

SOME EFFECTS OF PRESENT-DAY TAXATION

By GEORGE CROSOER

(From an Address at the Henry George Club, London, on June 3rd)

Political Economy has been called the dismal science: perhaps its dullest department is that of the Incidence of Taxation. Yet its importance to humanity is vital—almost every alteration in the tax system involves the oppression of some individuals or classes for the benefit of others. A brief examination of British taxation during the twentieth century will furnish some useful examples.

All taxation operates in some degree as a fine or penalty upon the subject taxed. Sometimes it is so intended, as in the case of taxes upon intoxicants, with beneficial results. But always it operates as a penalty, whether or not it is so designed. And, where it bears unequally upon individuals or classes, it is a *fine*, as much as any penalty imposed upon any criminal in a police court. But there is this difference—that in modern taxation the fine is largely imposed upon the most desirable persons or classes.

INCOME TAX, SUPER-TAX, ETC.

The largest source of revenue is the Income Tax, with Super-Tax and Corporation Profits Tax, which may be regarded as portions of it. The inception of an income tax appears good and reasonable. It seems to embody the principle of payment according to ability—dear to so many people from Adam Smith downwards—but the practice is perhaps as far from the principle as in any system in the world. There are different rates of tax; a distinction is ostensibly made between "earned" and "unearned," though in practice the terms have been interpreted very largely in opposition to the facts; and there is a series of exemptions and abatements, of a character very involved, so that the whole system is excessively complex, necessitating the keeping of accounts between the Government and individual citizens.

It is often assumed that an income tax does not diminish production. Mr. Lloyd George said so when a large increase was being made during the war. The notion seems to be that a person will not forgo getting income for the reason that he has to pay a portion of it to the State. This might be true if he received the income as a gift—it is not so true of income got through working and saving. But the notion seems to captivate many people, especially Socialists, some of whom regard a big income tax as a good thing in itself, and others—extremists, perhaps—have argued that it stimulated a man to work harder! Recent experience, however, seems to show that a big tax does discourage production, this being especially so when the tax is unfairly levied—when a man finds his own burden largely increased, in order to exempt others from paying an equitable share. And the Income Tax is full of injustice—of arbitrary distinctions between class and class, and between individuals in the same class.

As always, such distinctions are manipulated in favour of the classes who live upon taxes—Government employees and others. For instance, compare the case of the man who is pensionable with the case of the man who has to provide his own pension—the Government servant in contrast with the business or professional man and the majority of those in productive employment. The former is assessed upon net income, the latter upon gross income (and much more than gross income, because no allowance is made him for losses, and these have been heavy as a result of legislation and war).

EARNED OR UNEARNED?

The distinction between "earned" and "unearned" income was first made in the Budget of 1907; the unearned being taxed at a much higher rate.

But the terms have been interpreted in practice in such a way as to work severe injustice; again in favour of those who are in Government employment and against those who really make the wealth of the country. Compare the "pensionable" man with the one who has to provide his own pension by saving. The latter is more often an employee, and can only provide his pension by building houses, by taking shares in an industrial company, by doing something which is useful to the community as well as to himself. The income from those activities is treated as unearned. On the other hand, an agitation of Government employees, maturing on the eve of the Budget being passed, induced the Government to make a special concession that their pensions were to be liable to the lower rate only. The view of civil servants' pensions as "deferred pay" is perhaps not well established, as the pay during service is rather liberal if we consider the average value of the services, and in that case it would be reasonable to regard the pensions at a bonus out of taxation. But, accepting the idea of "deferred pay" for a moment, let us look at the man who builds a house or two with his own savings, or with borrowed money which he pays off by degrees. The rent of those houses ought surely to be regarded as deferred pay, at least as much as a pension paid from taxation. And certainly the man who provides his own pension in this way has done something more to enrich the country than his more favoured rival.

So far, so bad, but worse is yet to come. In addition to injustice between classes, there is injustice between individuals in the same class. Take the case of a man with a good business of his own who can put his savings into it. From such a business the whole receipts have been classed as "earned" though a part of them is a return from capital. But take the professional man, the clerk, or any of the more responsible type of employee; the best he can do is to take shares in some productive company. The whole of his subsequent receipts from that source are treated as unearned, in defiance of facts and in opposition to common sense.

An example of this may seem curious, but its nature will show that it can hardly be exceptional. The senior partner in a large firm, for some years towards the end of a long life, drew a substantial sum from the firm. This was obviously derived from capital, as he was past doing much in the business. (This is not said in disparagement—he had been honest, industrious and careful. But the point is that it was "earned income" and paid the lower rate of tax. Now the accountant to the firm, during the greater part of a rather long life, put certain modest savings into the same firm, receiving about 5 per cent. income from that source, with a view to providing for old age. This was officially classed as "unearned," and the higher rate charged.

Well, all this is bad, but the worst is not yet. The legislature seems to have determined to rub acid into the wounds which it inflicted, to follow injustice with insult. Let us continue with the case of the productive worker, who finds that *his* "deferred pay" is not earned. Continuing to work after having been saving for a time, he was astounded to find that he was not allowed the concession for earned income on his current salary. An income, say of £300, partly from savings and partly current salary, was treated as wholly unearned, and the higher rate charged. No wonder that persons became slack and preferred to live in the most meagre manner, rather than endure what they regarded as robbery.

Why the income of a firm of six persons should be entirely "earned," while that of a company of seven is wholly "unearned" is not clear.

Some injustices might be pardoned in the emergency measures adopted during the war, but those have not yet been touched upon. If we compare the average man with a salary of £300, *before the war*, with the £300 man who had to provide his own pension, the latter stood to pay about five times as much in taxation as the former, or taking Death Duties into consideration, about seven times as much. Considering that the latter would never have more than £230 to spend, while the former would have the full £300, it would seem that the difference ought to be in the opposite direction.

CORPORATION PROFITS TAX

Much more might be said about the Income Tax pure and simple, but it will be well to consider its supplementary imposts. Take first the Corporation Profits Tax, imposed in 1920. It consisted in a tax of 1s. in the £ on the income of joint stock companies with limited liability. These have been the main source of Britain's commercial and financial power and prosperity and the chief avenue for the employment of the savings of professional and business people. One would think that this class had been sufficiently discouraged already by differential taxation. But this Corporation Profits Tax is a gem which it almost needs a financial expert fully to appreciate. At first sight it looks like an extra shilling in the £ income tax. But then, unlike the income tax, it has no abatements, so that the effect upon the average man with an income of £300 from industrial companies was much more than to double his income tax. But that is not all. It might be supposed that *profits* meant profits in the usual sense of the term. Not at all; it appears to have been charged on profits *plus* debenture interest. That is to say it was charged on the debenture interest, but unlike the income tax, the receiver of the interest was not charged with it—it all had to be paid by the holders of ordinary shares. As it is quite usual for the amount of the debentures to be about equal to that of the ordinary shares, the shilling in the pound easily becomes two shillings—that is to say if the ordinary proprietors get a moderate return on their capital. But many large industrial concerns have lately made very small profits—1 per cent. or less—and in such cases the tax amounts to several shillings in the pound. This extraordinary tax, after working irreparable mischief, was reduced to one-half about a year ago, and the present Budget proposes its abolition.

(To be continued.)

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NOTES AND NEWS

The official Report of the 1923 International Conference on the Taxation of Land Values is now available. We direct our readers' attention to the advertisement of it as placed on the back page of this issue. We have aimed at providing a document worthy of the occasion, which can be accepted as a permanent piece of literature on the Principle and Policy the Conference was organized to promote.

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The number of owners of mining royalties in the County of Stafford, assessed to Mineral Rights Duty who received, before deduction of Income Tax, £2,000 or more, is 24 for the year 1922-23 and 26 for the year 1923-24. The corresponding numbers of those who received less than £2,000 are 211 and 206 respectively.—*Mr. Snowden in a reply to Mr. Bromfield, House of Commons, 1st July.*

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The infant just born to Lady Wodehouse, wife of Lord Kimberley's son and heir, has brilliant prospects. The earldom is not rich, but Lord Wodehouse is ultimate heir to a Cornish manor which includes a large portion of a flourishing borough. The ground rents on this land have increased enormously in value in the last seventy years, and when the leases fall in there will be a huge windfall to the freeholder, which will materially increase the family fortune of the Earls of Kimberley.—*THE STAR (London), 16th May.*

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Mr. Wm. Edwards (Anglesey) speaking at the Annual Meeting of the Council of Agriculture of Wales, held at Shrewsbury on 16th May, asked: "Why was it that agriculture failed to adapt itself to modern methods?" He had come to the conclusion that the explanation was that the existing land system under which farmers conducted their business with its yearly tenancy, was an impossible system to meet modern methods of farming. There would be no success in their industry until they settled the root cause of their trouble, which lay in the present insecurity of the farmer in his holding. The landowners of Wales lived in glass houses as far as legalized robbery was concerned. The evidence given thirty years ago for the Welsh Land Commission afforded plenty of instances of the poor farmers and workers of Wales having been robbed legally according to the land laws of England, and they were being so robbed to-day.

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Mr. D. Cleghorn Thomson, the newly-adopted prospective Liberal Candidate for South Edinburgh, addressing an open-air meeting in the constituency on 12th June (*EVENING NEWS* report), said that the land blockade must be broken down by the taxation of land values before the roots of the housing difficulty could be thoroughly got at. Land which had increased in value as building sites must be taxed according to its market value as such and not as at present as if it were merely agricultural land.

Reports of other meetings show that Mr. Thomson is keeping the Taxation of Land Values to the forefront of his campaign.

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What is it that makes the poor man think it quite natural that there are ten fires in my palace while he is dying of cold; that I have ten coats in my wardrobe while he goes naked; that at each of my meals enough is served to feed his family for a week? It is simply religion, which tells him that in another life I shall be only his equal, and that he has actually more chance of being happy there than I. Yes, we must see to it that the floors of the churches are open to all, and that it does not cost the poor man much to have prayers said on his tomb.—*Napoleon—thinking aloud—from the MEMOIRS OF COUNT MOLÉ, 1804-1815.*

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