract.*"

Now the same defence might be made for highway robbery or picking pockets. For if taking the property of a man without his consent promotes industry and economy, and leads to the production of more wealth than is abstracted, robbery, when judiciously carried on, is, on Mr. M'Culloch's showing, beneficial to the community. The fallacy in Mr. M'Culloch's argument is in supposing that privation is the sole or chief incentive to labor and ingenuity. But enjoyment is a still greater incentive; and although the imposition of taxes often forces persons to make increased exertions, the enjoyment which they would derive from spending the money themselves, if not taken from them, would lead to still greater exertions; so that the question is not whether the imposition of a tax leads to the production of an amount of wealth greater than the tax, but whether it leads to the production of a greater amount of wealth than would be produced if the tax were not imposed. And there can be no doubt, that the natural desire of obtaining increased wealth at the least sacrifice is a more powerful motive for exertion than any artificial stimulus supplied by the privation of having property taken from us, ever so judiciously, by tax-gatherers or others.

Next to the opinion that taxation is no burden comes the theory that in this country our taxation is so excessive that we cannot enter into competition with foreign nations, and, therefore, that the principles of free trade do not apply to a country heavily taxed. In order to measure the exact pressure of taxation† in the

* "Principles of Taxation," page 6.

† "Every twenty shillings paid in taxes are disposed of in almost these proportions:

	£	s.	d.
Expenses of the Army, Navy, &c.	0	7	2
Queen, Judges, Ministers of State, and other Public Officers	}	Civil List..	0 0 10
And also Pensions and Sinecure Places, i. e. those that have no duties belonging to them			
Interest of the National Debt	0	12	0

£1 0 0

British empire, we must begin by dividing the £50,000,000 of general taxes into two parts—£30,000,000 are required to pay the interest of the national debt, £20,000,000 to defray the expenses of the necessary duties of government.

As to the national debt, it must be admitted that it is a serious evil which has been handed down to the present generation. But before we can rely on the taxation it involves, as a reason for not being able to compete with foreigners, we must consider whether our ancestors have not left us more than an equivalent in noble institutions and valuable works, public and private. If we compare the wealth invested in the towns, harbours, roads, canals, railways, and agricultural improvements, throughout the three kingdoms, with the wealth similarly invested in any country in the world; if we compare the local and central political institutions, and the freedom of action and thought enjoyed in the British dominions, with what we find elsewhere, we shall then know how to value the work done by our ancestors of which we reap the benefit. This work exceeds the amount of our national debt far more than the amount of similar work in any other country exceeds the amount of debt there. So that the national debt is no reason for our not being perfectly able to compete with foreigners.

We have next to consider the £50,000,000 that is paid to support the Crown, the army, the navy, the judges, and the other departments of government. It is plain that if our rulers give the best government that human knowledge can discover, and raise the least possible amount of taxation in the least burdensome manner, the security afforded by government is an ample equivalent for such taxation. Those, therefore, who maintain that the £20,000,000 paid for British government is excessive must maintain one or more of three propositions:

1st.—That our system of taxation is not the best.

2nd.—That our machinery of government is not the best.

3rd.—That the remuneration of public officers is fixed at too high a scale.

For if none of these propositions be true, our taxation is not excessive. If any of them be true, the remedy is not to exclude competition with foreigners on account of defects in our own institutions which we have the power to remove. Taxation arising from a defective system of imposition can be reduced by the adoption of a better system; taxation arising from our institutions being defective can be reduced by improving the machinery of government; and taxation arising from a lavish payment of public officers can be reduced by economy and retrenchment.

Having thus disposed of the opinion that foreign competition ought to be excluded on account of the amount of British taxation, I proceed to notice one of Mr. M'Culloch's profound theories respecting taxation. I have already quoted his opinion that all taxes judiciously imposed are a benefit; you will, therefore, be surprised to learn that, in the same book in which he advances that opinion, he, in a few pages subsequently, advances a theory diametrically opposite, by stating that *all taxation is an evil*.

"There is no mystery," he says, "in the manner in which

government is supported and taxation operates. Government is not a producer; its expenditure is not defrayed by its own labor, but by that of its subjects. And hence, the greater the expenses of governments, the deeper must they encroach on the income or capital of their subjects, and conversely; unless, as previously stated, they be met by increased industry, or economy, or both. But this is not always to be depended upon; and M. Say, notwithstanding his wish to be epigrammatic, is justified in saying that the best system of finance is to spend little, and the best of all taxes the least. '*Le meilleur de tous les plans de finance est de dépenser peu, et le meilleur des tous les impôts est le plus petit.*'*

Now I cannot imagine anything more unscientific and absurd than this statement. Amongst the American Indians they have, according to Say and M'Culloch, the best system of finance and the best of all taxes, for there is nothing spent in government, and no taxation. But the insecurity thence arising is a greater burthen, a greater impediment to progress in wealth and civilization, than would be even a bad and troublesome system of taxation for some tolerable form of government. If, by following the maxim to *spend little*, we are led to neglect any of the necessary duties of government, or have been induced to offer such inferior pay to public servants as to secure incompetent officers, we have not adopted the best system of finance.

The doctrine of *to spend little* being the whole art of finance is like the Frenchman's theory of feeding his horse; he thought the horse only fat from habit and not from necessity, and so could be gradually reduced in his diet by taking off a straw a day. As the story goes, he pursued his experiment until he had brought the horse down to one straw, and then it died. Just so those economists who think that the burden of taxation is to be diminished by reducing the payment of all public servants, and by omitting one after another the necessary duties of government, would, if allowed to carry out their theories, end in anarchy, which is the death of government. The true theory on this subject is, that it is better to pay even high taxes for good government, than low taxes for bad government; and the real test of the burden of the tax is not its amount, but its amount compared with the kind of government given for it.

The next theory respecting taxation that requires to be noticed, is one connected with Protectionism. It is ably noticed by Mr. Mill:—"In countries where the system of protection is declining, but not yet wholly given up, such as the United States, a doctrine has come into notice which is a sort of compromise between free-trade and restriction; namely, that protection for protection's sake is improper, but that there is nothing objectionable in having as much protection as may incidentally result from a tariff framed solely for revenue. Even in England regret is sometimes expressed that a moderate fixed duty was not preserved on corn, on account of the revenue it would yield. Independently, however, of the general impolicy of taxes on the necessaries of life, this

* "Principles of Taxation," page 16.

doctrine overlooks the fact, that revenue is received only on the quantity imported, but that the tax is paid on the entire quantity consumed. To make the public pay much, that the treasury may receive a little, is no eligible mode of obtaining a revenue. In the case of manufactured articles, the doctrine involves a palpable inconsistency. The object of the duty as a means of revenue is inconsistent with its affording, even incidentally, any protection. It can only operate as protection in so far as it prevents importation; and to whatever degree it prevents importation, it affords no revenue.*

Mr. Mill then proceeds to state a theory which it is necessary to notice. He adds: "The only case in which, on mere principles of political economy, protecting duties can be defensible, is when they are imposed temporarily (especially in a young and rising nation), in hopes of naturalising a foreign industry in itself perfectly suitable to the circumstances of the country." But even in the case thus stated, protecting duties are not defensible. The proper way for a government to interfere for the purpose of encouraging any new undertaking, if they meddle at all, is by direct pecuniary grants out of the general taxes to the parties introducing the manufacture. By such a system it is clearly ascertained what amount is granted, no custom-house arrangements are involved, and no smuggling; nor is any tolerance held out to protective duties in other cases.

Having noticed some erroneous theories respecting the subject, I proceed now to state the general principles of taxation as laid down by Adam Smith:—

"1.—The subjects of every state ought to contribute towards the support of the government as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state.

"2.—The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor and to every other person.

"3.—Every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it.

"4.—Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state."†

From these principles we can at once deduce that the most simple and natural tax, conforming to all these maxims, is a perfect income tax. In order to frame a perfect income tax we have to determine the following points:—

What is the income of an individual?

What is the most convenient mode of assessing an income tax?

What is the most convenient time for paying it?

As to the determination of the amount of income received dur-

* "Principles of Political Economy," Book v. chap. x.

† "Wealth of Nations," book v. chap. ii.

ing a given time, it is manifest that all the wealth which any individual acquires or receives in any year must be obtained either by gift or by production. If it be obtained by gift, it must arise either from the living, or by bequest or succession from the dead. If it be by production, it must arise either from wages, from profit, or from rent, or from some two or all of these sources. So that a perfect income tax is a tax on all bequests, successions, and other gifts, and on wages, profit, and rent received during a given time.

The best way of understanding what is meant by a perfect income tax is to consider the taxes which are now [1850] imposed directly on income in the United Kingdom. These are three in number; Sir Robert Peel's Property Tax, the Probate Duties, and the Legacy Duties. The difference in the rates of taxation imposed by these taxes, and the exemptions under them, is shown in TABLE I. in the following page.

Now, under a perfect income tax, there would not be any of the distinctions contained in the above table. The same rate of taxation would be imposed on all successions, no matter by whom received; the same rate would be imposed on income by succession as on income from wages, profit, or rent. Again, there would be no exemption of the most valuable kind of successions, namely, freehold estates in land.* When we hear so much of the peculiar burdens on land, this extraordinary exemption is commonly overlooked. And the only exemption would be that of incomes below a certain small amount, on account of the cost of collection.

Next, as to the mode of assessing an income tax. The most convenient way would be to require every one to make up his accounts to the last day in each year, to calculate his income for the preceding year, and to make his return to the income tax collector in the month of January. In February and March the collectors should examine and decide on all returns, and assess the amount of the tax. As to the period of payment, the tax ought to be payable in equal gales on the 1st April, 1st July, 1st October, and 1st January following; the tax-payers being allowed a discount on paying the entire annual tax before its falling due, and being charged a per-centage for tardy payments.

On this plan, parties would always pay on the income of the preceding year; and it would be necessary to provide for the case of minors coming of age, and of parties dying within the year—but I need not refer to these details at present. An income tax framed on the plan I have suggested would fulfil all Adam Smith's principles of taxation, and it is the only tax that does fulfil them.

You will naturally inquire why it has not been more generally adopted. This, I believe, arises from the prevalence of ignorance on the subject, and of narrow-minded selfish views. Ignorance

* Since 1850, when the paper was read and published, by Mr. Gladstone's Budget the income tax has extended to Ireland and to incomes between £150 and £100 a year. A tax was also imposed by Mr. Gladstone on the succession to freehold property in land. The income tax was raised during the war without any similar increase of the probate and legacy duties or the tax on successions. The different rates of taxation on different kinds of income under existing taxes is shown in TABLE II. in the next page.

TABLE I.

SPECIES OF INCOME TAXED.	RATE OF TAXATION (1850).	
Rent, profit, and wages, exceeding £150 a year in England and Scotland	about 3 per cent.	
Succession to personal property (including chattel interests in land) exceeding £20 in England, Scotland, and Ireland :—	UNDER PROBATE.	UNDER ADMINISTRATION.
— By a wife	about 2 per cent.	about 3 per cent.
— By children and grandchildren	” 3 ”	” 4 ”
— By brothers, sisters, and their descendants	” 5 ”	” 6 ”
— By uncles, aunts, and their descendants	” 7 ”	” 8 ”
— By grand-uncles, &c.	” 8 ”	” 9 ”
— By more distant relatives and strangers	” 12 ”	” 13 ”
EXEMPTIONS FROM TAXES ON INCOME (1850).		
Rent, profit, and wages in Ireland		
Rent, profit, and wages less than £150, in England and Scotland		
Succession to personal property less than £20, in the United Kingdom		
Succession to freehold interest in land, of every amount, in the United Kingdom		

TABLE II.*

SPECIES OF INCOME TAXED.	RATE OF TAXATION (1856).		
Incomes above £150 per annum	about 7 per cent.		
Incomes between £100 and £150	about 5 per cent.		
	FREEHOLD.	PERSONAL AND CHATTEL INTERESTS IN LAND.	
		UNDER PROBATE.	UNDER ADMINISTRATION.
Succession to property :—	per cent.	per cent.	per cent.
— By a wife	—	2	3
— By children and parents	1	3	4
— By brothers, sisters, and their descendants	3	5	6
— By uncles, aunts, and their descendants	5	7	8
— By grand-uncles, &c.	6	8	9
— By distant relatives and strangers	10	12	13
EXEMPTIONS FROM TAXES ON INCOME (1856).			
Rent, profit, and wages in United Kingdom under £100 per annum			
Succession to property less than £20			

* The above TABLE II. for 1856, will show, at a glance, the gross unfairness

prevents the tax-payers from discovering the enormous amount they pay for collecting the indirect taxes under our present system: as the income tax admits of no undue shifting of the burden from one class of the community to another, it has no selfish class interests in support of it. On the contrary, many such interests are opposed to it, as its general adoption would put an end to the specious fallacy of obtaining protection by means of an indirect tax ostensibly imposed for the purpose of revenue.

The general ignorance which prevails on the subject of an income tax cannot be more strongly shown, than by the objections which are founded on the supposition of the tax (rightly understood) being imposed on wages, profit, and rent only, and not extended to bequests, to successions, and to other gifts. Thus, one of our most distinguished conveyancers, Mr. Brodie, the Real Property Commissioner who drew the Fines and Recoveries Act, in his recent work on the Tax on Successions and Burdens on Land, &c., proposes a tax on succession to land as a partial substitute for an income tax.

Again, Mr. Mill, overlooking that, besides an income tax, we have a heavy probate and legacy duty, urges that life incomes should not be subjected to the same rate of taxation as perpetual incomes. "The existing tax," he says, "treats all kinds of incomes exactly alike, taking sevenpence in the pound as well from the person whose income dies with him, as from the landowner, stockholder, or mortgagee, who can transmit his fortune undiminished to his descendants. This is a visible injustice; yet it does not arithmetically violate the rule that taxation ought to be in proportion to means. When it is said that a temporary income ought to be taxed less than a permanent one, the reply is irresistible that it is taxed less, for the income which lasts only ten years pays the tax only ten years, while that which lasts for ever pays for ever. But almost every one feels that this answer does not touch the real grievance; for in spite of the nominal equality of income, an annuitant of £1000 a-year cannot so well afford to pay £100 out of it as one who derives the same annual sum from heritable property."*

Now a very simple illustration will shew that the equality of payment and consequent grievance that Mr. Mill refers to, has no

of even the improved regulations introduced by Mr. Gladstone. It will be seen that incomes above £150 per annum are charged about seven per cent.; those between that and £100 per annum about five per cent.; while those below it escape income tax altogether. Again, it may be observed that the great majority of incomes derived from succession, namely, those inherited by children, are, in the case of freehold property, charged but one per cent., whilst if derived from personal property, they are charged three per cent., and the incomes of the professional and trading classes are charged five and seven per cent. The extraordinary partiality thus displayed in favor of incomes from succession to freehold property is further exemplified in the charge on incomes from occupation of land, which I have not introduced into the table, but which is much lower than the fair proportion.

It may be said that the inequality between the present income tax and succession duty was not so great when the latter was first instituted; but if the principle of a perfect income tax were adopted, the ratio on each would rise equally, and there would be no varying, and, consequently, unjust proportions as at present.

* "Principles of Political Economy," Book v. chap. 2.

existence, if we extend our consideration to the taxes now imposed on successions, which are really as much taxes on income as Sir Robert Peel's property tax. A person enjoying a salary or professional income of £1,000 a year for twenty years would, under an income tax of 3 per cent., pay during that time £600. A son deriving £1,000 a year from funded property under his father's will, and surviving his father twenty years, would during that time pay for probate and legacy duty* and for income tax £1,540; and he would have to pay the same amount under a perfect income tax of 3 per cent. An illegitimate son or a stranger deriving £1,000 a year from funded property under a will, and surviving the testator for twenty years, would during that time pay for probate and legacy duty and for income tax, £4,360. So that it is plain that neither under our existing system of taxation, nor under a perfect income tax, is there any pretence for saying that a professional income of £1,000 a year has to pay as much as an income of £1,000 a year from inherited personal property.†

Mr. Mill, instead of perceiving this obvious truth, recommends various plans for getting rid of the equality of payment which has no existence. Thus he says:—"The principle, therefore, of equality of taxation, interpreted in its only just sense—equality of sacrifice—requires that a person who has no means of providing for old age or for those in whom he is interested, except by saving from his income, should have the tax remitted on all that part of his income which is really and *bona fide* applied to that purpose." There could not, however, be a more impracticable suggestion than this; for it would be impossible to ascertain what was ultimately applied for a provision for old age or a family, as the savings might at any time be broken in upon; and how could a line be drawn so as to exclude savings for the mere purpose of accumulation? and why should the latter be exempt from taxation?

Mr. Mill then suggests the rough expedient of two different rates of assessment, and adds, "In fixing the proportion between the two rates, there must inevitably be something arbitrary; perhaps a deduction of one-fourth in favor of life incomes would be as little objectionable as any which could be made." Now, this proposal to adopt an arbitrary division shows the absence of any fixed principle such as I have shown to be really contained in an income tax, rightly understood, and which would be much more favourable to incomes from personal exertions than Mr. Mill's arbitrary rule.

From want of perceiving the inherent justice of a perfect income tax, various propositions have been brought forward for imposing a different scale of taxation on wages, on profit, and on rent. One great objection to all these plans is the difficulty of practically distinguishing income into wages, profit, and rent; what a professional man earns by his profession is partly the wages of his personal labor, partly the profit of the capital spent on his education, and in providing him with books or instruments necessary for his profession. The return derived from agricultural improvements is

* In this calculation the consols are assumed to be at 96.

† Or inherited real property under the succession duty.

profit in the hands of the improver, and rent in the hands of his heir, whilst it would be profit in the hands of a purchaser. In the latter case, the perfect income tax does complete justice; for whilst the original improver or the purchaser would only pay an income tax on the annual produce of the improvements, the heir would pay, first, a per centage on the entire value of the improvements, and then a per centage on the annual produce.

There is one limit to an income tax which ought always to exist, but the reason for which is commonly misunderstood. When the cost of collecting an income tax in individual cases approaches the amount collected, as it does in the cases of very small incomes, it is mere pedantic cruelty to collect it. For a tax should take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state. Therefore, in all such taxes, incomes below a certain amount ought to remain untaxed. In England, the limit for our present property tax of 3 per cent. is fixed at £150,* and for the probate and legacy duties is £20; and from the principle I have stated, you will at once perceive that the higher the per-centage of income tax, the lower the limit ought to be fixed.

If the limit were fixed on the principle I have stated, it would leave the cases of paupers, and all those verging on pauperism, exempt from taxation, as it would be found that the cost of collecting a tax from such classes would be greater than the amount collected; but if we except these classes, there is no reason why any other class should be exempt from taxation, except on the grounds I have stated. The notion that taxation should only encroach on luxuries, and never on the necessaries of life, seems a most mistaken one, and is founded on the idea of looking on government as an expensive luxury, instead of considering the security it affords as one of the greatest necessaries of life. In a time of public danger, the duty of sacrificing even necessaries to the safety of the state is universally recognised and praised.

The necessity of a limit below which incomes should not be taxed has been generally admitted. But some people, misled by a fanciful notion of justice in such matters, or by the alleged principle of taxation falling only on luxuries, have proposed that in imposing the tax on incomes above the limit, the tax should be on the excess, and not on the entire income; in fact, that at present [1850] an income of £160 should pay only ten sevenpences instead of 160; or 5s. 10d. instead of £4 13s. 4d. But they overlook the fact that it would, probably, cost more than 5s. 10d. to collect that amount from the person taxed, whilst the sum of £4 13s. 4d. could be collected for exactly the same cost, as all the checks and investigations would be the same in the one case as in the other.

The suggestions that I have elsewhere made for a perfect register of debts, and a system of legislation leading to a complete separation of the trade of lending money from the trade of selling goods, is of great importance in connexion with the question of a perfect income tax. For the great difficulty that private indivi-

* Changed by the regulations made since 1850.

duals have now in calculating accurately their income and expenditure, arises in a great degree from the system of general credit. If each individual borrowed from one or two persons only, and paid cash for all his commodities, he would find it very easy to calculate his income accurately, and to keep accurate accounts. This desirable object would also be much facilitated by having book-keeping by double entry made a necessary part of general education. The effect of the division of trade I have pointed out, and of a perfect income tax, would have a most salutary influence in stopping numerous insolvencies. For it has been observed by an intelligent writer, that one of the principal sources of insolvencies is the neglect of traders to keep proper accounts.

I cannot conclude my observations on a perfect income tax, without noticing a substitute proposed for it by Mr. Mill, and without directing your attention to one of the most injurious of our indirect taxes—the tax on law proceedings.

Mr. Mill says, “a house tax, if justly proportioned to the value of the house, is one of the fairest and most unobjectionable of all taxes.”* But if we compare the value of the houses occupied by persons of the same or different incomes, we shall at once perceive that a house tax is a most unequal tax—that is, most unfairly proportioned to the means of paying it. The limits of house rent in Dublin probably range from £10 to £400, whilst the limits of income range from £10 to £20,000.

The most injurious of our indirect taxes is thus noticed by Mr. Mill: —“In the enumeration of bad taxes, a conspicuous place must be assigned to *law taxes*, which extract a revenue for the state from the various operations involved in an application to the tribunals. Like all needless expenses attached to law proceedings, they are a tax on redress, and therefore a premium on injury. Although such taxes have been abolished in this country as a general source of revenue, they still exist in the form of fees of court, for defraying the expenses of the courts of justice; under an idea, apparently, that those may fairly be required to bear the expenses of the administration of justice who reap the benefit of it. The fallacy of this doctrine was powerfully exposed by Bentham. As he remarked, those who are under the necessity of going to law are those who benefit least, and not most, by the law and its administration; to them the protection which the law affords has not been complete, since they have been obliged to resort to a court of justice to ascertain their rights, or maintain those rights against infringement; while the remainder of the public have enjoyed the immunity from injury conferred by the law and the tribunals, without the inconvenience of an appeal to them.”*

It would be almost as unreasonable to require the police to be paid by a tax on the parties who were robbed, as to require the courts of justice to be supported by those who resort to them. Suppose a new act of parliament be passed, like the Leasehold Conversion Act, containing a doubtful clause; on the first case brought before the court, the doubt is argued at the expense of the

* “Principles of Political Economy,” book v. chap. v.

parties concerned, the decision of the court puts an end to the doubt, and every one who has afterwards to act under that act of parliament gets the benefit of the decision. Now why should the parties to the first case pay not only their own expenses, but a tax for the decision, which is a general benefit?

There is one view of taxes on law proceedings and taxes on contracts not stated by Mr. Mill, and that is, that they impose a heavy burden on the legal professions, and present a great impediment to all improvements in the mode of carrying on legal business.

Those engaged in the legal professions are really carrying on a trade of selling legal knowledge and ability—a trade which has its origin in the natural division of labour, so that under any system of laws there will always be a legal class. Now in every other trade, it is found that whatever diminishes the price to the consumer, without encroaching on the profits of the producer, increases the sale in such a manner as to benefit the producer: so that it is really the interest of lawyers that law proceedings should be cheapened by the abolition of law taxes. It is the interest of that part of the profession engaged in conveyancing business that taxes on contracts should be abolished. And these changes are especially the interest of those at present in the legal profession; for as the numbers cannot be increased rapidly, they would derive the entire benefit of the increased business consequent on the change.

The same mode of reasoning which proves that the members of the legal professions are interested in cheap law, proves that Mr. Mill is entirely mistaken when he says, "that every imperfection in the law, in proportion as it is burdensome to the community, brings gain to the lawyer." This is a short-sighted view of the interest of a lawyer; for as there will always be business for the legal professions, it is the interest of those engaged in them to make their services as valuable as possible to the community; and if we compare the legal professions in England with those in less civilised countries with more imperfect laws, we shall see that these professions have a higher and a nobler function than being, as they were recently described by an eminent queen's counsel, "the scourges of the community;" and that the interest of lawyers, rightly understood, is the same as that of the community at large.

But if taxes on law proceedings are to be removed, some other tax must be substituted in their place.

What shall that tax be?

From what has been already said, plainly an income tax, so that the basis of all improvement in this, as in other cases of unwise taxation, rests in the adoption of the conviction that a perfect income tax is the best of all taxes.

APPENDIX A.

[The following paper on the Income Tax was written in October, 1852, at the request of the Archbishop of Dublin, in reply to an application from the late Joseph Hume, Esq., M.P., for his Grace's opinion on the questions raised by the select committee of the House of Commons on the Income and Property Tax. The observations having met with his Grace's concurrence, were sent to Mr. Hume, and were published by him with an intimation that although he differed in many points from the writer, he thought the statement would amply repay perusal.]

It is obvious that the full development of the free-trade policy must lead to the progressive substitution of direct for indirect taxation. And hence the importance of the question raised by Mr. Hume, which may be stated in the words of Adam Smith:—"How can the subjects of a state contribute to the support of the government as nearly as possible in proportion to their respective abilities?"

The three modes which have been proposed to effect this object are—by taxes on the production and importation of commodities, by taxes on property, and by taxes on income.

As to the first class of taxes, "those on the production and importation of commodities," the great objections are that they interfere with internal or external trade, that they enhance the price of commodities far beyond the net amount actually received from them, and that they lead to extensive smuggling and fraud.

As to "taxes on property," the objection is, that in the case of the largest class of the community, those who live by labour alone, their ability to pay taxes is not measured by the amount of their property; inasmuch as many, living from day to day on large earnings, have no property at all. And this objection cannot be removed by any of the plans for considering wages as a species of life property, which can be valued like an annuity; it being well known that the wages of individuals and of trades undergo changes according to laws entirely different from those by which the value of an annuity is determined.

A "tax on income," rightly conceived, is the real solution of the proposed question, and is the solution suggested by Adam Smith himself, for he says:—"The abilities of the tax-payers are in proportion to the revenue which they respectively enjoy under the protection of the state."

Now, the revenue or income of a tax-payer, which is the real measure of his ability to pay taxes, can be reduced to four distinct elements:—

- 1st. The wages a man receives for his labour.
- 2nd. The profit he derives for the use of his capital.
- 3rd. The rent he gets out of his land.
- 4th. The value of any property, whether real or moveable, which he obtains by gift or succession, during the year.

Such is the scientific conception of income; such also is the meaning attached to it by any person who prepares with any skill an annual "profit and loss" account, or an annual account of "income and expenditure." It follows, therefore, that a perfect income

tax includes a tax on gifts and successions, as well as a tax on wages, profits, and rents.

When it is asked, "How can Sir Robert Peel's partial income tax (absurdly named an income and property tax) be made more equitable?" the answer is plain: By extending it so as to include all classes of incomes; viz. :—

1st. By extending it to all incomes from wages, profits, and rent, below £150 and exceeding £20 a year.*

2nd. By extending it to incomes from wages, profits, and rent in Ireland.

3rd. By extending it to the succession to freehold property in land.

The succession to personal property is already taxed at a higher rate than any other species of income in the United Kingdom, by the probate and legacy duties. But these duties, which are really taxes on income, ought to be consolidated with the income tax, and the rate of taxation equalised; and then the extraordinary exemption [1852] of succession to freehold property would have to be abolished, or would be put in such a plain point of view as to expose the hollowness of the landlord's complaints of peculiar agricultural burdens.

The extension of Sir Robert Peel's income-tax to all kinds of income would remove the complaints which are now in some cases justly made against it in its present state. Thus, a person who succeeds to an estate of £1,000 a year in fee simple now pays only the same amount as an official with an annual salary of £1,000, namely, £30 a year; and this is justly complained of. But, under a perfect income tax, he would pay in the first year of his ownership 3 per cent., on £30,000, the value of his estate, or £900; and in every subsequent year 3 per cent. on the rent, or £30, equal to a perpetual payment of £60 a year, if he lived for ever, as the interest of £900 would be £30. In the case of the longest life, the person succeeding to the freehold estate would pay a great deal more than double the amount paid by the person receiving £1,000 a year as wages.

None of the proposed modifications of the existing tax, such as Mr. Sotherton's plan of taxing incomes under Schedule (D.) at three-fourths of the amount levied upon all other kinds of property, would be so favourable to incomes arising from wages as the perfect income tax.

The objection that persons on salaries are now unfairly taxed, as compared with fundholders and other capitalists, has no foundation, as it arises from overlooking that such capitalists are liable to probate and legacy duties, which impose a greater burden on incomes arising from succession than a perfect income-tax would impose.

Nearly all the other difficulties which have been suggested as objections to Sir Robert Peel's income-tax could be shown to be entirely inapplicable to a perfect income-tax.

* Mr. Gladstone in his budget extended the Income Tax Bill, but at a different scale, to incomes below £150 and exceeding £100. He also extended it to Ireland. He also imposed the Succession Tax upon the succession to real property.

The true policy of taxation to be adopted by British statesmen should therefore be* :—

First—To substitute for the present probate and legacy duties an extension of the income-tax, so as to include successions to personal property.

Secondly—An extension of the income-tax, to include successions to real property.

Thirdly—An extension of the income-tax to Ireland, and to all incomes above £20.

If, then, a perfect income-tax were thus constructed, the rate of taxation should be gradually raised about 1 per cent. each year, commencing at the present amount of 3 per cent., and, as a surplus arose, indirect taxes should be gradually taken off.

In repealing the indirect taxes, it would be necessary in the first place to repeal stamps on conveyances and on the transfer of property, which are the real burdens on land; and also the assessed taxes, as these taxes are put forward as the plea for exempting successions to real property from taxation.

Then the duties on tea, sugar, tobacco, and wine should be reduced, so as to avoid all objection to extending the income-tax to incomes below £150. After these the changes should be in the following order :—To repeal

1. Taxes on knowledge.
2. Duties on fire insurances.
3. Taxes on locomotion—railways, coaches, &c.
4. Taxes on law proceedings.
5. Receipt and other stamps.
6. Excise duties.
7. Customs duties.

The reduction of some of the customs duties should precede the removal of the tax on spirits, to prevent the price of that article being lowered before the prices on tea, coffee, cocoa, wine, and other articles which enter into competition with it. The reasons for the order of repealing the indirect taxes are so obvious that it is unnecessary to state them.

APPENDIX B.

[This Appendix is added to explain the changes now (April, 1856) required to make a perfect Income Tax.]

The provisions necessary to be adopted at the present time, in order to have the existing taxes on income converted into a perfect income tax, may be thus enumerated :—

First—The scale of taxation on incomes between £100 and £150 should be equalised with that on incomes above that amount. The difference at present is between 5 per cent. and 7 per cent.

* Some of these measures have, it will be observed, been already partially adopted.

Second—The Probate and Legacy duties should be incorporated with the income-tax, and the scale of taxation on succession to personal property equalised with the tax on income. At present, personal succession is taxed at various rates from 2 to 13 per cent., the greater part paying less than half the rate of income-tax.

Third—The succession duty on real property should also be incorporated with the income-tax, so as to prevent the undue partiality shown to landed property by the low rate of assessment on succession to real property. While the scale of taxation on freehold succession varies from 1 to 10 per cent., the greatest portion pays only 1 per cent., being only one-seventh of the tax on professional and mercantile income.

Fourth—The tax should be extended to all incomes below £100 a year, the only exception being in cases where the amount to be derived from it would not re-pay, or but barely re-pay, the expense of collection.

If such a perfect income-tax were established, the rate of taxation, as I have elsewhere shown (*Journal of Dublin Statistical Society*, vol. 1, p. 1, 1855), sufficient to raise the fifty millions sterling necessary to carry on the government of this empire, and to allow of all exceptional taxes being abolished, would not exceed two shillings in the pound.

VII.—*Proceedings of the Dublin Statistical Society.*

NINTH SESSION—THIRD MEETING.

[21st January, 1856.]

The Society met at the Royal Dublin Society House, James A. Lawson, LL.D. in the chair. The minutes of the last meeting having been read,

Professor Leslie read a paper on "Improvident Marriages."

Mr. Cairnes read a paper entitled, "The Effect of War on Prices."

The following gentlemen were elected members of the Society:—James Bristow, Esq.; William Hodges, Esq.; Peter Gale, Esq.; William M'Conkey, Esq.; and James Marten, Esq.

FOURTH MEETING.

[18th February, 1856.]

The Society met at the Royal Dublin Society House, Lord Talbot de Malahide in the chair. The minutes of the last meeting having been read,

W. Neilson Hancock, LL.D. read papers entitled, "Is Fire Insurance a proper subject of Taxation?" and "A Plan for removing