Was the change from taxing luxury expenditure to taxing income an improvement?

JOHN AVERY JONES

The assessed taxes: progressive taxes on the wealthy before 1799 (and continuing)

Charged on luxury expenditure including carriages (1746), male servants (1777), and horses (1784)

- Progressive rate per horse, carriage, and male servant
  - For example (1812 rates) 1 horse £2.875; 20 horses £6.60 *per horse* (2.3 times)
  - 1 male servant £2.40; 11 servants £7.65 *per servant* (3.2 times)
  - 1 4-wheel carriage £12; 9 carriages £18.15 (1.5 times)

Window tax is another category with a progressive scale going up to 180 windows (not limited to the wealthy) accounted for 54% of assessed taxes for 1797

- (1798 rates) up to 6 windows £0.3; 180 windows £83 (9.2 times per window)
- Adam Smith: 'A house of ten pounds rent in a country town may sometimes have more windows than a house of five hundred pounds rent in London.'

Successful taxes to collect because the object of taxation was visible

Not much to dispute (although the definition of window caused problems later: 43% of cases 1830-1847)

Just about acceptable to taxpayers because they decided whether to incur the expenditure

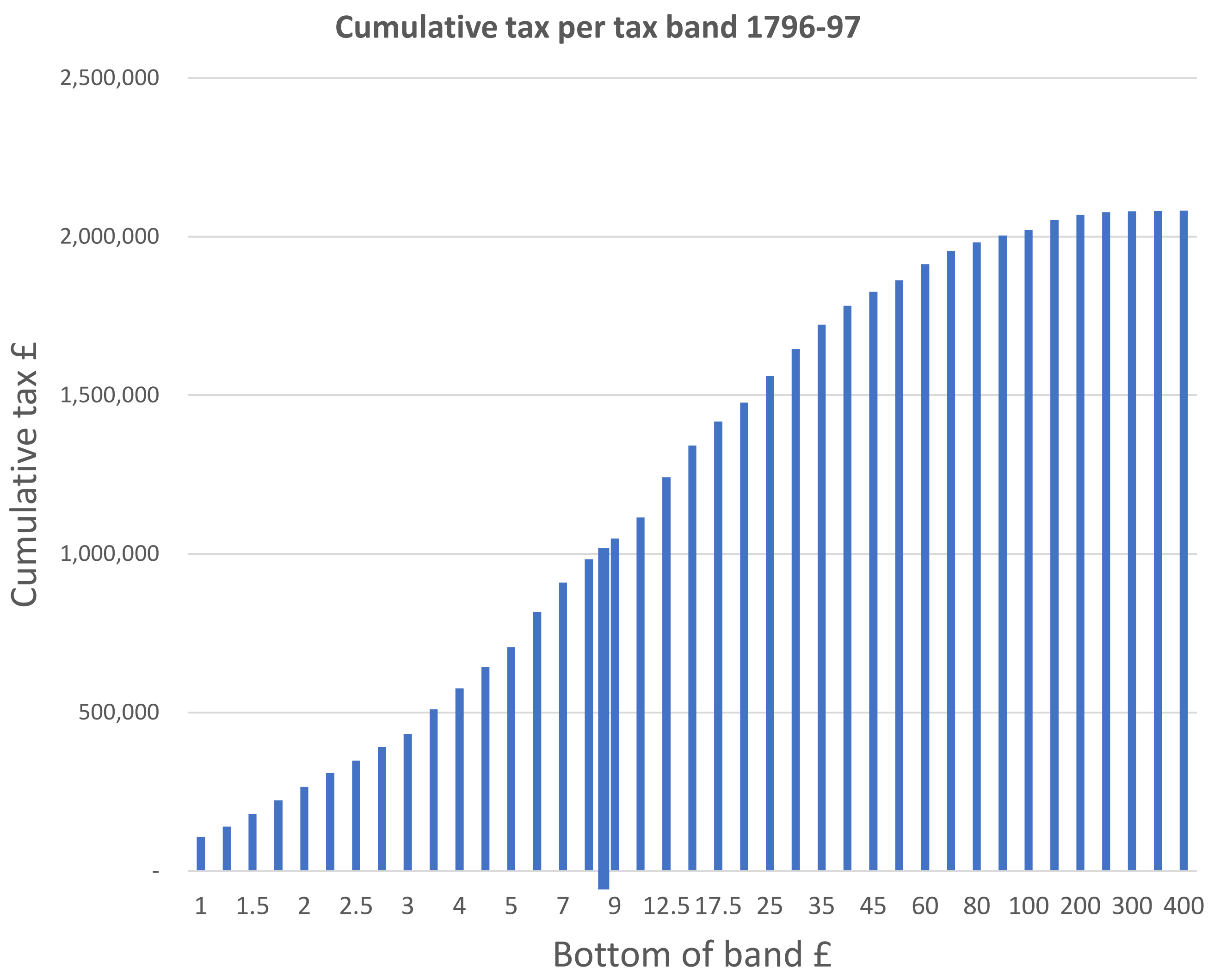
Effect of progression of assessed taxes by tax bands 1796-97

Numbers of taxpayers in each band times the bottom of the band

About half the tax is paid by the 738K taxpayers (94%) below the £9 to £10 band (perhaps those up to an income of £750 pa just able to have a 2-wheel carriage) and half by the 46K taxpayers (6%) with assessed taxes above this band

Tax bands, Office of Taxes 28 Nov 1797, Appendix to Chronicle 159

Total tax HC 24 (28 Nov 1797) was £1,975,585



The triple assessment: transition to income tax

In 1798 paid normal assessed tax **plus** triple (or more) tax on the highest number of horses carriages etc in the previous year; factors of 3 (previous year <£15), 3.5, 4 and 5 times (£50+)

Window tax for the previous year also increased by factors between 0.25 times and 5 times

The additional total was subject to a **maximum of 10% of income** (but no rules for measuring, although measured according to 9 Cases if appealed)

- If income over £60 with sliding scale up to £200, then 10% (no personal allowance)
- Many people claimed that the £60 lower limit applied

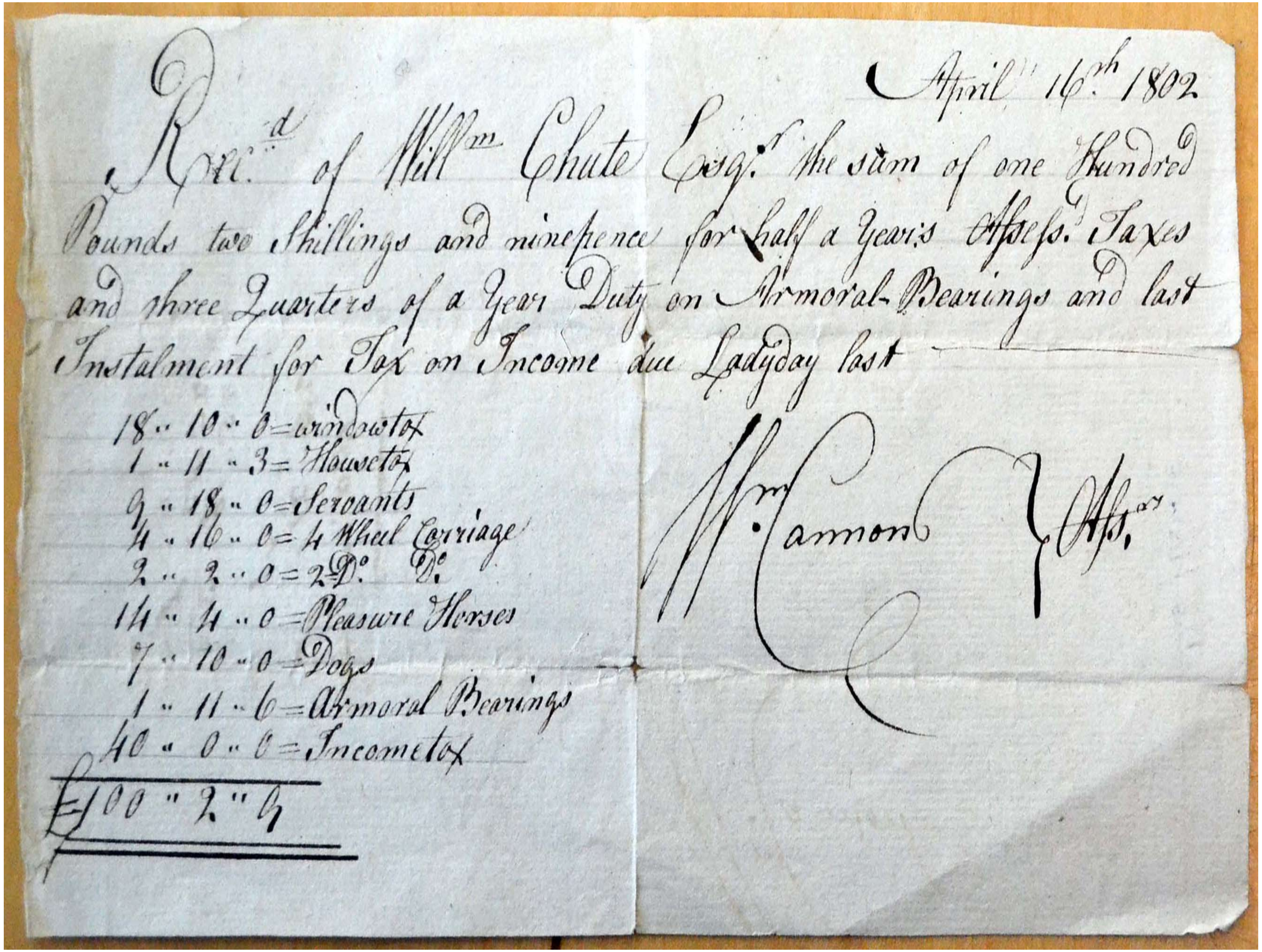
Dowell: ‘a fiscal fiasco unequalled in the history of our taxation.’

Yield estimate £7m, reduced to £4.5m; actual £3m (but further £2.8m voluntary contributions)

Failed because the retrospectivity lost the element of choice whether to incur the expenditure

W Chute MP of The Vyne Receipt for 1801-2 taxes

Hampshire Record Office 31M57/597 reproduced with their kind permission



April 16th 1802

Recd of Willm Chute Esqr the sum of one Hundred Pounds two Shillings and ninepence for half a Year's Assessd Taxes and three Quarters of a Year Duty on Armoral Bearings and last Instalment for Tax on Income due Ladyday last

18 .. 10 .. 0 = windowtax
1 .. 11 .. 3 = Housetax
9 .. 18 .. 0 = Servants
4 .. 16 .. 0 = 4 Wheel Carriage
2 .. 2 .. 0 = 2 Do. Do.
14 .. 4 .. 0 = Pleasure Horses
7 .. 10 .. 0 = Dogs
1 .. 11 .. 6 = Armoral Bearings
40 .. 0 .. 0 = Incometax
£100 .. 2 .. 9

Wm Cannon } Assor.

Mr W Chute MP based on taxes paid in 1801: income £2,400

Assessed taxes 1801

Window tax The Vyne (100-109 windows) £37

6 male servants £19.16.0

4-wheel carriage £9.12.0

2-wheel carriage £4.4.0

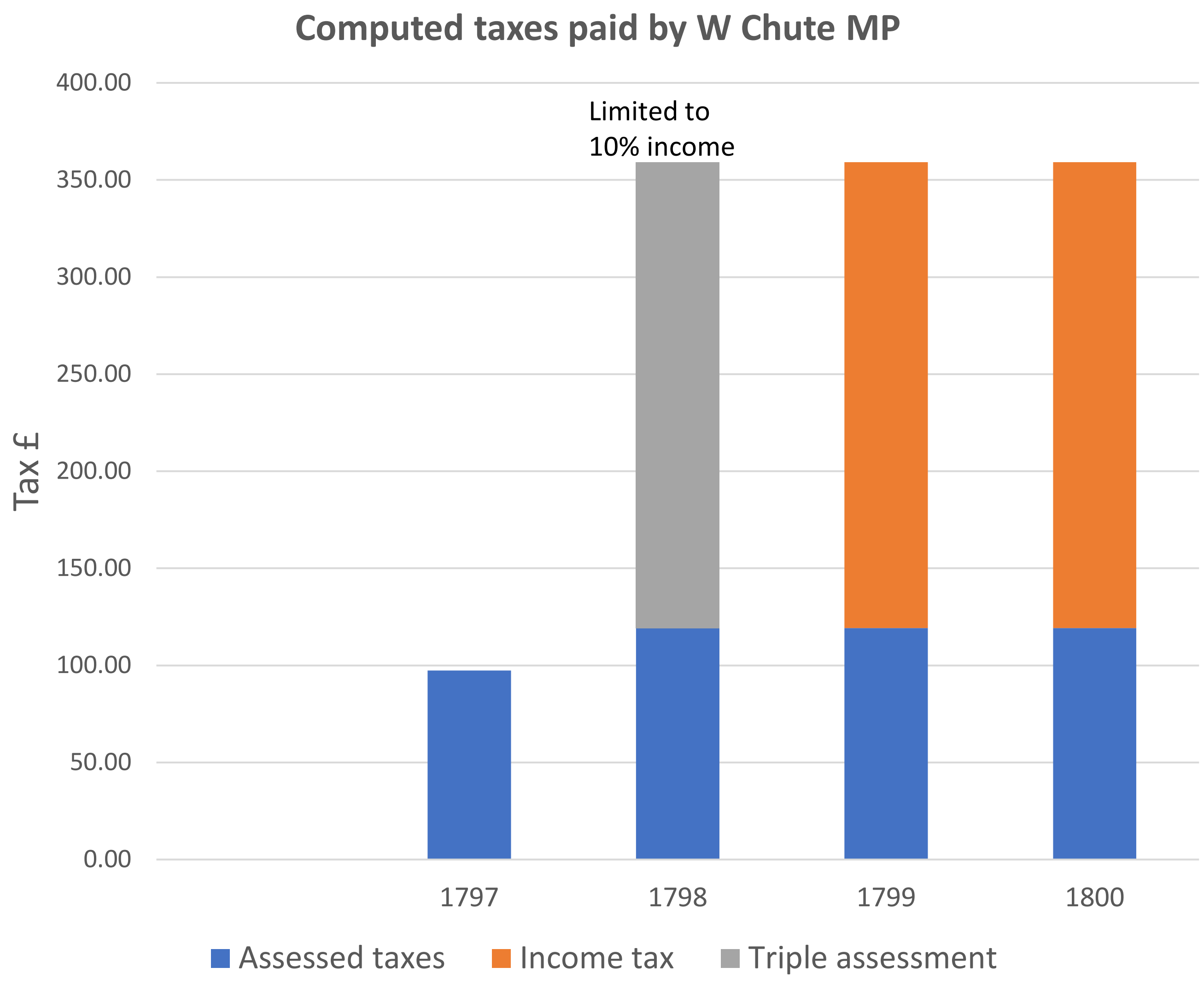
8 horses £28.8.0

50 dogs £15

House tax £3.2.6

Armorial bearings £2.2.0

(HRO 31M57/597)



Pitt’s 1799 income tax

Return of total income in one figure

- Could be asked to itemise income into 19 Cases, or types of income, 14 of which related to different types of income from land

20 Questions: were these issued generally?

- Eg ‘Have you, in estimating your Income, included the Whole of the expected Profits upon your Trade, although some part thereof may not have been actually received by you?’

Yield

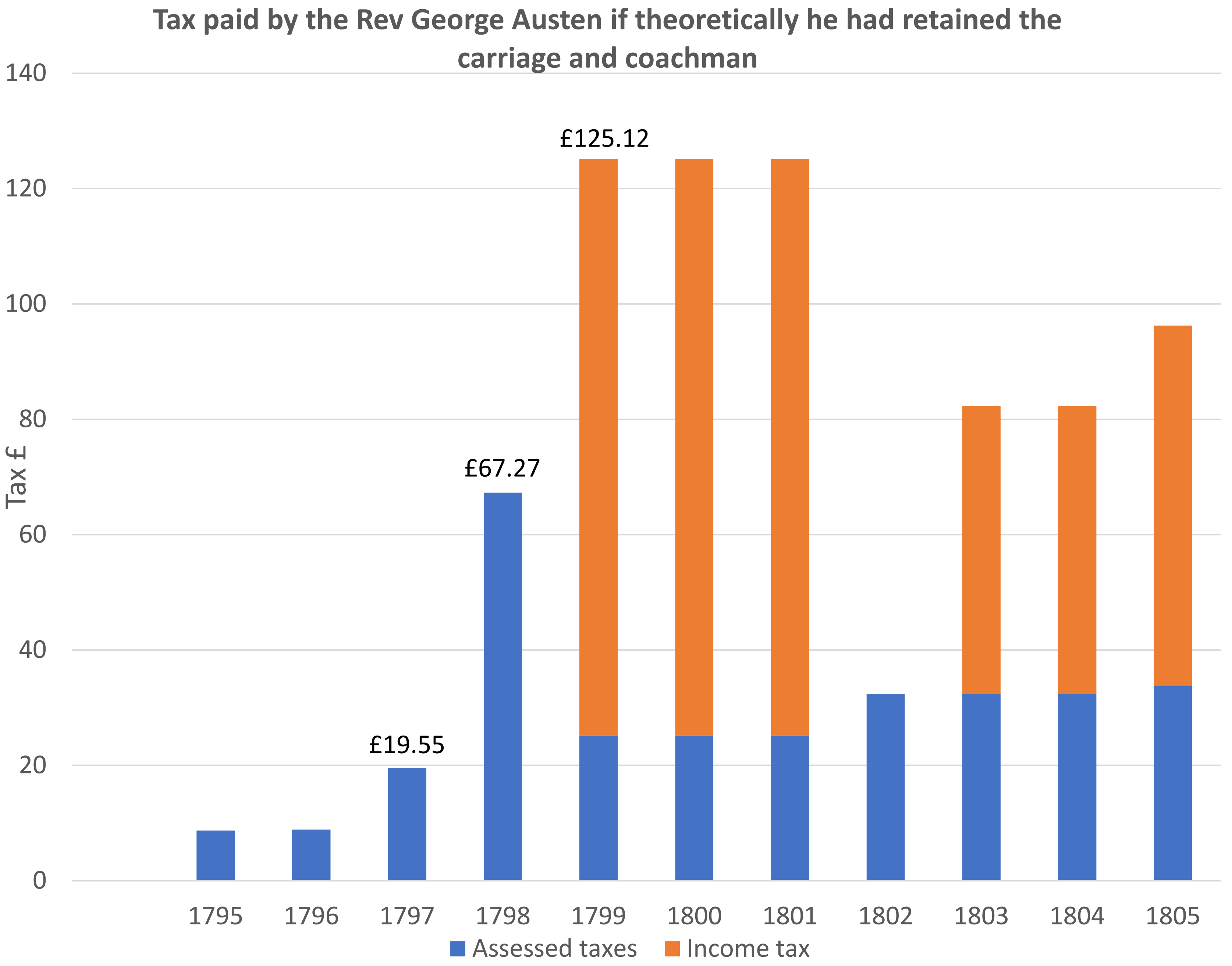
- Estimate £9m to £10m, reduced first to £7.3m and then to £6.2m.
- For 1800-01 the yield net of reliefs for small incomes and children was £4.5m

Extremely unpopular. No longer depended on the taxpayer’s choice of expenditure. Required disclosure of income for the first time

Jane Austen's father, the Rev George Austen

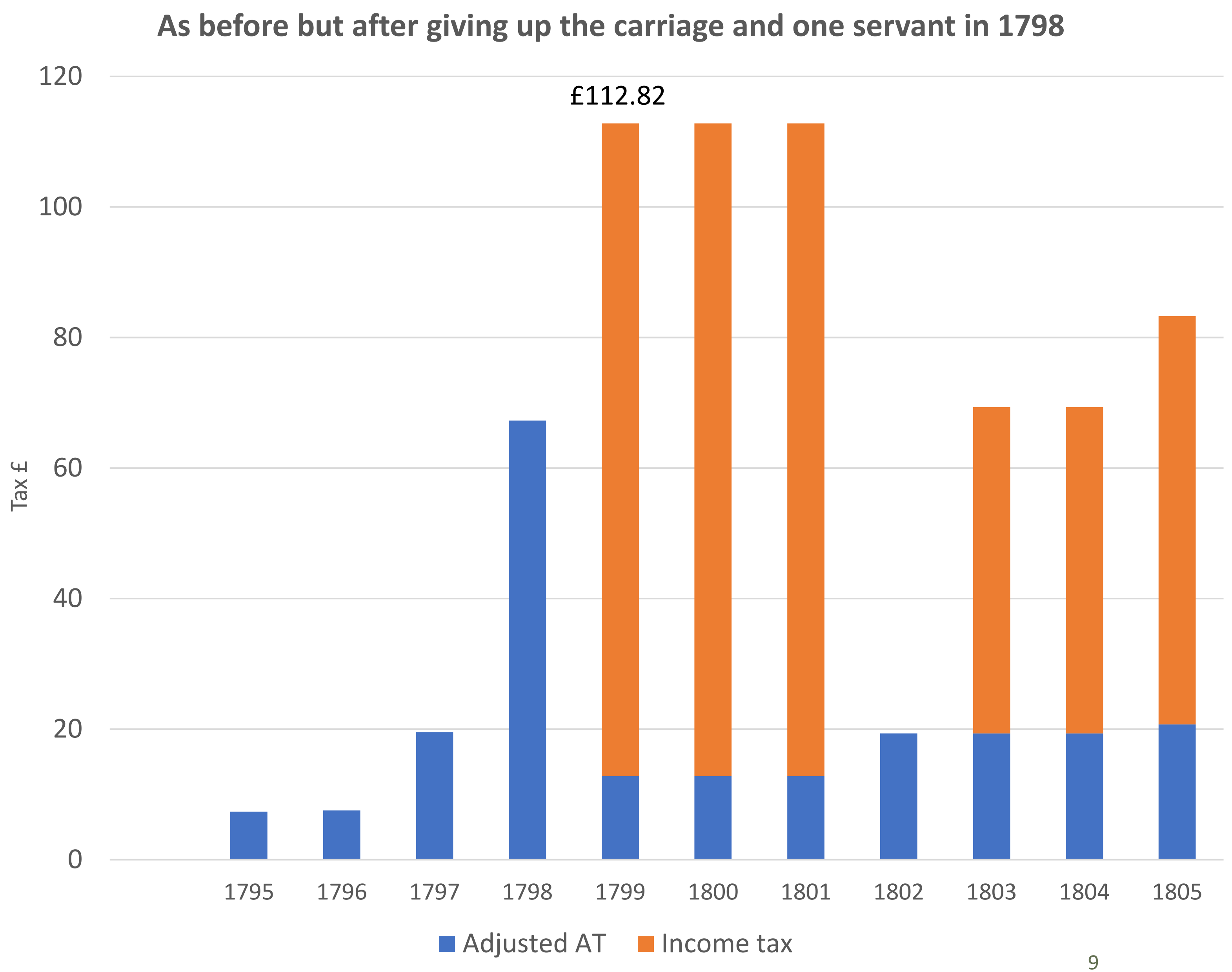
Carriage acquired in late 1797 given up by late 1798 (chart assumes carriage had been retained, 2 horses, 2 male servants, 21 windows. Income about £1,000)

Annual cost of carriage and coachman including normal duty about £70



Revised taxes after giving up the carriage and one male servant in 1798

He was expecting to pay about £20 AT including the carriage and additional servant but was hit by triple assessment then IT making the expenditure on the carriage impossible



Addington’s 1803 income (‘property’) tax

At 5% yielded the same as Pitt’s tax at 10%

Reason was emphasis on the method of collection particularly deduction of tax at source and retention of the tax deducted

- Gave tax relief to payer without involving the Revenue (if tax 10%, income 100, and pays 10 deducting and retaining 1, net tax is 9 which is the same as if taxed on 90), and the recipient need not declare it

Schedules and Cases of different types of income assessed separately preserving confidentiality

Assessment by local General Commissioners assisted by Additional Commissioners not by the tax authority (which could also appeal)

Degrees of difficulty in collection of Addington’s income tax

Land is easiest as visible

Investment income dealt with deduction at source (Gilts only from 1806 due to Pitt’s opposition)

Business income difficult but assessed by very-local General Commissioners and Additional Commissioners who used local knowledge, and who were themselves taxpayers and probably under-estimated a little; this made it more acceptable

Foreign income (about 10% of income) impossible to measure so the remittance basis was used

- Applied to all foreign income of all residents (same in Pitt’s tax except for foreign interest)

Original rationale for the remittance basis

Most foreign income of residents was from the colonies. By the 17C Navigation Acts the main items (sugar, tobacco, cotton) had to be shipped to GB in English ships and would be sold in GB when the proceeds would be known and had therefore been remitted

- Even after American independence in practice American cotton came to the GB to be sold

It was essentially a timing provision that also took into account matters like loss of ships at sea

Decline of the remittance basis: how non-doms became relevant

1914 ended for investment income

- Exception in original Bill for **non-British subjects, or British subjects not ordinarily resident in a British Possession**
  - Non-doms not part of the original plan (a Canadian OR in the UK did not qualify)
- Changed at Committee stage to non-doms (the Canadian would qualify)
- Changed on Report to **non-doms** (eg the Canadian) **or non–ordinarily resident British subjects** (eg British Indian civil servants who were in the UK on leave) (plainly discriminatory)
- Also applied to companies; disaster for UK life insurance companies operating abroad compared to non-resident life companies; management expenses relief introduced

1940 removed from everything except trading, employment and pension income (subject to the exception)

1965 removed from companies; applied to capital gains of non-doms (not NOR British subjects)

2013 NOR (by then Commonwealth citizens) category removed

Decline in the remittance basis 2

1974 removed from trading income (subject to the exception)

- and the scope of its application to employment income reduced (subject to the exception, and its application to UK duties was removed for non-doms)

Domicile is sensible for inheritance taxes not catching foreign assets of short-term visitors but much less suitable for income tax

Currently a fee for a non-dom to use the remittance basis (£30,000 or £60,000) and it runs out after 15 out of the last 20 years of residence (demonstrating the long-term nature of domicile)

Contrary to its origins the remittance basis is of great importance today in taxing the wealthy

- Of non-doms with the top 1% of earnings, 17% (11,707 people) with an average income of £536K work for banks accounting for 21.8% of all bank employees with the top 1% of earnings

(See Arun Advani *et al*: https://warwick.ac.uk/fac/soc/economics/research/centres/cage/manage/publications/wp570.2022.pdf)

Probate and legacy duty

Probate duty on the total personal estate of the deceased with a rate scale from £3 on an estate of £600 to £1,000 (0.3% to 0.5%)) to £940 on estate above £100,000 (0.9%) (1801 rates)

Legacy duty on the receipt of a legacy of personal property (Pitt couldn't get a majority for the Bill relating to real property) with low or nil rates for close relatives of the deceased rising to 10% (1805 rates)

- From 1796 a direct copy of the Dutch tax favoured by Adam Smith (although in fact the Dutch top rate was 5% not 30%)
- Gave strange results eg legacies to servants (unrelated) paid the top rate, as did charities; Jane Austen left a legacy of £50 to her brother Henry (3%), and the same amount to his former servant (10%) Cassandra Austen's legacy from her fiancé who died before they were married paid the top rate (then 6%)

Conclusion

Was the change from taxing luxury expenditure to taxing income an improvement?

- Definitely not, but luxury taxes could not raise enough; they were a necessary part of the transition to income tax

Addington’s tax shows that how tax is collected is far more important than what is taxed

How the tax is perceived by taxpayers is important: assessed taxes on voluntary expenditure v taxing income

The element of progressivity of the assessed taxes did not apply to income tax until 1910

There would be no equivalent today to the assessed taxes as a means of restricting taxes to the wealthy as they did in Georgian times, but there are lessons about the above that are still relevant

The remittance basis is not relevant to the history of taxing the wealthy but has become very important to taxing them today and to their willingness to work in the City of London