

THE
BURDEN OF BRITISH
TAXATION

BY

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INTRODUCTION

The present enquiry has been undertaken at the request of the National Institute of Economic and Social Research and under the auspices of that body. Its object, expressed in simple terms, is to estimate how much was paid in taxation, in 1937-38 and in 1941-42, out of each of a range of different incomes. So far as income tax and surtax are concerned, such a calculation presents few difficulties. But for all other taxes, a number of complicated and difficult calculations and estimates are necessary, as the following pages will indicate. These difficulties presumably explain why the calculation has been so infrequently attempted. The pioneer estimate was that contained in the Presidential Address of Sir Herbert (now Lord) Samuel to the Royal Statistical Society in 1919; the most authoritative calculation is that contained in the *Report of the Committee on National Debt and Taxation*, usually known as the Colwyn Committee, in 1927. Since that date, great changes have taken place in the burden of taxation. In particular, the outbreak of war has entirely transformed the scale of taxation; a much larger fraction of the national income now passes through the Exchequer than ever before. To state that fraction accurately would involve a discussion of the basis of estimates of the national income. But without any pretence to precise accuracy, it can be said that, while in 1913-14 only some 6 to 8 per cent of the net national income was raised in national taxation, and in 1925-26 (the last year to which the Colwyn Committee's calculations refer) some 17 to 19 per cent, by 1941-42 the revenue of the Exchequer alone (that is, excluding not only local rates but also a number of compulsory levies which do not flow into the Exchequer) may well prove to have been about 30 per cent of the net national income.¹ In these circumstances, the necessity for ascertaining the burden of taxation on different incomes, as a preliminary to forming a judgment on the equity of the existing system of taxes, is redoubled.

¹ Since the above was written, the appearance of the official estimates of the net national income (in the White Paper entitled 'An Analysis of the Sources of War Finance and an Estimate of the National Income and Expenditure, in 1938, 1940 and 1941') has revealed that the ordinary tax revenue of the Exchequer in 1941-42 amounted to 30.96 per cent of the net national income in the calendar year 1941. Government expenditure, expressed as a percentage of the national income, was much larger.

The primary object of this enquiry was, therefore, to bring up to date the estimates of previous enquiries. It has proved possible, however, in some particulars, to enlarge on the previous methods and to present a more comprehensive picture of the burden of taxation than has been done before. The picture is not yet, however, quite complete; it covers at least three-quarters of the levies that the community imposes on its members, but we have not been able to allocate the remainder to the incomes that bear it. The most important of the omissions, and the one that it should be possible to remedy with the greatest approach to accuracy, is the burden of local rates. But this awaits a considerable volume of preliminary research which we have not been able to undertake.

The assumptions on which the calculations have been based, and the limitations to which the results are subject, are fully set out in subsequent chapters. Two cautions should, however, be mentioned at the outset and borne in mind throughout the book. *The first is that the estimates relate solely to the burden placed on the citizen by the finances of the State; they take no notice of the advantage he derives. Before any judgments in equity are entered, both sides must be considered.*

The second caveat relates to the accuracy of the figures. The burden of income tax and surtax can be assessed with tolerable precision—though, even here, there are more qualifications than might appear at first sight. The burden on any particular income of every other tax can be assessed only with the aid of certain assumptions and approximations, and the results, accordingly, are subject to a greater or less margin of error. *Although the results are printed with an air of precision it must be very clearly understood that all of them are approximate. They are not exact figures, but more or less close indications of the orders of magnitude involved.*

The Report is divided into two parts. The first deals with the definitions and the main assumptions underlying the Report and summarizes the results obtained. The tables and charts at the end of Part I, on pp. 38–70, contain the detailed results. Part II consists of twelve chapters on the individual taxes. The methods of calculation are there set out in great detail.

Although we accept full responsibility for the results, it is only fair to state that we have received the greatest assistance and advice from various Government Departments, notably the Treasury, the Board of Inland Revenue, the Board of Customs and Excise, the Ministry of Labour and National Service, the Ministry of

Health, the Board of Trade, the General Post Office, the Ministry of War Transport, the Petroleum Department, the Ministry of Food and other Departments. We have had great assistance from Chambers of Commerce and from unofficial persons of all classes. Without this expert assistance, the results in this Report would have been incomplete.

There remains the duty of personal acknowledgments. Apart from the many eminent Civil Servants who are covered by the anonymity of their Service, we wish to place on record the debt of gratitude that is due to Mr Henry Clay, Chairman of the Council of the National Institute of Economic and Social Research, to Mr Geoffrey Crowther, Chairman of the Special Committee of the Institute appointed for this enquiry, to Professor J. R. Hicks and Mr Nicholas Kaldor, members of the Committee, and to Mrs F. S. Stone, Acting Secretary of the Institute. Thanks are also due to the officers of a number of Chambers of Commerce, Trade Associations and private firms, and to many non-official experts. Members of the Department of Economics, University College, Exeter, including Mr J. Sebag Montefiore, M.A., Miss Margaret Roger, B.Sc., and Miss V. A. Clark have, during the enquiry, served its interests with conspicuous efficiency and a zeal particularly their own.