The Indian Income Tax.

ITS

HISTORY, THEORY, AND PRACTICE

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BY

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1920.

THE SERVANTS OF INDIA SOCIETY. POONA.

Printed at the Lakshmi Vilas P. Press Co. Ltd. By K. G. Patel, Bhau Kale's Lane, Baroda. & Published by Shankar Madhav Pagar M. A. Sayaji Gunj Baroda on May 1st 1920.

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to

HIS HIGHNESS MAHARAJA

SAYAJIRAO III,

Gaekwad of Baroda,

whose generosity alone

made

the study of this monograph

possible.

PREFACE.

The most important facts of our time are that the needs of Governments are constantly growing without a moment's pause and that the tax-payers are ever demanding a more equitable distribution of public burdens. This is why the fiscal questions are of so much practical importance today.

To some minds the Income Tax presents itself as the realisation of the most perfect distributive justice so much so that today almost every country in the world has adopted an Income Tax as a part of its tax system.

It is of the utmost importance that nations like imdividuals be benefitted by the experience of one another. Having this in mind the author has ventured to attempt the study of the Indian Income Tax.

The various Imperial and Provincial Acts dealing with direct taxation in British India only, that is excluding the Indian States and other foreign possessions in India proper, which are not subject to the Indian Income Tax, have been made the frame work of this monograph; reports of the Periodical Parliamentary Committees, and Royal Commissions on East India affairs have been utilised. Mention also may be made of the various Provincial manuals and reports on the Income Tax. Outside of the official reports the field of Indian Finance is barren of material—a

difficulty which makes itself felt throughout this study. The chief value of this monograph lies in the fact that it breaks new ground. Some time in the future, the author hopes to be able to give to other sources of the Indian revenues a much fuller treatment than is possible in a study like this.

The subject was first suggested for a Ph. D, thesis by Professor Seligman of Columbia University, to whom and also to Dr. R. M. Haig of the same Universtiy the author is greatly indebted for much valuable advice. The many courtesies extended by the Columbia University Library authorities and the India Office authorities in London, in spite of the War have made possible an examination, however incomplete it may be, of the present Indian Income Tax Law. My thanks are also due to Professor H. Stanley Jevons of Allahabad University for valuable and sympathetic criticism, for supplying me the latest Provincial manuals and reports so as to bring the monograph to-date, and also for publishing a part of the monograph in the Indian Journal of Economics.

Baroda Sayaji Gunj
April 1st 1920 } THE AUTHOR.

TABLE OF CONTENTS.

	Page.
Part I - Direct Taxation in India...	1
Chapter I-Direct Taxation up to 1860 ...	1
1. The Early Hindu Period	1
2. The Mohammadan-Hindu Period ...	4
3. The British Period	8
Chapter II-Direct Taxation since 1860 ...	18
1. The Emergency Income Tax	18
2. The License and Certificate Taxes ...	24
3. The Varying Income Tax	28
4. The Various License duties	31
5. The Permanent Income Tax	34
Part II-Principles and Provisions	41
Chapter III-The Taxable Income	41
Preliminary considerations	41
A-The assessable incomes and the taxpayers	47
1. The Incomes taxable under the Act ...	47
2. The exemption of agricultural incomes	50
3. Liability to the Income Tax	54
B-The Administrative and ... ... Judicial decisions	56
Chapter IV-Differentiation and Classification of incomes	62
Chapter V-The Taxable minimum and the exemptions	70

Page.

A-The Taxable minimum and the treatment of small incomes 70

B-The exemptions 76

Part III-Assessment of Incomes... 99

Preliminary considerations 99

Chapter VI-The Collection at source ... 102

A-Administrative machinery 102

B-Provisions in the law of 1886 regarding collection at source and its practice ... 108

C-Taxation of securities and collection at source 114

D-Taxation of profits and collection at source 118

E-Advantages and disadvantages of collection at source 125

Chapter VII-The Assessment by Registers 128

A-Assessment of Incomes under other sources 130

B-Assessment in practice... 134

C-The various methods followed 145

Chapter VIII-Objections and Appeals ... 156

A-The Collector 157

B-The Commissioner 162

C-The Law Courts 163

Part IV-Results of the Tax 165

Chapter IX-The Tax Rates 165

Chapter X-The Modes of Collection and Recovery 173

A-Collection at source 173

B-Direct payment to the Treasury ... 174

C-The outstanding balances and modes of recovery ... ... Page 175
Chapter XI-The Yield of the Tax 182
A-Salaries 186
B-Profits of Companies 189
C-Interest on Securities 192
D-Other sources of income... 195
E-Incidence of the Income Tax 199
Chapter XII-Conclusion 204
Appendices 210
Bibliography 214

INDIAN INCOME TAX.

CHAPTER I.

DIRECT TAXATION UP TO 1860.

1. *The Early Hindu Period.* The term "assessed taxes", presumably borrowed from the English fiscal practice of the eighteenth century, was used until 1914, in the Finance and Revenue accounts of the Government of India to designate a variety of taxes. By April 1903, however, all such taxes were either repealed or abolished with the exception of the income tax, which was first introduced in 1860 and lasted only for five years. The permanent income tax, with which we are mainly concerned in this monograph dates from April 1886.

Probably there is no part of India where taxes on arts, trades, and professions are as new to the people as the income tax was in England, when first proposed by Pitt as a regular part of his financial system. These Indian imposts are known to us as the *sayar* or transit or octroi duties, the *moturpha* taxes or license duties, and the *thathameda* or capitation tax in Burma. The beginnings of these taxes are buried in the past and all we can do here is to trace, at least some of them, as far back as possible.

It must be understood that it is not our desire to enter here into the details of the economic organiza-

tion or the fiscal system of the early Hindu period. Our main purpose is to trace the development of the existing system of taxation, specifically that of direct taxation, and point out very briefly its probable origins.

Our main authority for this period is the famous Hindu Law Code, the Manava-Dharma, a perennial source for savants and scholars of Hindu culture in all its aspects. According to the author of this code we understand that the King is justified in levying direct taxes on land, merchants, artisans, and mechanics. Revenue was collected both in kind and in coin.

On cattle, gold, and other moveables, the State's share amounted to one-fiftieth, [1] which in time of war or invasion might be increased to one-twentieth, [2] on land one-twelfth, one-eighth, and one-sixth of the gross produce, according to the quality of the soil and the labour necessary to cultivate it. This land tax might also be raised to one-fourth in case of war and no doubt was an important source of public revenues. The king might also take one-sixth of the clear annual profits of wood-cutters, butchers, dairy-men, perfumers, apothecaries, cane-basket-makers, stone-cutters, potters, and tanners ; [3] the mechanics and artisans, as well as *sudras* who subsist by manual labour, were required to work for the State one day in each month. [4] Besides the king may levy duties on the profits of sales, [5] claim escheats for want of heirs, [6] and demand from one-twelfth to one-sixth of

1 Laws of Manu, Chap. VIII, verse 130.
2 *Ibid.*, X, 118 and 120.
3 *Ibid.*, VII., 131 and 132.
4 *Ibid.*, VII 138
5 *Ibid.*, VII, 127.
6 *Ibid.*, IX, 189,

the treasure-trove, and one-half of the same in the absence of an owner, the other half to go to a priest.[1]

Briefly stated the tax system consisted of the following—(*a*) a tax on the produce of land, (*b*) a series of taxes on personal property of every description, (*c*) a tax on sales, (*d*) a kind of poll tax like the Roman and French corvees, and finally (*e*) succession duties.

Of this most complete and comprehensive system of taxation James Mill in his much quoted, but seldom read, *History of British India* rather injudiciously says:[2] "the revenue of the sovereign arises almost wholly from the artificial produce of the land." Land was the main source, but other taxes were not wanting to round out the tax system. As between direct and indirect taxes, the author of Manu-Smriti seems to be perfectly impartial.

As regards the effects of this legislation an impartial writer says that[3] "it is certain that under the influence of this ancient legislation the Aryan population have had many prosperous centuries." The same author is even more emphatic about the agricultural and commercial prosperity of the time. He says:[4] "for many centuries before and after the Christian era, India enjoyed a real prosperity, agricultural and commercial, which she is regaining today only in part under the domination of the Anglo-Saxons."

1 Laws of Manu, Chap. VIII, 35-39.

2 Mill, J. *History of British India*, Vol. I, p. 299.

3 *L' Impot dans les diverses Civilisations.* By E. Fournier De Flaix Premiere serie, I. p. 44. 4 *Ibid* p. 43.

2. *The Mohammedan-Hindu Period.*--(*a*) *The Mohammedan Period.* The Mohammedan period began in India in the twelfth century of our era and may be said to have lasted till the first half of the eighteenth century. It was, however, very seriously interrupted by the growth of the Hindu power, especially in the southwestern part of the country under the Mahrathas in the seventeenth century. For the purpose in hand we shall very briefly summarise the growth and development of direct taxation during this period.

Industries when under the control of powerful gilds of artisans, were very famous for their artistic wares during this period. The Indian trade with the nations of the Mediterranean basin was carried on evermore on a larger scale than before. But the State needed more money to carry on its multifarious activities including that of spreading the Moslem faith with the sword if possible. It is not therefore surprising to find many imposts levied on the subject population.

The following is a somewhat partial list of the imposts [1] levied by the Moghul Emperors, beside the ancient land revenue; (1) the *jiziah* [2] or the capitation tax levied on non-Mohammedans according to their ability at Rs. 40, 20 and 10 each; (2) the port duties,

1 Abul Fazl—The *Ain-i-Akbari*, vol. II p, 66.

2 Beveridge, A. *The Emperor Akbar*, Vol. I, pp. 275-76. For the History and method of levying jiziah, see Dr. N. P. Aghnides' elaborate dissertation on *Mohammedan Theories of Finance* in Columbia University studies, Vol. LXX., pp. 528, *et seq.*

similar probably to our customs duties; (3) a tax per head on pilgrims; (4) a tax on timber cut from the State or private forests, with a view to conserve forests; (5) presents to be given to the Emperor; (6) a tax on the various classes of artificers; (7) Tahsildars' fees, the money given to the tax gatherer; (8) Complimentary offerings on receiving a lease and the like; (9) a fee for testing and exchanging coins, that is, a mint charge; and (10) market tolls.

Besides these exactions there were the taxes on sales of cattle, on hemp, blankets, oil, raw hides, weights and measures; there were the special license duties on butchers, fishermen, brokers, tanners, gamblers, passports, and turbans, on the purchase and sale of a house, on salt made from nitrous earth, on the manufacture of lime, spirituous liquors, and dye-stuffs from plants [1] All these imposts must have almost choked Indian industries and commerce for many years to come.

The Emperor, Akbar one of the most enlightened Mohammedan Emperors, and contemporary of Queen Elizabeth, took away most of these imposts, including the hated *jiziah* levied on infidels, and built himself an everlasting name. In order to compensate for the loss of revenue, he, with the help of his famous Hindu finance minister, Rajah Todar Mull introduced a ten year settlement in the case of the land tax and substituted money payments for payments in kind. It was one of the minutest surveys ever carried out and

1 *Ain-i-Akbari*, p. 67.

became the basis of Modern surveys and settlements, at least in Bengal. [1]

The effect of the abolition of the various vexatious exactions was naturally felt in the country's commerce and industry. Never before or long after this period does India seem to have enjoyed such material prosperity, so much so that it is estimated that at the time of Akbar's death there were no less than 35 millions of treasure in the Agra fort alone, and that the total gross treasure in all the treasuries of Akbar's empire may be given at 70 to 80 millions sterling of modern money.[2]

Probably this treasure was the greatest inducement for the Emperor Shah Jahan, the grandson of Akbar, to hand down his name to posterity as the builder of the most exquisite Taj Mahal and other artistic public buildings, together with canals, the latter to insure continued agricultural and commercial prosperity. He, however, does not seem to have exhausted this huge treasure left by Akbar.

It was left for Aurangzib, to squander the remainder of this treasure in fighting the wars of succession and in suppressing smaller nationalities, in order to bring the whole of India under one empire and thus to realise the dream of the universal peace. But all this meant more money. Akbar's treasure was exhausted. Some of the old imposts were resorted to, among them the humiliating *jiziah*, which created

1 *Ain-i-Akbari*, P. 88, *et seq.*

2 Smith, V. A., *The Treasure of Akbar*, in the Journal of the Royal Asiatic Society of Great Britain and Ireland, 1915, pp. 231-43, the rate of conversion being Rs. 10 to a sovereign.

more trouble than Aurangzib had ever anticipated. The *jiziah*, not the amount of the tax as such, but the method by which it was assessed and collected, was at any rate one of the causes that finally led to the downfall of the Moghul Empire in India.

(*b*) *The Later Hindu Period.*—A revival of Hindu power was attempted by the Mahrathas, who, according to Prof. J. Sarkar, the well known Indian historian of the Moghul Empire under Aurangzib, were the only people among the Hindus to resist the onslaughts of Islam.

The Mahrathas, true to their tradition, always believing in small nationalities and their rights, were thoroughly convinced that the establishment of a decentralised government was the only thing possible in India. They were, at least in the beginning, averse from attempting to rule a continent like India from one central place like Delhi or London. This idea of decentralisation and the establishment of local taxation for local purposes were their greatest contributions to Indian history, which Britain today is slowly but surely putting into practice.

They were specially particular about land revenue. Leases to small peasant-proprietors extending over 70 years were not uncommon. The peasants could appeal directly to the finance minister in case of over-assessment of the land tax.[1]

Besides the land revenue, there were other taxes, the revenue from which was termed as Nukta-bab or

1 G. Duff, *History of the Mahrathas*, Vol II, Appendix.

the extraordinary revenue as distinguished from the land revenue. These taxes may be briefly stated as follows: [1] (1) the Mohturpha, a tax on merchants, manufacturers, professions and houses, which came down to modern times and was not abolished until after the Mutiny, at least in Southern India; (2) a tax on certain rent-free lands; (3) a tax on profits of grass lands; (4) the Pandhari tax levied on the offerings of pilgrims at religious fairs, which was later converted into a license tax on petty artisans, and was only abolished in 1903 in the Central Provinces; (5) the customs duties; and finally (6) tributes from the conquered regions, known as the Mahratha chauth or the fourth.

3. *The British period.*—(1) *India under the East India Company.*—Without entering into anything like a detailed discussion as to the proper selection of the year which marks a dividing line between the Moghul and British epochs we shall simply appeal to facts. Shall we adopt 1757 as our starting point for British period, because accidentally in that year Clive won the battle of Plassey? Or shall we choose the year 1761 when the Mahrathas suffered their tragic defeat at the hands of Ahmad Shah Durrani, that marauding chieftain of the Afghans, thus clearing the road for the establishment of British rule in India?

The students of economic and constitutional history of India are wise, however in taking 1765 as the

1 Duff, G. *Hist. of the Mahrathas*, Vol. II, p. 238.

starting point of British period in India. It was in this year that the titular Mohammedan Emperor, Shah Alam II, being unable to control his representative (Nabab) in the then Provinces of Bengal, Bihar, and Orissa, granted the diwani of these rich provinces to the East India Company, that is the right to collect and administer the revenues for the paltry sum of twenty-six lakhs of rupees per annum to be paid to the imperial treasury at Delhi.

The later diplomatic achievements of the company and its feats of arms against the unorganized natives are well-known. In spite of this it must be admitted that India under the Company, though centralized and subjected to the control of the Governor-General at Calcutta, and a Court of directors in London, was not really consolidated and unified. The Presidencies of Bengal, Bombay, and Madras published separate accounts and the taxation of this period was anything but uniform all over the Company's dominions. Until 1833 the Company was both the trader and the ruler. Whatever it lost in trade was made up from the Indian territorial revenues, and also from the traffic with China. In that year the Company's monopoly of China trade and all its other trading functions were abolished by Parliament. The Company, however, continued to pay its regular dividends in London amounting to over £600,000[1] until after the rebellion of 1857 when its total stock and other obligations were converted into the Indian public debt.

1 East India Accounts and Papers, 1855-56.

The company very naturally continued the tax system handed down to it by its predecessors. Land revenue still formed the bulk of the revenue; even as late as 1853 this source contributed more than half of the total gross receipts.[1] Indirect taxation such as salt, opium, customs, transit duties, stamps, registration, excise on spirituous liquors, and tobacco contributed not less than one-third, if not more. Thus the Company's Government always tried to keep an impartial equilibrium between direct and indirect taxation.

The land revenue in Bengal was settled once for all in 1793 and the Court of Directors in approving this limitation on the Government demands from land declared that "the true policy requires us to hold this remote dependant dominion under as moderate a taxation as will consist with the ends of our Government." Later on these views seem to have been changed and the temporary settlements, lasting from 15 to 30 years, were effected in all other Indian provinces.

Among the direct taxes besides the land tax under the Company, some of which were also levied under former Governments, may be mentioned the following important imposts: *sayar*, an Arabic word meaning universal, included many irregular receipts mainly collected by provincial officers from cultivators especially, in Bengal.[2] It also included town duties, duties at bazaars, and collections from Gaya and

1 East India Accounts and Papers, 1852-53. The gross receipts were £ 28,610,000 and out of this £ 15,365,000 were from land revenue.

2 Select Commitee on East-India Affairs, 1831-32. Vol. IV. p. XIV.

other places of Pilgrimage, all of which now form part of municipal revenues.

In Madras, on the other hand, the term *sayar* was used to designate transit duties. In the Deccan again *sayar* was divided into two branches (*a*) the Moturpha, a tax on professions, and implements collected by village officers, and (*b*) the Bullooteh, a tax upon the fees in kind received by the village artisans from the cultivators. All these were later commuted for a money tax or cess on the land revenue and are known today as the provincial rates.

There was again a tax known as the wheel tax, levied on buggys, carts, and chariots, confined to Bombay only. Collections were farmed to the highest bidder and the tax was very oppressive in amount.[1] At present this tax is entirely handed over to municipalities.

The group of taxes known as Pilgrim taxes coming down from remote times, consisted of a number of imposts; (*a*) a poll tax upon all pilgrims resorting not only to the great temples, but to many of the smaller pagodas and shrines of fame; (*b*) a toll on all the offerings brought by the devotees with them. The government usually farmed out these to a renter for a lump sum; (*c*) fixed sums to perform the various penances; and finally (*d*) license fees for shops, booths, and stalls during religious festivals.[2]

These various taxes were recognised to be a great hindrance to trade and commerce. Accordingly Lord

1 Select Committee, 1831-32 Vol IV p. XV.

2 Ibid. p. XVI.

Cornwallis, the then Governor General of India under the Company consolidated the *sayar* into the transit and town duties.[1] This was the beginning of that monstrous inland tariff wall extending over 1,500 miles from Attock in the north to Cuttack in the southeast, which was abolished only in 1878 by Lord Lytton with the aid of Sir J. Strachey, regular sea-customs being substituted for them.[2] It is astonishing that a free trading England should have tolerated such a thing for nearly a century !

The Moturpha, levied on trades, industries, and occupations, and chiefly found in Madras after 1833, formed part of the provincial revenues since 1843 on account of the increase in the salt duty for the Central Government. This tax in Madras, bringing an annual revenue of over £100,000 was not abolished until after the Mutiny.

In summing up for the preceding three periods one frankly admits that the trading and the professional classes, Pandits and Shastrees, Maulvis and Kazis contributed little or next to nothing to the public treasury.

On close study one other fact also becomes prominent and it is this that India left to herself would have developed in the long run a system of general property tax and import duties, rather than low import duties and an income tax. To be sure

1 Sir Ch. Trevelyan's evidence before the Fawcett Committee of 1871. Vol. III, Q. 764.

2 Strachey, Sir. J., *India and its Administration.* p. 179.

an income tax would have come, but probably it would not have come so early as it did.

(*b*) *India under the British Crown.* A careful examination of the accounts of the East India Company for the twenty years preceding the great Revolution[1] of 1857 at the end of which India was transferred to the British Crown from the hands of a dividend distributing concern, shows that all these twenty years were not necessarily years of deficit in Indian finances as is commonly believed. To be specific, the last seven or eight years of the Company's rule show an average annual surplus of over £1,000,000, while the actual surplus for 1856-57 ending on 30th April was no less than £386,000.[2]

But the Mutiny in May 1857 disorganised and paralyzed the revenue system in almost the whole of Northern and Eastern portions of India and precipitated a huge deficit for the succeeding years. A resort to new sources of revenue and to retrenchment in public expenditure was welcomed by the new Imperial Government. We are for the first time ready to discuss the beginnings of a real modern income tax in India[3]

1 It was really a revolution in as much as the new Imperial Government in India was made directly responsible, at least technically to the majority party in the House of Commons.

2 East India Accounts and Papers, 1854-55.

3 By India is meant only British India. The French and Portuguese possessions in India: the semi-independent states of Nepal and Bhutan, the various feudatory Indian States, comprising in all more than one third area of the whole of India and more than one-fifth of the whole population are not subject to the Indian income tax. All this means few assessees and small yield from the tax.

The year 1860 marks a new epoch in the Indian financial annals, not only for the introduction of the income tax, but also for the genuine attempt on the part of Mr. James Wilson and his two associates, purposely drawn from the British Treasury to introduce a sound financial system. Budgets and financial statements were made more accurate and trustworthy than before, not that there was no system under the Company, but it was not consolidated. An adequate accounting and auditing system was also provided, but until 1914 there was no such thing as an independent audit in the Finance Department of the Government of India.[1]

In the pre-mutiny Indian finance, whenever there was deficit, an addition to the public debt was generally resorted to. Invariably the deficit was due to irresponsible control of army finances and to the obnoxious guarantee system of building railways. The expenditure on both of these items was always controlled from England

Turning to the fiscal situation of 1860 we find ourselves facing a deficit variously estimated from £7,000,000 to £9,000,000[2] of which more than £3,000,000 were to be raised by means of new taxes, and the rest to be made up by reduction in expenditure. Mr. J. Wilson, with an official experience gained at the British Treasury and the Board of Trade was specially sent to bring order out of the Indian financial chaos.

1 Even this is very in sufficient, but the new step is in the right direction see *Financial Statement* for 1914-15.

2 The actual deficit was only £4,021,385 (Fawcett Committee, 1871, Vol I, p. 709).

He introduced what may be called a triple assessment in 1860 [1] :—(1) a tax on incomes of all kinds; (2) a system of licenses for arts, trades, and professions; and (3) a tobacco tax. Out of these the last two were dropped partly because of the difficulties of levying them and partly because they were later found unnecessary. Import duties had already been doubled in 1859 from five per cent to ten per cent. Similaraly the salt duty had also been raised in each and every province. [2]

Before resuming the story of direct taxation, it may not be out of place to summarize here the chief characteristics of the fiscal policy pursued by the Government of India.

First, the post-mutiny finance is characterised by the free trade policy, which, though not inherent in the present system of Government was vigorously pursued till its climax in 1882 under the finance ministership of Sir Charles Baring (the late Lord Cromer) and Governor-Generalship of Lord Ripon, only opium, salt, arms, liquors, and spirits being left on the Indian tariff. The present reaction in favour of protection dates back to 1888 when for the first time a small duty on petroleum was levied. In March 1894 the general rate on imports was fixed at five per cent. Foodgrains, raw materials, and machinery are admitted free of duty. The duty on cotton goods however was reduced to three and one-half per cent in

1 *East India Financial Measures* of 1860.

2 For exact increases in all provinces, see Statistics of British India, sixth issue, pp. 73-74

February 1896 and a corresponding excise duty on domestic cotton goods was also levied. The general import tariff was not disturbed until the European War. In 1916 to meet the increased military burdens the general *ad-valorem* rate of 5 per cent fixed since 1894 was increased to 7½ per cent except that on sugar which was fixed at 10 per cent. There was also a substantial curtailment of the free list. On account of the pressure from the Home Authorities the cotton schedule was not disturbed but owing to the increased military demands the Indian Government raised the cotton import duties on cotton goods form 3½ per cent to 7½ per cent without correspondingly increasing the excise duty on cotton goods. The export schedule was also modified in 1916 and as a result the duty on tea was fixed at Re. 1-8-0 per 100 lbs.; in the case of jute the duty on raw jute was at Rs. 2-4-0 per bale of 400 lbs.; manufactured jute was charged at the rate of Rs. 10 per ton on sacking and Rs. 16 per ton on Hessians The export duties on jute were doubled in 1917.

Secondly it was in this period that the much abused guarantee system of building railways was discontinued and the Goverument of India began to build its own railways and irrigation systems. All this meant an enormous increase in the sterling debt of India.

Finally the direct taxation introduced in 1860 has been continued and developed till a permanent income tax was established in 1886. The salt duty was

decreased and made uniform at two rupees a maund ($82\frac{2}{7}$ lbs.) throughout the country. Not until 1907 was it substantially reduced so as to make healthful living possible for the poorer classes.[1]

1. The new duty was fixed at Re. 1 per maund. In 1916 this duty was again raised to Re. 1-4-0 for war purposes.

CHAPTER II.

Direct Taxation Since 1860

1. *The Emergency Income Tax.*—The income tax law of 1860 was the direct result of the desire on the part of the new Imperial Government to compensate the losses suffered by the British and other trading interests, and also to make up the deficit. For the first time in the history of the world it was demonstrated that India, an oriental country was ready to meet with equanimity and courage the greatest engine of western finance—a modern income tax.

(*a*) *Provisions and rates.* The Indian Income Tax Act of 1860 follows very closely its British model, that being the only successful income tax then in operation. It differs, however, from its English prototype in duration and adaptation to local conditions It is an act "for imposing duties on profits arising from property, professions, trades and offices." It contains four schedules as opposed to the five in the British Act, which are as follows:—

1. Profits and gains of every kind arising from all lands and houses in India, thus combining the the British schedules A and B.

2. Annual profits from any profession, trade or employment in India irrespective of nationality.

3. Any interest, annuity, or dividends, payable in India to any person whether residing in India or elsewhere, finally–

4. Every annuity, salary or pension payable to any person residing in India.

As regards the rates it may be said that the Indian law corresponds to the English law of 1803, which was a percentage tax rather than so much in the £. The rates were three and one percent for the Central administration, and the Provincial administrations respectively. The latter were asked to devote the proceeds to public works of local character such as roads, canals or local railways.

(*b*) *Assessment and Collection.* In the rural districts the assessments were made by the Panchayat, a local committee, usually appointed by the collector of a district. Each person liable to the tax was required to render an unsworn statement of his approximate income. The appeals were taken to the collector. The Deputy Collector assessed profits and income not exceeding Rs. 1000 a year subject to appeal to the collector in the event of surcharge. The Collectors of the land revenue, then, were solely entrusted with the execution of the Act and the management of duties. In passing it may be noted that public sentiment and tradition were adhered to, more so than now.

As regards the assessment and collection in large towns, special commissioners and collectors were en-

trusted with the work. In all cases assessors, then as now, were appointed by the local authorities.

(c) *Exemptions.* The authorities seem to be very careful about exemptions. It was provided that (1) persons with less than Rs.200 a year income from all sources would pay no tax at all; again (2) persons with less than Rs. 500 income, but amounting to Rs. 200 and over, paid at the rate of 2 per cent and were exempt from the duty of 1 per cent for public works, etc; (3) all Government property was exempted; (4) officers and soldiers of any military or police force, whose pay and allowances were less than those of a captain of infantry were exempted; (5) naval and marine officers were free from the tax in respect of travelling and other allowances; (6) Ryots and persons in the occupation of lands for agricultural purposes and actually engaged in their own cultivation, paying less than Rs.600 yearly as land revenue, were exempted; 7) persons occupying houses for the purposes of habitation only and holding the same at a rack-rent; (8) deductions on account of repairs - a sum equal to the rent of such houses for six months in every three years were provided; (9) property devoted to charitable and religious purposes; (10) life insurance premiums not exceeding one-sixth of the income.[1]

(d) *Avoidance of double taxation.* Income from property situated at home, *i.e.*, in Great Britain and pay-

1 The Income Tax Act of 1860, Part XIII.

ing the English income tax was not liable to the Indian tax, even though received in India. Similarly the pensioners and those in the receipt of allowances from the Government of India, paying the English tax were exempt to avoid double taxation. It may be added that temporary residents were taxed only if they stayed in India for more than six months.[1]

(*e*) *Fiscal results and the abolition of the tax.* If one were to judge the fiscal results from the vast number of inhabitants, then about 143,000,000 in British India alone, it must be admitted that they were very disappointing. On an average for the five years ending on April 30, 1865, the tax yielded a little over Rs. 150 lakhs.[2] There are many reasons which go to explain this poor yield. In the first place India is an undeveloped and purely agricultural country compared with England or even the United States. Secondly, the defects in the law itself (the English income tax machinery was absent), and hence the difficulties of getting true knowledge of incomes, were enormous. Every one liable to the tax was asked to hand in a return of his income, but a large portion understated the income and thus the honest tax-payers paid for the dishonest.[3] For instance, in what were then called the North-Western Provinces, now the United Provinces of Agra and Oudh, out of every hundred returns, about four represented approximate incomes or were acceptable to the authorities, while about

1 *Ibid* Part IV of the Act. 2 *Vide* Appendix I.
3 Fawcett Committee, 1871, Vol. I, Q. 9074 *et seq.*

13 failed to make a return.[1] More than one-fifth of the total tax was paid by the public officials and the fundholders, this portion being deducted at source, which seems to be the only redeeming feature of the Act. It is also true that the low minimum of Rs. 200 caused a great hardship which the Government remedied by rasing the minimum to Rs. 500 in 1862. The rate was also abnormally high for the time and this fact was conceded by the government in 1863, when the general rate was reduced from four to three per cent. Again the assessments were neither revised from year to year, nor even once during the five year period. Finally the tax was a temporary one, and the Government unwillingly fulfilled its promise by abandoning the tax in 1865, only to return to some other form of direct taxation two years after.

(*f*) *Conclusion* It is admitted that the income tax of 1860 was not operated successfully, especially the idea of buiiding local public works, out of the proceeds of the income tax was an unhappy one, although it was put in the law in order to make the Provincial administrations feel that there was something for them in the bargain.

As regards the members of the Government of India at Calcutta, it may be said that they, including Lord Canning, the Governor-General, were unanimous in putting through the income tax at any cost.

1 Report on the Income Tax in the N. W. Provinces, 1861-62 p. 45.

Sir Charles Trevelyan, the most popular Governor of Madras, officially opposed this imperial impost very vehemently and had to pay the penalty by being recalled for his opposition.[1] Other provincial administration, on the other hands, seem to have acquiesced calmly.

The Indian opinion and that of the European community, especially at Calcutta were directly opposed to each other. The correspondent of the London Economist, by no means an impartial observer adds that " the tone of the Bengalee Press is as much opposed to the new tax as ever. The Bengalees of Calcutta, knowing themselves to be quite impotent for resistence, think to make up for that by incessant lamentations. Daily is the wailing and railing against the terrible income tax renewed by the newspapers that are the organs of the Baboos. Their cries for pity when they see the shears which are to be applied to the wool of their fat incomes, are ridiculous enough. This barking, we are told, may, however, be safely despised, as it is sure not to be followed by any bite. " Similarly at Madras the Trade Association presumably composed of both natives and foreigners, resolved to follow their heroic governor in the opposition to the tax. On the other hand we are informed that the non-official community at Bombay presumably Europeans, and the European community at Calcutta, were all in favor of the new taxes.

1 The London Economist, Vol. XVIII, 1860, p. 589.
2 *Ibid.*, July 28, 1860.

It is interesting to note in this connection that the very European community, which is said to have sponsored the income tax of 1860 and waxed eloquent over it, repeatedly brought pressure upon the Government of India, for the repeal of the present tax.

On the whole the British administration deserves credit for this hazardous experiment, which for the first time gave us an index, however imperfect, of Indian wealth of which many an Englishman, by no means excluding Mr. Wilson, had a very exaggerated idea until that time. The administrative experience, on the other hand, should not be lost sight of and we shall see how it was utilised later.

It is also important to note at this stage that even the Bengal landlords, who were enjoying the benefits of the perpetual settlement of land revenue, were made liable to the income tax in addition to their land revenue payments to the Government. Of course this was no breach of faith on the part of the Government since every landholder whose land revenue exceeded Rs. 600, was subject to the tax. In short there was no discrimination against Bengal landlords.[1]

2. *The License And Certificate Taxes.—Preliminary Considerations.*—The Indian financial situation continued to be unsatisfactory. Retrenchments in military expenditure were effected, but they were merely temporary in character. It was also talked about that a license tax may be made a convenient means of maintaining equilibrium in Indian finance.

1 See East India Accounts and Papers, 1860, for the whole controversy.

As a matter of reference it may be added that in 1861 a license duty was appended to the income tax, though it was in force only for seven months. It imposed a duty of one rupee, two rupees and three rupees on all artisans, shop keepers and wholesale merchants and professional people respectively. But this system of licensing, scrupulously excluded the ministers of religion, the ministers of justice, the government officers, and men of the army and navy.[1]

(*a*) *The License Tax.* At any rate the Indian Government, with a view to avoid a vast deficit,[2] levied a license tax in 1867 according to a graduated scale on all professions and trades, ranging from 4 rupees to 25 rupees in such a way that the rate should in no case exceed 2 per cent, the minimum license fee being Rs. 4 on all profits of Rs. 200 and less than Rs. 500 a year, while the maximum license fee was no less than Rs. 500.[3] Persons in the public service though they did not have to take out a license, were subject to the tax.

Military officials not in civil employ, whose pay and allowances did not exceed Rs. 6,000 per annum, and the Government employees with a salary of less

1 Moral and Material Progress of India, 1882-3, p. 176.

2 The deficit for 1866-7 was £2,000,000. It was also in this year that the Indian fiscal year was made to correspond with the British fiscal year.

3 The following scale was adopted :—

Rs. 4 on profits from trades of Rs. 200 and less than Rs. 500.

Rs. 10 on profits from trades of Rs. 500 and less than Rs. 1000.

Rs. 20 on profits from trades of Rs. 1000 and less than Rs. 5000.

Rs. 100 on profits from trades of Rs. 5000 and less than Rs. 10,000.

than Rs. 1,000 a year were not liable to the tax. Cultivators of land, not keeping a shop for the sale of produce, which would be equivalent to practising a trade, the land-lords, and the house-holders were also exempted.

On the whole this was an improvement over the Income Tax Act of 1860 under which agricultural incomes were assessed. But it was, like most other license taxes, unjust in that it fell mainly on the small traders; morever those who made higher profits also paid the same rate, that is 2 per cent or even less in the case of those whose profits were more than Rs. 25,000 a year. Add to this the small minimum allowed, and the favoritism shown to the Government employees with a salary of less than Rs. 1,000 a year.

The English community in Calcutta and elsewhere began to rail against its provisions and went so far as to say that they did not object to being taxed, but they would like the taxes to be on "proper principles", *i.e.*, be taxed as the people in England were taxed at the time. In short they made a plea for a more equitable form of income tax.[1] From the fiscal point of view, the one which alone concerns us here, the license tax was a failure. It produced less than half of what income tax produced in its expiring year, although the number of assessees was nearly three times as large.[2] All this pointed towards change and reform.

1 Fawcett Committee, Vol. III, 1873, Lord Lawrence's testimony, p. 328 *et seq.*

2 *See.* Appendix I.

(*b*) *The so-called Certificate tax.*—In the following year, that is in 1868, the license tax was repealed and was substituted by what has been termed the Certificate Tax, which was much broader and wider in its classification and extent, but was to last only for one year. Everyone liable to the tax had to take out a certificate from the Government. It was divided into ten classes, as contrasted with the six of the license tax, according to the annual profits, the taxable minimum being Rs. 500. The tax was a lump sum tax and began with Rs. 8 on Rs. 500 going up by a gradual scale to Rs, 6,400 on Rs, 4,000,000 and upwards.

The exemptions were in fact precisely the same as in the license tax of the preceding year. The rates were two-fifths lower than in the license act and the minimum was also higher than before. Thus it resembled more closely an income tax, but the inequalities, as between classes, were not eradicated. Fiscally it was more disappointing than the preceding tax. It produced less than two-thirds of the license tax,[1] the reduction being mainly due to the raising of the minimum from Rs. 200 to Rs 500. In short the Certificate Tax was only an enlargement of the license tax.

The English community again disapproved of this tax—this time unjustly, because the tax was made to reach more of the larger incomes from profits

1. See Appendix I.

of trading, on the same principle as in the case of the license tax. All this led to an income tax. Again this time the Home Authorities (*i. e.*, the India Office, in London) took the side of the rich English trading classes, and vehemently declared that they did not think it fair to put a license tax or a certificate tax on certain classes and not on others, who were equally well off. [1]

The varying Income Tax.—In order to put a quietus on the agitation against the Certificate Tax the Government of India finally decided to go back to the income tax, but unfortunately, instead of making it a permanent source of revenue or fixing it for a term of years, it was to be levied only for one year.

In short the Government reintroduced the income tax in 1869, but this time only at 1 per cent on all incomes of Rs. 500 and upwards, arising from offices, property, professions, and trades, including incomes derived from land by landlords and tenants. The Military Officers were as usual exempted and no tax was imposed in regard to property set aside for religious and charitable purposes. In the middle of the same year, to avoid a serious deficiency in the estimated revenues, Lord Mayo's Government suddenly increased the rate to $1\frac{1}{2}$ per cent. In 1870 a further rise took place, and the tax was now fixed at six pies in the rupee, equivalent to $3\frac{1}{8}$ per cent. In 1871 the rate fell to $1\frac{1}{24}$ per cent,[2] and the minimum was

1 Fawcett Committee Report, Vol. III, P. 329.

2 Report on the Income Tax in Bengal for 1869-70 and 1871—2, p 33*et seq.*

raised from Rs. 500 to Rs. 750 and further raised to Rs. 1,000 in 1872. Finally in 1873 there came a second period of total abolition of the income tax.

Before passing any final judgment on the income tax acts enacted between 1869 and 1873, we shall try to summarise the changes and differences that were to be found in the provisions of these tax laws as contrasted with those of the law of 1860. Under the first income tax every person liable to the tax was required to render a statement of his income; in the more recent laws that provision was omitted, and instead the collector was required to send a statement of the sum to be paid by the tax-payer who was bound to prove in case of an appeal that his income was less than the one stated. This change necessarily increased litigation, extortion,[1] fraud, over assessments, uncertainty and employment of informers, and subordinate officials for assessing purposes. Add to it the changing rates, and you have the greatest distrust and a vociferous, though just, popular agitation against the income tax.

This was probably the greatest blunder ever committed in the financial annals of the country. It was attacked from all sides. Every year there was a discussion and every year there was a hope of getting rid of it. The authorities did not distinguish between the English and Indian economic and financial conditions To make the income tax in India serve the same purpose as in England, that is making it a

1 For cases of extortion, etc., see Report on the Administration of Income tax in Bengal for 1869-70, pp. 22-23.

varying tax to suit the ever changing needs, and in peaceful times at that, was untactful.

In regard to the fiscal results, it is true that the tax in 1870 at the rate of $3\frac{1}{8}$ per cent produced much more money than the tax in 1860-61 at the rate of 4 per cent, the actual amount being over Rs. 200 lakhs. This was due partly to the improvement in assessing incomes and partly to the experience gained in the past. More than half of the tax payers were, however, from the income class of Rs. 500-1,000. The total tax payers, on the other hand, were not more than half as many as those in 1860.[1] The charges of collection were also moderate, of which we shall speak at length, when we discuss the present tax.

Now coming to the income tax experience in India thus far, it is fair to conclude that: (1) though the varying income tax proved a failure, the application of the income tax principle to Indian conditions was fairly legitimate; (2) it would work well and give better results if assessed by local authorities with the help of non-official boards or committees; (3) it would be more suited to a people who are united to their government by a strong tie of national interest. As Indians are accorded more voice in the government of their own country, this tax would become more popular than ever; (4) this was the best method of taxing the trading and professional classes along with the highly paid government officials: (5) the minimum of exemption from the income tax should not be fixed below Rs. 500, if not above

1 Appendix I.

Rs. 1,000 and the 2 to 3 per cent rate would be preferable, at the same time constant tinkering with the rates being fraught with danger ; (6) the employment of ill-paid public servants on a large scale to assess and collect a tax of this sort is uneconomical in the long run ; (7) the income tax based upon the principle of self-assessment, without the means of verification, is unsuited ; and that (8) the tax, as far as possible, should be collected at the source.

4. *The Various License—Duties Preliminary Considerations.* The great famine of 1877 is believed to have carried away more than five millions of people, notwithstanding the private and public attemps to save life. Direct taxation could no longer be dispensed with. Money was needed to meet a portion of the famine expenditure and Sir. J. Strachey, the then finance minister, further proposed to form a permanent insurance fund to be utilized on relief works in famine time. (1) This is the beginning of the famine insurance and ever since the Indian Government carries in its annual budget a sum of £ 1,000,000 for this purpose.

A. Provincial License Acts:—A new start towards license taxes was made. The effort was well intentioned, and made in considerable appreciation of past defects and a desire to avoid them. Trades, industries, and occupations were classified. Too much attention, however; was paid to local differences, and the Central Government wholly delegated its powers to the Provincial Governments to enact suitable

(1) Sir J.Strachey's speech, Accounts and Papers, 1878, p. 342 seq.

license tax acts which were to license trades, industries, and other commercial dealings only. All professional classes, government servants (civil and military) and employees of private firms were exempted from these local taxes.

Bengal, Madras, and Bombay passed Acts of their own in 1878. Northern India was dealt with by the Central (i. e. Imperial) Ligislature. As a necessary consequence of this local legislation there was no uniformity and these Acts created all kinds of inequalities:- (1) they were all imposed on non-agricultural people to protect the agriculturists from famine ; (2) the Punjab Act contained three classes, highest license fee was Rs. 500, lowest being Re 1 on the income of Rs.100 a year as the minimum. The Bengal Act contained six classes, highest and lowest fees being the same as in the Punjab Act. The Bombay Act contained fifteen classes, highest license fee was Rs. 200 the lowest being Rs. 2. The Madras Act was, however, more like an income tax. Every person whose earnings exceeded Rs. 200 a year was required to take out a license and the Act also contained twelve classes, highest license fee was Rs. 800 on incomes of Rs, 40,000 and upwards, lowest being Rs. 4 on Rs. 200 a year. (1) In the Central Provinces again there existed the old Pandhari tax levied upon traders and artisans with an income of even less than Rs. 100 a year, the latter may be taken as the minimum in all provinces except Madras.

1, Accounts and Papers, 1878 for all the Acts: also the Moral and Material Progress, 1878-79.

B. The Imperial License Tax. The Imperial Government with a view to uniformity, passed a license Act in 1880, prescribing a minimum taxable income of Rs. 500 everywhere except in the Central provinces where it was raised from Rs. 75 to Rs. 250. The tax payers were divided into classes paying fixed rates – the minimum tax was Rs. 10, the highest being Rs. 500 everywhere except in Bombay where as we have seen, it was Rs. 200.

The local officials were very enthusiastic about the operation of these Acts. They unanimously said that the people were becoming accustomed to the tax, that the method of its assessment and collection had been much improved, and that any objections originally existing on account of the pressure of the license tax on the poorer classes were removed by raising the minimum assessable income to Rs. 500.[1]

The total collections from this tax amounted to more than half a million pounds or Rs. 52 lakhs. It was continued for five years unaltered to remove such evils as arose from frequent changes. But still an unjust system of maximum existed as between the various provinces, while the amount of the maximum varied. For instance, the two richest provinces of Bengal and Bombay paid only £ 156,812 and £ 130,955 respectively, while the relatively poorer provinces

1. For the opinions of the local authorities see Moral and Material Progress of India, 1880–81, pp. 29–30.

paid more than their proportionate share. Within each province again, the incidence differed with every class; the poor paid more in proportion than the rich, and the richer a man was above a certain point, the less he had to pay.(1) It is no exaggeration to say that it was open to grave obections of principle and detail; that it represented no school of economic thought, nor did it satisfy any section of public opinion.

We have already seen that the official and professional classes did not have to pay the tax, and this made the matters worse. The Indian Government was accused of being partial to these classes. The Government of India was put in the dilemma of abolition or reform and it chose the latter, not because it liked it, but because the authorities were forced to yield to sheer force of external circumstances over which they had no control.

5. *The Permanent Income Tax.* In order to understand the way and the wherefore of the Indian Income Tax Act of Jan 29th 1886 it is necessary to review in a summary-fashion the financial history of India for the four years' period ending in 1886-87. The year 1882-83 marks a new epoch in Indian finance, similar to that of 1860. It was in this year that (1) the salt-duty was reduced to Rs. 2 a maund (82 2/7 lbs.) everywhere, thus making it a uniform duty for the first time throughout the country, except in certain districts of the Punjab and Burma;

(1). Supra P. 30 for rates etc,

(2) the import duties were entirely abolished at a gross cost of £ 1,219,000 to the Indian exchequer. It is remarkable that India at this time became an absolutely free trade country, even more so than England.[1]

All these reductions with certain administrative reforms amounted to £ 3,000,000. Add to this the provision made for the war in Egypt amounting to over £ 500,000, the reduction in the rate of export duty on Malwa opium of Rs. 50 per chest, and the serious fall in the exchange reaching £ 3,00,000 in excess of the estimates. Notwithstanding all these reductions the estimated surplus was £ 285,000 while it was actually over £ 700,000.[2]

The year 1883-84 was also a great surplus year. The exchange charges amounted to £ 773,000 being much higher than in 1882-83. The short opium crop of previous year also reduced the amount of opium for sale in 1883-84. These two causes seem to have upset the finance minister's estimates of revenue by a million pounds, while in the course of the year the Indian Government paid a sum of £ 1,000.000, not provided for in the estimates, to Her Majesty's Government for arrears of non-effective charges of the British Army. The estimated surplus was £ 457,000 while the actual netted no less than £ 387,000.[3]

1. Royal Commission on India Expenditure Report pp. 34-5. liquor, arms, opium and salt being the only articles taxed.
2. Accounts and Papers, 1886.
3. Proceedings of the Governor General's Council 1886-87 P. 5.

In the year 1884–85 the surplus was estimated at £ 319,000; but the short sales of opium, very heavy expenditure connected with an extraordinary opium crop, falling off in customs, and in railway income, again lowered the revenue ; the Government feared a deficit, and actually calculated that there would be a deficit of £ 716,000, but fortunately the accounts closed with an equilibrium. Thus there was an average surplus of over £ 300,000 in the three years under review. The normal course of Indian finance in this period may be stated as follows:–two years of big surplus, one year of estimated deficit, but of actual equilibrium, and the next year of actual deficit.

In introducing the Financial statement for 1886-87 Sir A. Calvin declared that apart from the extraordinary military expenditure, revenues were sufficient to meet ordinary burdens. New sources were needed to meet new charges, viz. (1) the fall in silver exchange taken at 1s 6d. instead of 1s 7d., and (2) the increase in military estimates, whether for pay of troops, or interest on capital to be expended and defense works, amounting eventually to £ 2,000,000. [1] Out of this the ordinary revenues were estimated to yield £ 1,300,000 while a sum of £ 700,000 was proposed to raise by means of some new taxation.

The problem before him was how to raise a sum of £ 700,000 in a comparatively poor country like India. Let us consider the ways and means that were open to him. First (1) that economy may be affected

1 Proceedings of the Governor General's Council 1886–87, p. 6 Slet.

but this is a slow process and cannot be relied upon for immediate results ; (2) that the salt-duty may be raised to what it was before 1882-83 ; but it would be unpopular and the burden would mainly fall upon the poorest classes in the community ; (3) that the import-duties on cotton goods may be revised but this would go against the free trade policy. If import duties were to be reintroduced that would necessitate, in the opinion of the Indian Government, a corresponding excise duty on locally manufactured goods to avoid any protective character of the duties. Besides the poorer classes would have suffered from the duties on cheap cotton goods. But mainly to appease Lancashire the import duties were thought out of the question ; (4) that Famine Insurance Fund provided out of the License Tax cannot be touched, as one can never tell when famine would occur ; finally it was agreed that the existing license tax should be transformed into an income tax which would reach all those classes which did not come under the license tax and also bring in a substantial revenue.

Sir. A. Calvin, after reviewing the short-comings and difficulties encountered in the operation of the income tax in the past, went on to say that " putting aside those who derive their income from land in the temporarily settled districts, the classes in this country who derive the greatest security and benefit from the British Government are those who contribute the least towards it." And hence " in the necessities of the time; in the interests of all classes of the com-

munity; in the present incidence of our Indian Taxation; and finally in the legitimate and necessary result of the financial policy pursued by our predecessors" he proposed to introduce the income tax.

Lord Dufferin, the Governor-General, went further than the finance minister. He referred to the legal profession, to himself, and to other government officials, and declared that "there was not one of us, who ever paid any really serious sum from his income to the Imperial Exchequer." "Now, surely," he said, "this cannot be right, and to such an anomaly it is no answer to say that direct taxation is repugnant to oriental customs. Justice is the inhabitant neither of the East nor of the West. She admits no geographical limits to her supremacy, her throne is on high and sooner or later, in spite of prejudice or custom, she never fails to vindicate her title to the respect and veneration of mainkind. It is then in the name of justice that we propose the imposition of this tax....." (1)

The enactment of the income tax in 1886 marks the third epoch in the Indian fiscal history, and like the English income tax of 1798, the Indian measure was apparently meant not to be permanent. Although the minister of finance thought only of making up the deficit and securing the "normal surplus" by means of the income tax, and made no mention of the duration of the proposed tax, we can clearly see from the speeches of the two Indian members of the Imperial

(1) Proceedings, 1886-87 p. 19.

Legislative Council that they were given to understand the temporary character of the measure and that they voted as such.[1] It must be understood that the Government would have easily passed the measure over the veto of the Indian members. Later circumstances, however, gave a permanent character to the tax in its present form.

The argument in favour of the tax from the Indian side was urged that "the poor cultivator of the soil pays a cess of 3 % on his profits besides the regular land revenue, while persons in the enjoyment of an income of more than Rs. 1000 a year pay no direct tax whatever."[2]

Mr. Mandlik, on the other hand, proposed that the Government should impose import duties on cotton goods on the ground that they were not protective and that they would fall on the well-to-do classes.[3] He also argued that the income-tax would produce demoralizing affects and that it would press hard on the honest and the scrupulous; that it should not be an ordinary source of revenue, but should be used only no occasions of greatest urgency and need.

It was on the whole realized that the present tax system imposed unequal burdens and that it failed to reach those who could best afford to contribute to the public purse. The growth of rich salaried positions under the Government, the increase in the

1. Both Messrs. P. M. Mukerji and V. N. Mandlik were doubtful as to the desirability of a permanent income tax in India.

2. Proceedings, 1886-87, Speech of Babu P. M. Mukerji, pp. 35-6.

3. Proceedings, 1886-87, Speech of Mr. Mandlik, pp. 38-9.

number of the foreign merchants and traders, the slow but steady growth of the cotton and jute manufactures, and the rise of the learned professions, all pointed, no doubt, to an early adoption of the income tax. It must not, however, be regarded as the only or even the main motive leading to financial reform. The fall in Sterling Exchange, though beginning to be felt, was not yet very acute.

The idea of justice, so dear to many, was, of course, present in the minds of the Imperial legislators, but it does not explain the situation entirely. Surely if they wanted to rectify the wrongs of an unjust system of taxation, why were they quiet till 1886? As the British income tax was a direct outcome of the Napoleonic wars, so was the Indian income tax precipitated by the increased military preparedness for the "Russian menace", and also for the annexation of Burma, in the interest of British capital and enterprise, against the wishes of the intelligent public opinion in India. Lord Dufferin was glad to announce in the Council that the Indian National Congress had forestalled and recommended the income tax, but he never paid any attention to the Congress resolution condemning the annexation of Upper Burma and making it a part of British India.

After this necessarily long historical survey of direct taxation in India let us now turn to the discussion of the income tax law of 1886, its principles, and practice.

PART II.

PRINCIPLES AND PROVISIONS.

CHAPTER III.

THE TAXABLE INCOME

Preliminary considerations:—It is very easy to say that income tax should form part of a tax system, but when it comes to define the term 'income,' it becomes all the more difficult to give an exact definition to include all concrete cases. The consideration of the meaning and true significance of that term is outside the scope and reference of this monograph, and yet it is indispensible to the understanding of the income tax principle. Prof. Marshall views[1] income as " money income, including payments in kind, such as free coals, gas, water, &c." Prof. Fisher calls [2] it "a flow of services through a period of time," that is they include under income, among other things, the 'benefit derived from the advice of a physician,' and the gratification got from hearing a Goharjan or a Caruso. Now it may be all right to include all these services rendered under the total social income, but these definitions do not help us in putting the income tax into practice, for the simple reason that no known money measures can give

Note :—Whenever the reference is made to sections it means the sections in the Act of 1880 as amended to 1916; references to the New Act of 1917 are made separately

1 Principles P. 71

2 Capital & Income P. 52.

us a clue, even to an approximate income of an individual from all such sources.

On the other hand it is in vain to search for an explicit definition of income in the Act. At the most it stipulates[1] that income means "income and profits"—the former includes the income derived from living in one's own house, thus following the English and the Continental income taxes. This new conception, at least new in the sense that it was probably absent in the pre-British financial practice in India, is termed as the psychic conception of income, that is an income derived from the satisfaction or gratification, measured in terms of money such as an occupying owner of a house derives. The tax-payer is taxed not only on his entire income from the various sources, but even on the net rental value of the premises owned and occupied by him. The Act provides that[2] "an occupying owner, if liable to the tax, shall be assessed at five sixths of the gross annual rent at which it may reasonably be expected to let, and in the case of a dwelling house, may be expected to let unfurnished." The specific proportion of the gross rental value is assessed because it is thought that the remaining one sixth would be sufficient for repairs, etc.

Babu P. M. Mukerjea, one of the Indian Members of the Governor General's Council in 1886, in the course of the debate on the measure, advocated that[3]

1 Section 3 (5)
2 Section 24 (1)
3 Proceedings P. 67

" a provision to tax such buildings as sources of income is only incomprehensible to a community among whom living in one's own house is the general rule, and living in hired houses a rare exception. It seeks to impose a tax not on an income actually derived, but on an imaginary income which could be derived if the houses were, let on hire. I confess I fail to appreciate the reasoning on which this provision is based. Buildings used by their owners as dwelling houses yield no income whatever. "

On the other hand, Messrs. Evans and Mandlik pleaded exemption of occupying owners on the ground of administrative difficulties encountered in finding out the letting value in villages or even in large towns. Secondly that local and Municipal taxation was already very heavy; and finally that the buildings and houses of land-holders and tenants were exempted, resulting in inequality of taxation.

But it may be rightly pointed out that the principle objected to, was present in all the preceding laws and that it prevailed in England and hitherto recognized in India There is no reason why a person who invests his money in house property, though himself occupying such house, should be exempted from the tax on the income, however indirect it may be. As a matter of fact in order to attain exact equality the net rental value of the residence should be included in the owner's income. The consolidated and amended income Tax Act of 1917 is in many ways a decided improvement over the old Act,

especially from the standpoint of administrative procedure, as regards definition of 'income' it still leaves us in the dark. At the most it defines "total income" meaning total income derived from all sources subject to tax.

The second point in connection with the taxable income is the attitude of the Indian Government toward irregular receipts such as allowances, fees, bonuses, received in lieu of or in addition to fixed salary. These receipts as we shall see later, are assessed either under 'salaries' or under 'other sources.' Under the consolidated Act however, casual gains, not being receipts from any trade, profession or occupation and not being of recurring nature, are exempt from the tax[1].

The third point that relates to the conception of income, is the provision for the deductions to be made from gross income to arrive at the taxable income. From reliable sources we find that the following important deductions are allowed in the case of companies[2] :—(1) repairs of tools or trade, (2) insurance and rent of business premises, (3) net losses, (4) bad debts ascertained and written off for the first time during the year, (5) interest on borrowed money invested in business, (6) depreciation on buildings and machinery, and finally (7) bonuses given to employees.

1 The Consolidated Act of 1917 Section 3 (2 (VIII).

2 Madras Income Tax Manual 1916 p. 81

In the case of incomes from houses the deductions are as follows:- (1) Rent or quit rent paid by person assessed, but not expenses, (2) insurance, (3) ten per cent on the rack rent of the house for repairs if they are at the cost of the landlord, (4) cost of collecting rent, not exceeding 6 per cent of gross rental, and (5) interest payable to a mortgagee not in possession.

The new Act is more specific and clear about deductions to be made. Income from business, in addition to the above mentioned deductions, enjoys the following allowances:- (1) 'any sums paid on account of land revenue, local rates or Municipal taxes in respect of the premises'; and (2) 'any expenditure (other than capital expenditure) incurred solely for the purpose of earning such income.[1]

Under the same Act Income from house property is subject to the following deductions:- (1) cost of repairs if borne by the owner, a sum equal to one-sixth of the annual value of such property; (2) cost of repairs, if borne by the tenant should be the difference between the annual value and the rent paid by the tenant but not exceeding one-sixth of the annual value; (3) land revenue in respect of the property, and finally (4) the collector depending of course, upon the circumstances of each case is to make allowance for vacancies: [2] annual value here however does not mean actual rent but that sum which the property might reasonably be expected to produce if let from year to year.

1 The Consolidated Act of 1917 Section 9 (2) (VIII) and (IX).

2 The Consolidated Act of 1917 Section 8.

As most of these deductions barring their abuses are normal and legitimate, it is not necessary to speak more of them here. There is however, one exception, namely, the deduction of interest on corporate debts. Most European income tax laws do not approve of deducting interest on corporate indebtedness, and that of the United States provides for deduction of interest, but only the "interest on an amount of indebtedness not exceeding one-half the sum of the corporation's interest-bearing debt and its paid up capital." But then, why should the Indian law allow such deductions without any qualifications? The answer probably is that India is passing through a transitional period of her economic and industrial development for which she needs a large fund of capital. Secondly, India's capital is rather shy and does not enjoy special privileges such as a protective tariff, and thirdly a large part of capital invested in India is foreign, which the Indian Government as we shall see later, is unable to reach.

In concluding this part of the chapter what shall we say about the conception of income which probably woulds reconcile economic and legal theories? In other words, what are the essential conditions underlying 'income'? The following conditions may be regarded as tentatively satisfying our test of income for tax purposes.

In the first place it is obvious that income constitutes new wealth. Secondly, the latter is generally

the result or product of an already existing fund of wealth that is to say of Capital (or of property in the legal sense). Under the denomination of Capital it is not only necessary to include all material wealth, but also the intellectual capacities and faculties of human beings, and in general every productive property intrinsic to the person of the tax payer. Finally, there is a sort of causal relation between the capital and the new wealth, its product. It is not to be understood, however, that wherever Capital exists, income must necessarily arise.

Briefly stated, Income, for the purpose in hand, may be defined as all annual net money receipts, regular or irregular of the tax-payer including an estimated net rental from the tax-payer's house. Having cleared the general notion of income let us pass to the exposition of the law.

A. *The assessable incomes and the taxpayers according to the text of the law*:-The incomes taxable under the Act. The incomes from other sources than agriculture form the object of the tax, and they are divided into four schedules or parts and enumerated in Chapter III and the second schedule of the law. [1]

The new act abolishes schedules or parts, but follows very much the same order. It divides taxable income under six heads viz. (1) salaries, (2) interest on securities, (3) income derived from house property (4) income derived from business (5) professional

1 Sections 7-9

earnings, and (6) income derived from other sources. [1]

a. Salaries and Pensions:-Any salary, annuity, pension or gratuity paid in British India (to or, on behalf of any person residing in British India or serving on board a ship plying to or from British India ports), whether on his own account or that of another person.

Let us note here the several points:-that all the salaries, pensions, etc., whether paid by the Government or by public bodies incorporated or not are liable to the tax; that the public bodies or companies paying the above mentioned sums, whether carried on for 'profits' or not, does not make the least difference; and finally that the section 3 (4) includes under 'salary' allowances, fees, commissions, perquisites or profits received, in lieu of or in addition to a fixed salary, in respect of an office or employment of profit.

b. Profits of companies:-The whole of the net profits made in British India by a Company, meaning an association incorporated or unincorporated, carrying on business for profit in British India whether its principal place of buisness is located in British India or not, whose stock is divided into transferable shares. The exceptions will be dealt with in a later chapter.

It should not, however, be understood that partnerships, firms or a Hindu undivided family are exempt from the tax. They are assessed under incomes from other sources.

1 The Consolidated Act ot 1917 section: 5.

Under the new Act profits of companies are included under income from business, thus making the scope and extent of the Act wider and clearer. Under this Act foreign companies which may have escaped taxation under the old Act, will be liable to the tax.

c. *Interest on the securities of the Government of India payable in British India:*—such as the interest on promissory notes, debentures, stock or other securities issued by the Government of India This also includes the securities of the Indian Government on which interest is payable out of British India by draft on any place in British India; similarly the interest on debentures or other securities issued by a local authority or a private concern payable in British India. The second Indian War Loan is not, really speaking income tax free. Interest on it will be taken into account in determining the rate at which the tax is levied on any other income, and will be liable to supertax.

The words "payable in British India" have a special significance for income tax purposes and the loss sustained by the Indian Government on this account will be discussed in the proper place.

d. *Income from 'other sources'* :—Finally the law declares that income derived from any source not included in a, b and c, provided it is non-agricultural is subject to the tax.

In this general category, evidently are included all the professional, industrial, and commercial incomes and also those derived from renting houses

which do not come under the preceding schedules. This may be said to correspond with the 'catch all' schedule D in the British Income tax. In the new Act incomes from house property and professions, are distinguished from income from other sources, evidently for assessment purposes.

This simple interpretation with regard to the taxable incomes under the Indian Income Tax Law shows that almost all the incomes derived from other than landed property are assessable to the tax, whatever may be their sources.

2. *The exemption of agricultural incomes, under the Income Tax* :—The reason for not adopting a general income tax in 1886, like the British Income Tax, is not far to seek. That a general income tax is not an impossibility in India, is at least proved by all the income tax laws between 1860 and 1869 under which incomes from agriculture were never wholly exempted. Land pays not only the land tax to the State, but the various Provincial rates or cesses, the latter since 1870. It is natural that the landed interests, paying as they do the land tax and the cesses both together amounting to more than one-fourth of the total gross revenue of the Government should claim exemption.

Our aim is not to deal with the Indian Land Revenue as such, but for the understanding of the income tax it is thought convenient to describe succinctly what this impost is.

According to the resolution of the Government of India 1902,[1] the land revenue is a certain proportion of the produce of every acre of land, generally valued in money. Now this portion is made fixed and unalterable for ever since 1793, in the greater part of Bengal, Behar and Orissa, parts of the United Provinces of Agra and Oudh, and one-fourth area of the province of Madras, and a few other isolated tracts. In the rest of British India the State's share is revisible at recurring periods of greater or less duration—say from 15 to 30 years each. Besides the land revenue the State also levies cesses on land varying from 10 per cent in Lower Burma to 5.2 per cent in the Punjab, for the construction and repair of roads, the upkeep of schools, etc.[2] These cesses, however, are levied not on land directly, but on the amount of the land revenue payable to the State.

The State's share, when assessed on the landlords, is not supposed to exceed on, an average, 50 per cent of the realised rental,[3] which when it is assessed on the cultivators directly it may amount to from 4 per cent of the average value of the produce to 20 per cent,[4] differing according to the quality and location of the land with regard to markets. Thus it will be seen that whether the land revenue is taken from the landlords or from the peasants, it should in neither case be regarded as consisting entirely of

1 Land Revenue Policy of the Indian Govt. 1902 P. 5 and P. 72.
2 Land Revenue Policy of the Indian Government 1902 P. 29-30.
3 Land Revenue Policy P. 14.
4 Land Revenue Policy P. 21.

economic rent or unearned increment. At best the land revenue is an empirical land tax, especially in the case of ryot-wari settlements.

The land tax and the various cesses discussed in the preceding paragraphs are levied mainly from the agricultural land, while the income tax is assessed on the incomes of labour and of capital, or both combined. House property, subject to exceptions, is regarded as non-agricultural property, especially that belonging to non-agricultural classes.

It is well known that the revenues from agriculture are generally composed of two elements namely the revenue from land as capital and the other, the fruit of moveable capital and labour employed in the agricultural industry. In Great Britain as we know, the income tax does not distinguish between the agricultural profits received by the proprietor and those received by the tenants, while in Italy an income tax distinguishes them, but assesses only those profits received by tenants Metayers, etc.[1] thus excluding the landed proprietors. On the other hand the Indian Income Tax of 1886 exempts all these profits on the ground that they are assessed to the land revenue. This is no doubt true of the peasant proprietors whose land revenue is subject to revision from time to time. But in the permanently settled provinces as Bengal, Behar, and Orissa, where the landlord continues to pay from year to year the same amount of land revenue to the State, it is unjust and inequitable to

1 L: Impot sur le Revenue on Italie. Spoelberch- P. 24.

exempt the agricultural profits, whether due to improvements made by the landlord or the tenant which are not assessed to the land revenue. As a matter of fact the Bengal landlords, not only collect the legal cesses levied for local purposes, but also many unauthorized cesses from their tenants.[1]

In the consolidated Act of 1917 an attempt was made to bring agricultural incomes at least indirectly under the income tax. The net agricultural income in excess of one thousand rupees was to be taken into account in determining the rate at which the tax would be levied on the non-agricultural income of the assessee, but unfortunately after a debate lasting nearly six hours the representatives of the great landed estates in combination with their official sympathisers carried the amendment and left the law where it was before. The usual arguments against inclusion of agricultural incomes such as the violation of the permanent settlement and the discouragement of industrial enterprise among landlords were re-emphasised. It is needless to say that these arguments have no foundation whatsoever in facts. The real difficulty, however, is how to get the net agricultural income without causing much initial trouble and annoyance especially to the middle class landholders whose incomes range between Rs. 1,000 to Rs. 5,000 [2]

In spite of this exemption accorded to landed interests from the income tax, we shall show, how this

1 Land Revenue Policy P. 32.

2 Proceedings of the Indian Legislative Council for 1918 pp. 517-568.

distinction drawn by the Government between incomes derived from agriculture and those derived from other sources is untenable in practice as well as in theory.

In short, the Indian income Tax in combination with the Land Revenue becomes virtually a sort of a general income tax.

3. *Liability to the income tax* :—The question of the liability to the tax involves the consideration of two important points. First are the Corporations, the joint stock companies, or the associations, incorporated or not, taxed like the physical persons ? Second is the foreigner, as far as the tax is concerned, put on the same footing as the Indian ?

The section 3 of the law stipulates that both the individuals and ' Companies ' are liable to the tax.

The definition of a ' company ' is rather narrow in that the company means an association, carrying on business in British India for profit irrespective of its principal place of business which may be situated in British India or not. Again the public corporations such as the Municipalities or the port trusts and religious charitable bodies are not subject to the tax, although their employees are liable to it. Double taxation, whether by competing jurisdictions or by the same jurisdiction is as far as possible avoided, but it is possible that a firm may be required to pay income tax not only to the Indian Government, but also to a native State and for this reason it is advisable that

some kind of reciprocity with the native States be arrived at.

The law regulates the situation in respect of British subjects and foreigners before the tax. Residents as well as non-residents, are liable to the income tax, the latter being charged in names of their agents upon the income derived from all property owned, and from any business, trade or profession carried on in British India. Clearly double taxation by competing jurisdictions, not only as between foreign nations and British India, but also as between the various native States and the Indian Government, is not avoided. But suppose an Indian Government servant or pensioner goes on leave to England or say an employee of an Indian Railway Company does the same, does he pay the Indian Income Tax? The answer is that though the money flows out of the Indian Revenues, in order to avoid double taxation he is exempted in actual practice if not according to the law, from the Indian Income Tax. Is this not a flagrant injustice ? The modest shop-keeper pays, while a fat pensioner is free from the tax. The pensioner or the furlough man enjoys probably more than the Indian trader or manufacturer, the State's services, to maintain which he does not contribute.

One may fairly object that the pensioner in question pays while in England to the British Income Tax. It is nevertheless, true that in India his income is completely exempt from fiscal burdens. This obviously offends the principles of distributive justice in the eyes

of the Indian tax-payers. Probably no other country except India sends out such a large sum year in and year out for pensions and leave allowances to be paid in Great Britain. No doubt the recipients of these various allowances have rendered service to the India Government and indirectly to the Indian community, but to be fair, they should be asked to pay the Indian Income Tax on their incomes received from the Indian Government, after having deducted the sum payable to the British Income Tax or the tax collected on account of the latter should be divided, say half and half, between the two Governments, or the British Parliament should pay for the Secretary of State's establishment in London, in view of the fact that not only the above mentioned allowances, but also the whole of the Sterling Debt of the Indian Government, the interest on which is paid by the Indian tax payer are exempt from the Indian Income Tax.

B. *The administrative and judicial decisions concerning the taxable income*:-The old as well as the new law expressly forbids suits in Civil Courts to set aside or modify any assessment made under this Act and yet we have to deal with the various decisions relative to the taxable income. But according to the Consolidated Act the Chief Revenue Authority of a province, may refer to High Court genuine questions of interpretation of any of the provisions of the law. Most of the decisions are given by the Central Government, through its Finance Department and hence may be regarded as final administrative rulings

and orders. Our purpose here is not to write a commentary on the law, and in any case it would exceed the proportion of our work. That is why we shall limit our inquiry to certain important rulings and orders:

(1) Are the sums realised as premia on the issue of shares by a joint stock company registered in India liable to income tax?

It was held by the Government of India that they are not liable, on the ground that they were receipts of capital value. [1]

Similarly it was held by the Board of Revenue of Bengal in 1909 on the advice of the Advocate-General of that province that the sale-proceeds of a property are not profits or income unless they are received in the course of a business or trade which regularly buys and sells property with a view to make profits. [2]

This is unfortunately not followed in the case of allowances received by way of compensation in respect of property situated or rights exercised in British India. These allowances are liable to the tax [3] and evidently do not represent a conversion of capital as they do in the preceding cases.

(2) Are the discounts allowed to stamp vendors for the sale of stamps subject to the tax?

In 1890 the Central Government notified the various Provincial Governments, which administer and collect the tax, to the effect that no tax is to be levied on commissions on any stamps sold by postal

1 Government of India letter No. 596 p. 10 June 1913.

2 Bengal Triennial Report ending 1911 M. 37 W., P. 2.

3 Burma Income Tax Manual 1905 p. 47.

officials ex-officio, but as soon as they become licensed vendors of stamps they will have to pay the tax on the discounts received.[1]

(3) Does the interest on mortgages constitute taxable income ?

The law, as we have seen, exempts all agricultural incomes and hence it is with the greatest interest that we seek provisions regarding taxation of interest on agricultural land mortgages. As early as 1892 we are told that to evade income tax on simple mortgages, loans on usufructuary mortgages were resorted to by the money lenders.[2] But it was pointed out in the report of the same year for the North Western Provinces that no serious loss to the Government resulted so far.

Finally it remained for the Bengal Board of Revenue, on the advice of its Advocate-General in 1908, to decide that the receipts realised as interest by a mortgagee, not in possession, were liable to the tax, while thoserealised by a mortgagee with possession were altogether exempt.[3] Probably it is impossible to distinguish between rent and interest in the case of usufructuary mortgages, but it is inequitable to exempt the latter. The Government did not stop here. In Punjab as in all other provinces except Bengal, land cannot be alienated by the agriculturists by sale or mortgage.[4]

1 Notification No 73--Jan. 7th, 1890.

2 North Western Provinces Income Tax Report 1892--93. p. 20.

3 Bengal Triennial Report 1911, p. 2.

4 Land Revenue in British India, by B. H. Baden--Powell p. 254.

It is also curious to note that upto 1902 it seems that in Bengal the agricultural rent appropriated by a money-lender, on a mortgage or otherwise, in lieu of the interest due to him on account of money advanced to the proprietor was considered practically interest paid in respect to a loan and hence liable to the tax, but in that year the Board of Revenue the chief revenue authority in that province held that it was not assessable under the tax. [1]

(4) Are the allowances granted to meet specific expenditure such as travelling, tentage, horses, etc. taxed under the law ?

The income tax law in section 3 (4) specifically excludes them, but according to the Government ruling, these allowances will be taxed under salaries, provided it is discovered that the officer receiving the allowances does not keep the necessary camp equipment and does not actually maintain the number of bonafide chargers prescribed for his rank. [2]

(5) Do the irregular receipts like the stakes won in horse racing or gambling constitute taxable income ?

In the Government order of 1912 it was held that the stakes won can be taxed under the income tax, but only the profits accruing from racing horses would, however, be liable to the tax. [3] The order is

1 Triennium ending 1902, p. I.

2 Gen. Rules and Orders, made under enactments in force in British India Vol. II. P. 803.

Government Order No : 332, S. R. 9th Aug. 1912.

vague and it does not specify the expenditure to be deducted-leaving the parties concerned to adjust.

(6) Are the earnings of emigrants in Australia or elsewhere when remitted to or brought back to British India liable to the income tax ?

The Financial Commissioner of Punjab ruled in 1908 that such earnings be considered as capital transferred and hence not subject to the tax. Now it is hard to understand why these earnings should be held as capital. It does not matter where they come from, unless it is shown that these earnings are taxed in the place where they were earned.

We cannot, for the above mentioned reasons, extend with advantage our legal analysis concerning what is taxable and what is not taxable under the law. It is necessary for us, however, before pursuing our inquiry, to summarize in a few words the impressions evolving themselves from the study of the taxable income.

This much is certain-that the basis of the income tax in India is very unstable. The possessor of non-agricultural incomes, and even of agricultural incomes as we shall see later, cannot always know exactly the extension of his fiscal obligations to which he may be held. His uncertainty results from what the organic law has not clearly indicated. The very general terms of the Act invite instability in the legal application. What in the eyes of one jurisdiction passes

for a revenue, can be considered as capital by another. This is against one of Adam Smith's famous classic administrative principles of taxation, viz. "the tax or a portion of a tax that each individual is subject to pay, must be certain and not arbitrary."

CHAPTER IV.

Differentiation and Classification of Incomes.

All incomes equal in amount, have the same relative utility, and yet they differ from one another in many respects, notably in duration, security, and intensity of effort.

Viewed first from the point of their duration, incomes may be divided into permanent or fixed, and temporary incomes.

The permanent incomes, for example, would comprise the incomes from real estate, the interest on the various kinds of loans, and in general all incomes proceeding exclusively from capital.

The temporary incomes, on the other hand, consist of all those incomes derived uniquely from human exertion, such as salaries, wages, life annuities, pensions, gratuities, wages and allowances of all sorts.

Then again salaries and pensions differ more or less in duration. The first ceases with capacity to labour, while the second disappears only with the death of the possessor. Similar distinctions can be multiplied *ad infinitum*.

Incomes differ no less in their degree of security than in their inequality of duration.

Examined from this angle the interest on the public debt of a country, whether issued in the form

of promissory notes or bonds which are guaranteed by the State, constitute notably the very secure incomes as compared with the profits of industry or commerce or even of agriculture. The profits of industry and commerce are variable and aleatory, because they depend on the fluctuations of the market and are subject to the well known business cycles.

This does not make us oblivious of the fact that there are still more precarious incomes. The latter consist of incomes purely derived from human exertion. They are not only subject to the inexorable law of the market but also to the menaces like sickness, unemployment, accident, or old age, with which their recipients may be visited.

Finally, let us see whether there are any distinctions which characterise incomes from the point of view of the personal effort expended in their production.

At first sight we see that the interest derived from capital invested does not demand very much effort on the part of its possessors. Of course, the latter must always be on their guard to seek new investments from time to time.

The gains of industry or commerce constitute, on the other hand for those who gather them, the result of material or concentrated intellectual effort. Especially in a country like India which is mainly agricultural, and where private capital is rather shy and retiring, the efforts are many a time out of preportion to the results.

Finally, the productive effort is more intense in the case of those who live exclusively from gains of their labour such as the professional classes and employees or wage-earners of all sorts and conditions.

Is it necessary to observe all these distinctions or differences characterising the various incomes in the enacting of an income tax? Or let us put it this way. Should all the incomes, unequal in their duration, security and intensity of effort, be equally taxed, or is it feasible to assess them differently ?

The differentiation of incomes is not probably indispensable, when the rate of the tax is very moderate. The injustice consisting in the uniform treatment of all dissimilar incomes can be justified on the ground that it is only of little importance. It is thus, for instance, that in England, and to a certain extent in India, the income tax has been able to function for a long time without the application of the principle of differentiation, due to the fact that normally its maximum rate has always been relatively low. If the tax is heavy it is necessary in order to avoid grave injustice, to establish the principle of differentiation.

In conclusion, it is true that each case be decided on its own merits, but it is desirable that there should be some sort of differentiation in an income tax.

The Indian Income Tax is divided into four categories or the so called sources of income, as follows:

Part I. includes all salaries, public or private, annuities, pensions, gratuities, or allowances.

Part II. profits of companies, mostly joint stock companies.

Part III. Interest on securities, public or paivate.

Part IV. Other sources of income not coming under the preceding parts. *

It is impossible to have regard for all tha differences of duration and security which exist between the various incomes. One would not, perhaps, arrive at a perfect differentiation of incomes to enable one to consider minutely the inqualities of duration, of security, and of price of production which characterise the various incomes.

The Indian Law is remarkably consistent in putting on the same footing in part the incomes derived from public and private salaries but it is inconsistent in putting pensions and annuities on the one hand, and salaries-especially industrial and commercial-on the other in the same category, because of the inconstancy and uncertainty of the latter. The former, as we have seen are singularly free fron the numerous risks such as sickness, unemployment, etc. which often beset the recipients of the latter.

It would be necessary, therefore, in order to be consistent with the principle of differentiation, as applied to these two species of temporary incomes, to tax industrial and commercial salaries more leniently than the government salaries, pensions and annuities. Then again, among the latter themselves one can

* For the new classification of sources See Chapter III.

establish a distinction according as they are onerous or gratuitous.

There are, as we know, in India the Government pensions which are accorded in recognition of past services of the employee, and the pensions which are merely political in character (such as a pension to a deposed chief or to an old royal family), and for which the pensioner has never worked.

The annuities, which are more or less terminable annuities lasting, say, for fifty or more years in British India, were mostly given to the original British investors and their heirs and successors, when some of the big rail-roads were bought by the State. Since these annuities are mostly derived from the alienation of capital which once belonged to their possessors, they should naturally be taxed at a lower rate than those annuities enjoyed by persons who did not own that capital.

It should be pointed out here that most of the annuities payable by the Indian Government are paid in London by the Secretary of State for India and hence are not liable to the Indian Income Tax, though they come out of Indian Revenues, but are liable to the British Income Tax, and even there that portion of the annuity which represents merely a conversion of capital is exempted. [1]

Let us not, however, forget for a moment that all these modifications in the classification of incomes, though just enough in principle, do present a

1 Pratt and Redman Income Tax Law p. footnote (f).

great many difficulties in practice, although it is not very difficult in the case of India to classify pensions or annuities into onerous and gratuitous classes.

But what shall we say of the most highly paid public officials, as is the case in British India, when they pay at the same rate as a private employee or a merchant, or a trader enjoying precarious profits ? It is a matter of common knowledge among students of Indian finance that the salaries paid to the superior officers by the Indian Government are much larger than those that are allowed., for instance, to the employees of private concerns in India. No doubt it may be argued that a highly paid public functionary in India works probably much more intensely than his correspondents in other lands. Even conceding this point does not mend matters. The Government servant in India enjoys the greatest security in his position and, also, he has the certainty of obtaining a handsome pension at the end of his career for which, if he happens to be in England, he does not have to pay a single pie to the Indian income tax.

In Italy, where the Government salaries are much lower than what they are in British India, the public servant is rather leniently taxed, while in Spain the salaries, though inferior to those of ours, he pays at the highest rate namely twenty per cent. There is no good reason why the highly paid Indian official should not be assessed at a higher rate than at present, which varies from four to five pies in the

rupee, that is, two to two and a half per cent. It cannot be denied, however, that in collecting the tax from the public officials no fraud is possible because the State naturally knows the exact rise in the salaries and deducts the amount of the tax before the recipients have any inkling whatever, unlike the private employee, who has an option in this matter. This works, rather, injustice in favour of the private employee, but this criticism is directed against the bad assessment of incomes rather than against the principle of differentiation.

Similarly, under Part IV, one finds jumbled up all sorts of incomes, which have no reason to be there and be assessed at the same rate. For instance, the incomes derived from the practice of the various professions, such as education, law, medicine, etc., and those derived from real estate (other than agricultural property), are taxed not only under the same category, but also at the same rates.

In general, the present classification of incomes is merely an administrative expedient, and in the absence of a large and special establishment it is not easy to apply the principle of differentiation in India, though it is practical and justified.

The equity and justice of the principle of differentiation are not very much contested. Even the English legislator, though slow to see the goodness of it, being greatly convinced of the principle; chose in 1907 at last to cast his vote in favour of differentiating incomes. This principle was extended, in 1909,

and applied to the earned and unearned portions of the taxpayer's income when the latter does not exceed £ 3000.

It is unnecessary to deny the principle of differentiation on the ground that the distinctions and similarities that would be established between them would be arbitrary. Arbitrariness to a certain degree no doubt, is inevitable, the ample proof of which may be found in the Indian law which recognises no such principle, except that the profits of a company are taxed at a higher rate than those of individuals or partnership firms, even though the former be less than Rs. 2000 a year.

If it is impossible to realise a perfect and scientific differentiation, it does not follow that we should abandon all application of this principle, since [1] "if it be conceded that taxtion cannot accommodate itself to these distinctions, it is argued that there is no use in attending to any distinctions, where the absolute amount of income is the same. But the difficulty of doing perfect justice is no reason against doing as much as we can."

1 J. S. Nill. Principles Vol, II, P. 407.

CHAPTER V.

THE TAXABLE MINIMUM AND THE EXEMPTIONS.

A. The taxable minimum and the treatment of small incomes:—Having determined the taxable incomes and to what extent they enjoy differentiation following their sources, let us discuss what the law establishes or better what the practice consecrates to the benefit of small incomes, say incomes below Rs. 2,000 a year. The incomes, less than a fixed sum of Rs. 1,000 are completely exempt from the tax since 1903; previous to that the limit was Rs. 500. Since March 1919 the taxable income has been raised to Rs. 2,000 and the step is well taken. Even at the time of the passing of the present law in 1886, Babu P. M. Mukerjee, believing the minimum to be very low, did not hesitate to propose an amendment to raise the limit to Rs 1,000; but it, like two other amendments of his, notably those aimed at limiting the income tax to one year only and excluding the occupying owners of houses, was defeated on the ground that the minimum of Rs. 1,000 was very high, that assessments would be made with care and that the incomes which he intended to exclude were already taxed under the preceding License Act and hence would not be disturbed. This whole question of the minimum in India is still unsettled, and no final pronouncement regarding it can be delivered until

we come to the discussion of the administrative experience.

The practice of exempting a fixed minimum is of course borrowed from the English model, but the minimum taxable in England is £ 160, while it is Rs. 1,000 (£. 66) in India. Why is this difference? In England as is well known the income tax has been conceived, at least in part, from the point of view of the just distribution of public burdens, that is as a complementary tax to secure a just belance between direct and indirect taxes. The indirect taxes in England, though reduced to-day, fall upon the objects of general consumption and hence injure the poorer classes much more than the middle or the richer classes. The income tax, on the other hand, while exempting the smaller incomes belonging to the lower middle class, strikes wholly the upper classes. This compensation to the middle class naturally resulted in the exemption of a great many small incomes.

In India, as every student of Indian finance knows, the income tax is no doubt introduced by the Indian Government, possibly to correct the injustices of the fiscal regime, but mainly in the interest of the free trade policy. The tax is a graduated tax, but the graduation is very slight, starting from 4 pies in the Re : (i. e. 2·06.%) for all incomes below Rs. 2,000, and rising to 5 pies in the Re : (i. e. 2·6) for all incomes of Rs. 2,000 and upwards.

But this is not all. The Indian law of 1886 was unsymmetrical in that it placed all the incomes below

Rs. 2,000 under Part IV under a License Act, while the higher incomes were put under a straight income tax at the rate of 5 pies in the rupee. For example, the incomes between Rs. 1,000, but less than Rs. 1,250, were required to pay Rs. 20 each; incomes between Rs. 1,250, but less than Rs. 1,500 Rs. 28 each, and so on. The actual graduation varied between 2 % to 2·4 % for the incomes below Rs. 2,000, while the incomes of Rs. 2,000 and upwards paid at the rate of 2·6 %, thus making it a proportional tax on all higher incomes. This involved a great injustice and inequality in taxation. The consolidated act of 1918 removes this inequality by putting all incomes under a straight and highly graduated income tax and also by removing the somewhat watertight compartments or schedules.

The present rates, assuming that the war rates would be abolished, then are far from enabling us to realise the ideal of distributive justice. The contribution of so much per cent whatever be the amount of the tax payer, means to the possessors of small incomes a burden more heavy in reality than that to the possessors of large incomes. This means the application of a graduated scale to the Indian Income Tax The antebellum rates are slightly graduated, but we have seen how they work injustice between tax-payers ane tax-payers. That the graduated scale applicable to Indian conditions should be very moderate goes without saying; for reasons that it is difficult to determine in each particular case the relative

value of the income to the individual; that the yield of the tax would be almost negligible because in India there are not very many large income holders: and that it would be necessary to reach even the moderate incomes. The war-scale, if made permenent, with some changes to be discussed later, should answer the purpose.

Summing up, then, in one word, the difference between the two laws (British and Indian), it is safe to say that in England the tax being levied on all incomes, the high exemption can be supported in the name of fiscal compensation, while in India the low exemption is based upon past experience rather than on the minimum of subsistence or distributive justice.

Although the doctrine of the exemption of the minimum of subsistence does not go beyond the Physoicrats and the Ricardian School, its development and adoption in a fiscal system is not a modern phenomenon. As we have seen, the idea was not quite absent in the Indian tax system, with the difference that today the exemption of the existence minimum, especially from the income tax, is apparently advocated on the ground of equity and fiscal justice. But what shall we say if Prof. Cohn and others who agree with him protest against the "immoral claim which (in strict contradiction of all principles of political ethics) demands for the populace an increasing share of political power together with a progressive exemption from taxation"?[1]

1 Cohn, Science of Finance, P. 332.

This is no place to enter into polemics; we cannot, however, refrain from saying that, though a just tax system should demand an equitable portion from each and every income, it may be justified on administrative grounds to exempt incomes below a certain minimum in a country like India. Since 1903 the taxable minimum in India is fixed at Rs, 1,000 while in the United Kingdom it is £ 160. The latter represents about four and a half times the average income per head of population in the United Kingdom, whereas in the case of India probably the average income may be taken at £ 3 (Rs, 45/-) that is the taxable minimum under the Indian income Tax amounts to over twenty times the average income. This means the comparison is in favour of India in as much as the taxable minimum is much higher than the average income. But it must be taken into consideration that there is no system of rebate or abatements in India. In short, the tax is paid not on the surplus over and above Rs. 1,000, as is the case in the United States, but on the whole income, the moment it amounts to Rs. 1,000 or upwards. This naturally weighs very heavily on the lower middle class, for the simple reason that, under the present system, the incomes between Rs. 1,000 and less than Rs 2,000 are put unjustly under a lump sum tax and hence an official estimate is liable to put a man in the higher class and thus swell the number of objections and appeals. It is no surprise, then, to read in one of the triennial reports a suggestion from a high

official to the effect that the taxable minimum should be raised to Rs. 1500 from the present minimum of Rs. 1,000,[1] while the Indian members of the Imperial Legislative Council recently demanded, in the interest of the middle class, a minimum of only Rs. 1200. The Central Government, however, rejected the proposal.†

Our own conclusion regarding the exemption of the existence minimum is based on personal observation and the study of the various provincial reports on the income tax. It is no doubt true that a man in India with Rs. 1,000 income a year is as well off and ranks as high in the social position as a person with an income of, say, £ 160 a year in the United Kingdom or $ 1,200 a year in the United States of America. Then again, one can live in a small village with a less income than in a large city like Bombay or Calcutta, and since most of our Income Tax is paid by persons living in large towns or centres of foreign trade and manufacture, and is supposed to be levied on the head of a Hindu Joint Family, it would be necessary, as we have seen, either to raise the minimum to Rs. 1200 or to introduce a system of abatements for incomes below Rs. 2,000. In any case, the matter is of great general importance for the future, that is, immediately after the present war when the financial policy of the Indian Government will have to be overhauled.

1 Financial Report on the Income Tax in the United Provinces of Agra and Oudh, 1914, p. 4.

† Recently in order to give relief to the middle classes the minimum has been raised to Rs. 2000.

B. The exemptions:—There are very few of the non-agricultural incomes which are free from the Indian income tax, but the administrative practices in the various Indian provinces, which are anything but uniform, make it necessary for us to divide our discussion into two parts, namely, the exemptions allowed under the law and those allowed by the rulings and orders of the Supreme Government in India, made with reference to the income tax Act of 1886 and promulgated from time to time to bring about uniformity of practice in the various provinces.

It is advisable that an income tax should be sparing in granting exemptions; every exemption narrows the taxable income and thus diminishes the yield of the tax. Political and social considerations may, however dictate certain exemptions. Let us first see what the law provides. If the Indian Law errs at all, it always errs in favour of military and foreign incomes rather than in favour of the Indian incomes, as the executive, that is, the Governor General in Council, can exempt any income, either in whole or in part, or revoke the exemption.

Let us now first discuss the exemptions allowed by the law itself. The section 5 (1) of the Act enumerates them in detail, but for our purpose we shall divide them into four general categories, viz:

(1) The exemption of incomes from agricultural land or houses.

(2) The examption of incomes derived from property devoted to religious or public charitable purposes.

(3) The exemption of incomes of Military Officers and finally.

(4) Other statutory exemptions.

Under the first category the following incomes are included:-

(a) any rent or revenue derived from land which is used for agricultural purposes and is either assessed to revenue or subject to a local rate assessed and collected by officials of the Government as such or

(b) any income derived from

(i) agriculture, or

(ii) the performance by a cultivator or receiver of rent in-kind of any process ordinarily employed by a cultivator or receiver of rent-in-kind to render the produce raised or received by him fit to be taken, to market or

(iii) the sale by a cultivator or receiver of rent-in-kind of the produce raised or received by him, when he does not keep a shop or stall for the sale of such produce, or

(c) " any building owned and occupied by the receiver of the rent or revenue of any such land as is referred to in clause (a), or by the cultivator, or the

receiver of rent-in-kind, of any land with respect to which or the produce whereof any operation mentioned in clause (b) is carried on :

Provided that the building is on or in the immediate vicinity of the land, and is a building which the receiver of the rent or revenue, or the receiver of the rent-in-kind, by reason of his connection with the land requires as a dwelling house, or as a storehouse, factory or other out-building."

These elaborate provisions are necessary to exempt all those incomes derived from agricultural lands which pay the land revenue and their taxation under the income tax would be evidently double taxation, which should be the aim of every tax system to avoid. The houses and buildings owned and occupied by the peasant proprietors or by their actual landlords, and situated on or near the lands are also exempted on the ground that the cultivators or land lords pay, besides the land revenue, a local cess, really a percentage of the land revenue paid to the State, and to tax them again would be unjust.

This exemption of agricultural income is, however, unfair, especially in those tracts where the land revenue and the local cess are paid by the permanent land holders, while a special class of tenure holders exists who neither till nor own the land, nor can they be assessed to the land revenue. Now this class probably does pay a trifle in the shape of a local cess, but it is doubtful if it comes under the income tax.

Then again, take the case of the European tea-plantations, noteably in Assam. Is tea industry an agricultural industry? The Indian Government regards it as such and taxes these plantations under the land revenue, instead of to the income tax. Similarly the coffee and rubber plantations of Southern India pay under the land revenue. These industries, as is well known, are very prosperous, but unfortunately they pay no income tax, while they are taxed rather lightly under the land revenue. Moreover, almost all the profits of the tea industry go to the United Kingdom, where they are apparently taxed to the British Income Tax.

Going back to the Zamindars, let us see whether they are really free from the income tax. Apparently there seems to prevail a great deal of misunderstanding about this among the assessing officers, especially in the United Provinces of Agra and Oudh, and probably a few agriculturists are assessed to the tax notwithstanding that they are exempt.

As late as 1911 we are informed of assessing the income tax on profits derived from grain advanced to their own tenants by the land-holders, but, later the tax was remitted as being illegal.[1] On the same page we find the following statement from the pen of one of the assessing officers, who refers to the "Local Zamindar (land-holders) Mahajans" as the most difficult of all assessees. He complains that it is

1 Triennial Report of the United Provinces, 1911, p 6.

practically impossible to ascertain their incomes and requests the issue of " orders " exempting them from the tax if they are essentially agriculturists.

The question of exemption of profits on issue of seed grain made by Zamindars to their tenants was referred in 1911 to the Board of Revenue of the United Provinces of Agra and Oudh, which seems to have dropped the matter and now income tax is regularly levied on such receipts,[1] while there seems to be no tax on similar receipts in the neighbouring province of Bengal, and even in the United Provinces, there was no tax on these receipts prior to 1913.

Are the proceeds realised by sale of land exempted from the income tax ? The Financial Commissioner of the province of Punjab decided that so much of the sale proceeds is income as represents profits, i. e. profits as compared with price originally paid for the land and that these profits are not exempt.[2] But suppose the land in question is your ancestral property and you want to sell it. The money realized may not be taxed because it is, according to the above decision, a conversion of capital. On the other hand, the Board of revenue in Bengal decided a few years earlier that the sale proceeds of a property are neither profits nor income for the purpose of the income tax unless they are received in the course of a business or trade whose business it is to buy or sell property for profit.[3]

1 Triennial Report of the United Provinces, 1914, p. 5.

2 Punjab Report, 1911--1912 Rulings and Orders.

3 Bengal Triennial Report, 1911 P. 2.

Are the profits derived from a mela (meaning a fair) held on land ordinarily used for agricultural purposes liable to the tax? The Supreme Court of Bengal held that these profits are not exempt from the income tax although the mela was held on agricultural lands. But the Court also held that these profits are not liable to the local cess. [1] Similarly the same tribunal in a somewhat famous case on the subject in 1907, decided that "an owner of mines (whether worked by himself or lessees) is liable to pay both income tax and road cess tax on the same net profits derived or royalty received by him from the mines." [2] Justice Mukerjee, in delivering the opinion of the Court, plainly admitted that it was double taxtion and declared that "the question of double taxation is one of expediency for the consideration of the Legislature; it cannot be affirmed as a matter of law, that double taxation is forbidden". [3] It is not quite clear where the double taxation comes in. Road-cess is levied for locol purposes, while the income-tax is levied for Imperial purposes.

Having discussed briefly the exemption of agricultural incomes, we come to the conclusion that the exemption is ambiguous and unjust in some cases and that it needs overhauling at the earliest convenience of the Government.

1 Indian Law Reports (Calcutta Series) Vol. XXVIII. PP. 638-41

2 Ibid. Vol, XXXIV, P. 257.

3 Ibid. Vol. XXXIV. P. 288.

The exemption of incomes derived from property devoted to religious or public charitable purposes is no less ambiguous. The law stipulates that the property in question be *solely* employed for the above mentioned purposes and the definition of the "religious" or "public charitable purpose" [1] is left as usual to the various Provincial authorities, whence the fatal diversity of opinion and interpretation.

In Bengal, for instance, it is not the actual expenditure on such purposes is taken into account, but the income derived from property set apart for a temple or a mission, or public charity; and to justify exemption the whole of that income *must be entirely* devoted to these objects. [2] The Charitable purpose, again must be of a public nature, which means private alms (which are so common in India) cannot be deducted for income tax purposes.

In Madras, on the contrary, the income derived by the Basel German Evangelical Mission from its tile factory in South Canara, presumably entirely devoted to religious and charitable purposes, is assessed to the income tax. [3]

In 1912, the Punjab Financial Commissioner decided to the same effect that if any transaction, a land sale or any other, involves profit, such profit can be taxed to the incom tax, even when it may have been

1 The New Act defines "charitable purpose" as including relief of the Poor, education, medical relief, and the advancement of any other object of general public utility.

2 Trienniel Report, Bengal 1914 p. 1.

3 Madras Triennial Report 1902 p. 3

expended on an educational purpose. [1] Evidently the income, before it has been received by an educational institution, is not regarded as exempt.

It should be noted here that although the collective income of a Missionary Board or a temple is exempt from the tax; not so the incomes or salaries received by individuals from these or similar institutions. [2]

With regard to the third category, namely the exemption of incomes of Military officers the Indian Law follows the Continental rather than the English practice. The salary of any officer, warrant officer, non-commissioned officer or private of His Majesty's Forces or of His Majesty's Indian Forces is exempt, provided the officer in question does not hold an employment which, according to the ordinary practice is held indifferently by Military persons and when the salary does not exceed Rs. 500 a month. [3]

Here again the law is anything but clear. The administrative officers decide the nature of an employment held indifferently by military persons or civilians. Suppose, for instance, a Military officer is deputed, this being a common practice, to plague or famine duty which is under the Civil Department. Is the officer in question liable to the incom tax? The Government of India notified as early as 1898 that he is not liable to the tax. [4]

1 Punjab Report 1912-13; Rulings andOrders.

2 Section (5) (2).

3 Section 5 (I). (i).

4 General Rules and Orders, Vol. II. P. 834.

What is the position of a Military Surgeon with regard to the tax when employed as a House Surgeon in a Civil Hospital ? The Government of India again decided that the officer in question must pay the income tax, on the ground that the said employment is a civil appointment. [1]

But if a retired army officer is reemployed on plague or famine duty, he is not exempt under this section from income tax assessment on the pay and allowances received by him for performing the preceding duties. The exemption applies only to officers and others on the active list. [2]

It must be also mentioned here that the officers and men of the Indian Service are not treated according to the Government of India's ruling, as belonging to Indian Forces, and hence are exempt from the tax even when they are paid from the Indian Treasury. This exemption also applies to all Military Pensioners if the sum does not exceed Rs. 500 a month.

Finally, under other statutory exemptions, we shall first discuss those allowed by the law, and secondly those allowed by the supplementary rules, orders and decisions made under the Act from time to time by the Supreme Government in India.

(a) Any interest on stock-notes is free from the income tax,[3] for the simple reason that a stock-note is a security issued on Government of India stock.

1 Government of India, Home Dept. No: 434. 22nd May 1906.

2 Government of India, Home Department No: 903, June, 1901.

3 Section 5 (1) (h).

This provision is meant to avoid double taxation. But now it seems to be superfluous since no such securities are issued any longer.

(b) Any profits of a shipping company are exempted from the Indian Tax, provided the company is incorporated or registered, or has its principal place of business out of India, and whose vessels are ordinarily, engaged in seagoing traffic out of Indian waters.

It is now for more than thirty years that this exemption has been unjustly maintained. Why discriminate against the native shipping companies? In 1886, when the present law was enacted, a great row was made by the agents of all the British and foreign shipping companies engaged in carrying the Indian exports and imports by sea. The representatives of the British and other foreign exporters and importers in India, in the Governor General's Legislative Council, took up the cause of the shipping agents and prevailed upon the Indian Government to exempt totally all the shipping companies engaged in carrying the Indian exports and imports by sea. The representaives of the British and other foreign exporters and importers in India, in the Governor General's Legislative Council, took up the cause of the shipping agents and prevailed upon the Indian Government to exempt totally all the shipping profits on the ground that no one in India could "ascertain" or "fairly assess" the earnings of such shipping. It was also argued that too much expense

1 Section 5 (1) (d).

would be involved in collecting the tax, that the amount of the taxable profits cannot be ascertained even by the owner in England or elsewhere, much less by his agent, and finally that if the tax is to be effective it must apply to any ship touching at an Indian Port.[1]

In short, the foreign interests won the day, while the India Government and the Indian tax-payer lost out. In 1916, when the tax was made more progressive by increasing the tax rates for all incomes of Rs. 5,000 and upwards, both the official and the non-official members of the Governor General's Legislative Council agreed that this exemption was unjust and unwarranted, bearing in mind that a petty trader with an income of Rs. 1,000 is required to pay Rs. 20 as his contribution to defray at least a part of the expenses of the Indian Government while a shipping company like the P. & O, goes scot free! The question, however, was not settled, but the Government in the usual manner, promised to remedy this injustice when peace and plenty would again cheer the world. [2]

In our humble judgment, the old argument that it can't be done is absurd. Equipped with the knowledge of the practices of other governments in this matter, it is possible to arrive at an equitable settlement, which will satisfy the weak as well as the strong and that sufficient care be taken to avoid double taxation.

1 For details see the Proceedings of the Governor General's council, 1886--87, P, 59 & Seq.

2 Under the new law foreign shipping companies would be liable to the tax but it will be enforced after the war.

The Indian Government being, in a sense, a paternal Government, is always anxious to protect its subjects as well as its servants by means of insurance. The former are provided for, in famine, through the Famine Insurance Fund, while the latter are compelled or advised to subscribe to the various Service Funds or Friendly Societies, established under the authority of the Government, to make ample provisions for their widows and children.

In short, the income tax law exempts the premia, not exceeding one-sixth of the income, same as in the British Income Tax, paid by the person to an Insurance Company for an insurance or deferred annuity, not only on his own life but also on the life of his wife. In any case, the amount cannot exceed the statutory one-sixth.

Life in the tropics has always been described as hard and exacting and especially the duties of high government officials being varied and manifold, no one would probably grudge this liberal exemption which is no doubt a great factor in making them loyal servants of the Empire, not only when they are in active service but also in their happy retirement. Even in Prussia, where the state shows so much regard not only for its subjects, but also for its officials, the exemption for insurance purposes rarely exceeds a sum of 600 marks (£ 30) a year; while with us no matter how high or low is the income, the one-sixth seems to prevail throughout India, even when the high officials most of them being Europeans, usually insure at

relatively low rates with their home companies, and this would probably not require one-sixth of their salaried income, even if they insured themselves as well as their wives. The Government officials therefore hit upon a scheme of somehow using this whole one-sixth. Why not insure children also. The Indian Government, in their letter or February 1911, as a matter of course, admitted the claim to the exemption of premia paid by an official to an insurance company, in respect of endowment policies, issued for the benefit of a child,[1] and that the auditing authorities were authorised to interpret this payment "as a payment to an insurance company in respect of an insurance on the contributor's own life." Stated briefly, these large allowances for insurance, etc., not only involve a tremendous inflation of salaries, but also a great loss to Indian tax-payer, in that a large portion of these premia are paid to foreign insurance companies which neither invest them in the country nor contribute an iota to the Indian fisc. It is remarkable to note that the new Consolidated Act legalizes the practice of insuring children among Government servants while deduction in regard to children is denied to other assesses.

The insurance exemption is also extended to the insurance employees of Municipalities, port trusts, and the railway companies, in the case of latter all the contributions, of course, not exceeding the one-sixth to any Provident Fund or Railway Savings Bank, established under the authority or with the permission

1 Bengal Triennial Report, 1911. p. 2.

of the Government or to any insurance Company can be deducted previous to assessment to the income tax. If these service funds are not authorized by the Government, no deduction is allowed[1]

The amounts exempted from the tax referred to above cannot be deducted from the taxable income to determine whether that particular income is liable to the tax, or to determine the rate at which the tax shall be levied under Part I viz : salaries, pensions, etc. An example would make this clear:

Now let us take a case of a Government officer whose salary amounts to, say, Rs. 2,100, and who pays at the rate of 5 pies in the Re since that is the rate for incomes of Rs. 2,000 and upwards. If this officer is allowed a deduction or Rs 350, which is one sixth, for life insurance, his income would be reduced to Rs, 1,750 and that he would legally pay at the rate of 4 pies in the Re, but our rule compels him to pay at 5 pies in the Re, on the rest i., e. 5/6th of his income viz. Rs 1,750.

The law carefully exempts a person from assessment to the tax when that person enjoys any income as a member of a firm or of Hindu undivided family, provided that the tax has been paid by the company or the firm or the family. This provision simply does away with double taxation. But unfortunately it works injustice especially in the case of a Hindu joint-family as was the case with the Prussian Income Tax of 1891.[2] The general report of the Indian Decennial

1 Rules and Order, Vol. II. p. 831.

2 Seligman Income Tax p. 264.

census for 1911 specifically states that the joint family in India exists only in fiction, and not in fact, and yet the Indian Government continues to tax the households instead of individuals, who rarely hand over their incomes to the head of the family. To be consistent, therefore, the family members must be taken into consideration in the discussion of the incidence of the tax.

As regards taxing a Hindu joint-family the new law does not effect any improvements at all. Unfortunately, the application of the graduated scale is liable to hasten the disruption of the joint family system which is very nearly becoming extinct under modern economic influences. The graduated scale unnecessarily puts a much heavier burden upon the income of a joint family than upon individual incomes in as much as the former will be required to pay a much heavier rate than the latter. It is, therefore, necessary that the tax payable by a joint family should not exceed the total of the sums payable by the several members.

As regards the exemption of the share-holder when the company pays out the tax for him it is just, but prior to 1916, the company was required to pay at the rate of 5 pies in the Re ($2\frac{1}{2}$ %), even though its net profits were below Rs. 2,000 and no rebate was allowed to the share-holders having an income less than Rs. 2 000. Since April 1, 1916, the companies pay presumably for war purposes, at the rate of one anna in the Re, or about $6\frac{1}{4}$ per cent,

more than twice as much as the old rate, on their net profits provided they are not below the taxable minimum, that is Rs. 1,000, and a share-holder having an income below this is allowed a refund of one anna in the Re, a share-holder with an income of less than Rs. 2000 a refund of eight pies in the Re and so on. In short, the new system of refunds, though it is very difficult to say how it is working, is nevertheless a decided advance over the old system of no refunds, even to those share-holders whose income may have been below the taxable limit. This reform may have also been suggested by the rapid and feverish development of new enterprises since the beginning of the present European war.

Finally, the law allows a peculiar exemption which is only an apparent exemption, in that it exempts any company or person having an income from all sources less than one thousand rupees per annum.[1] The word "company" is inserted since 1916. But, it may be asked, why was this clause inserted at all? Are the officers in the habit of taxing persons with less than the minimum? This is a great temptation to the assessors, the officers find it easier to assess the "small fry" than the large income holders. However, there seems to be another reason besides the preceding one. For instance, we are told in the Burma Income Tax Manual that the exemption under this clause applies *only to persons and not to the income.*[2] Let us take an example which will

1 Sectuin 5 (1) (j)

2 Burma Income Tax Manual, 1905, pp. 41-42.

illustrate this argument better than mere words:—Suppose A has an income consisting of the following items, viz; (a) salary Rs. 500 per annum, (b) interest on Government or other securities of Rs. 100 per annum, (c) rent from agricultural lands, Rs. 1200, and (d ,-income from the business of money-lending of Rs. 100, making an aggregate income of Rs. 1,900 per annum in all. Now his income of Rs. 1,200 from lands is exempt under section 5 (1) (a), and if it is deducted from his total income, there would be left Rs. 700, which being far below the minimum, should not have been taxed at all; but according to the official interpretation, he would be taxed. That is to say, under Part I, salaries, etc., he would pay Rs. 10-6-8., at the rate of 4 pies in the Re on Rs. 500; under Part III, interest on securities, Rs. 2-1-4., while under Part IV, other sources, nil, since his income (Rs. 100) is less than the legal minimum Rs. 1,000.

In short, the moment the total income of a person amounts to or exceeds Rs 1,000 from any source whatever, by no means excluding the purely agricultural income, as we have seen the incomes under the different parts, even though they be much below the legal minimum, are liable to the tax at the usual rates. Thus the statement that the agricultural incomes are exempt from the income tax on the ground that they pay other imposts, should be taken with great caution.

As regards the miscellaneous exemptions made from time to time by the Governor-General in

Council through the numerous notifications and orders sent to the various Provincial authorities, who are solely responsible for assessing and collecting the tax, and published in the Central Government Gazette or in the Provincial Gazettes from time to time, we can but be very brief.[1] The notifications relate to the following important exemptions:—

(1) The income of persons (other than Govt. servants) residing in,

(a) The Hill Tracts of Chittagong;

(b) the Mewas States under the Khandesh Political Agency;

(c) The Khondmals and the Mahal of Angul in Orissa

(d) Any part of the Presidency of Madras included for the time being in a schedule district.

All these above mentioned tracts are backward and are inhabited by hill tribes, and hence the need for exempting their incomes. In the triennial report on the income tax in Madras for 1905.[2] It was suggested to the Supreme Government that the tax be applied to the schedule districts in that Presidency, and that it would not affect the hillmen. The suggestion was, as usual, not accepted. There is good ground, however, for our belief that this suggestion either originated in the fact that probably many a trader from other parts of the Presidency is migrating

(1) Most of these exemptions are found in Vol. II pp. 831-40 of General Rules and Orders, Calcutta, 1915; also Burma Income Tax Manual for 1905, Chapt. III.

(2) p. 8.

to this fortunate district to escape the tax, or that this particular area is becoming a "happy hunting-ground" for adventurers of all sorts, with which, in our opinion, the Provincial Government is in a better position than the Central Government, to get acquainted, and hence the experiment should have been sanctioned.

(2) The income of Universities or other Association or bodies existing solely for educational purposes, and also that of a "Local Authority," meaning any Municipality rather Municipal Committee district board, body of the port commissioners etc. [1]"

It is needless to add that the income of Universities and other educational institutions is derived from subventions doled out by the Central Government from time to time, permanent grants and endowments, examination and tuition fees, gifts and bequests, and interest derived from investments of money either in Government, Municipal or other securities. The exemption from the tax on interest derived from securities is not allowed for any period during which the securities have been transferred.

The revenues of Municipal and other similar public bodies, as is well known, are derived from rates, taxes, license fees, market dues, octroi duties, and profits from Municipal undertakings; the latter in the United Kingdom are taxed, while in British India they are exempt.

1 Section. 3 (1).

(3) The official allowance of an agent of a Prince or a Native State in alliance with His Majesty, who is duly representing the Prince or State for political purposes in any place within the limits of British India and paid by that Native State is exempt from the tax even when received in British India. Similarly, the official salaries and fees of foreign consuls and their employees are exempt. The latter is rather vague, because the exemption seems to include even when the employee of a foreign consulate is a British Indian subject.[1] It is strange to note in this connection that the incomes of Missionaries, though derived from donations in the United States of America or elsewhere, and even though a portion of them may never reach India are still liable, under Part IV, if not under Part I, to the tax.[2]

(4) Any capital sum paid in commutation of the whole or a portion of a pension. Thus a pensionable government servant or a railway employee, can have the whole or a portion of his pension commuted and receive what is known as a "gratuity" which is exempt from the tax, while a pension is not. Similarly, the surrender value of insurance premia and the payment received from a "service fund" at the time of retirement from office are exempt.[3]

(5) The income of a person derived solely and directly from the production of indigo or the preparation thereof for the market. This is rather a

1 Burma Income Tax Manual, p. 33.

2 Burma Income Tax Manual, p. 43.

3 Bengal Triennial Report 1905, p. 12.

concession to encourage the once flourishing indigo industry, which was crippled by the heavy export duties of the sixties and seventies, and later by the discovery of the chemical processes which made possible synthetic indigo. This exemption, however, applies only to the cultivators of indigo as opposed to the wholesale agents, retailers, and the employees in the service of the cultivator himself. [1]

(6) Marriage dowers paid in cash are also exempted on the theory that they are capital rather than income. [2] There is no reason why it should not be regarded as casual income, but probably it will seriously interfere with the social custom and that is why the government refrains from taxing it.

(7) The profits derived by a company registered in England from the sale of tea purchased in India and shipped to England by its agent in India are not liable to the Indian Income Tax. This exempts all the Tea companies registered in England and carrying on trade through their agents in India. [3]

Finally there are certain institutions whose incomes are specifically exempted from the tax, such as (1) the Victoria Technical Institute in Madras, (2) the British India Association of Oudh, (3) the Police Remount Fund in the United Provinces of Agra and Oudh, [4] and lastly (4) the profits of any Co-operative Society [5] registered under the Co-operative Socie-

1 Income tax Report, North Western Provinces 1892 93 P. 13.

2 Assam Income Tax Report 1891-92 p. 1.

3 Bengal Triennial Report, 1911, p. 3.

4 Rules and Orders, Vol. II. p 844.

5 Rules and Orders, Vol. IV. p. 2180. The word "Credit" was omitted by notification No. 579 F of June 2nd. 1913.

ties Act of 1912. This exemption is also applied to the dividends or other payments received by the members of any such society. At first only the Co-operative Credit societies which were registered under the Act X of 1904 were exempted on the ground that they needed capital to advance loans to farmers on easy terms, but at present this exemption is extended to all Co-operative Societies as well as to their members; in the latter case only the profits from this source are exempted. This exemption has naturally attracted a large amount of capital to these societies, and the members, though they cannot receive more than a dividend of six per cent; it is becoming increasingly difficult as to how far this exemption should be applied at the expense not only of the State revenues, but also of other tax-payers. The exemption of these societies may be compared to the exemption of similar institutions in the United Kingdom, but, in the case of India, it cannot be stated with exactitude that the income of their members, especially those of the big central banks, at least that of a large majority, is below or above the taxable minimum. It is none the less true that many have flocked to the standard of Cooperation to evade or avoid the income tax.[1]

The new consolidated act in addition, makes the following exemptions worth noting:—

(1) Legacies;

1 In 1916-1917 the total number of Co-operative Societies in British India was 21, 737 with a membership of 9, 59, 525 and a total working capital of Rs. 11,54,00,762.

(2) Any special allowance granted to meet specific expenses;

(3) Casual and non-recurring gains;

(4) Any perquisite or benefit which is neither money nor reasonably capable of being converted into money; and finally.

(5) Money allowances accompanying the various distinctions arising out of the present war such as the Order of British India, the Order of Merit, the Victoria Cross etc. won by the soldiers and officers of the Indian Army.

Thus far we have spoken of exemptions allowed in law and practice and nothing of incomes that regularly elude the official eye, but more of this will be said later. For the present it is fair to conclude at this stage of our discussion that the Indian Law exempts more than it taxes and the result is a poor yield but it must, however, be understood that the tax exemptions err on the side of government servants, pensioners, leave allowance receivers, all foreign shipping concerns, tea agents, and the holders of sterling debt rather than in favour of the general taxpayers.

PART III.

ASSESSMENT OF INCOMES.

Preliminary Considerations:—It has been already pointed out that most of the earlier direct imposts of the pre-British days reached the wealthy through an intimate acquaintance of the assessees, based mostly upon the external signs by which wealth manifested itself. That is why probably, many a rich man if not actually to evade taxation came to dress in a simpler and unshowy way.

The fiscal, and consequently the territorial and political unity of India, though yet to be achieved, is well under way. Most of the indrect imposts existing in the various provinces as we have seen had to be abolished and to defray the extraordinary burden consequent on the Mutiny, an income tax to make the wealthy pay their proper share, had to be established. To the taxes on the indices of wealth, the British administration substituted a tax on the incomes directly assessed.

This reform introduced by the law of 1860 has been continued ever since with some exceptions. Has it been favourable from the point of just distribution of the burden of public expenditure ? In other words which of the two systems of taxation, one based on the indices of wealth or the one on actual income, is the better ?

Let us see if we can get a suitable answer to this question by distinguishing the theory and the practice, the underlying principles and their application. To be sure our aim is not to discuss theory for

theory's sake or art for art's sake and no amount of speculation would help us in this matter.

If one looks at the abstract ideas, it is not certain that the first system responds better to the ideal of an exact and just tax. In fact the State should not only demand form each of us a fair share to defray the public burdens, but that share should be based as far as possible on one's ability to pay.

This, of course, presumes the knowledge of the resources of each citizen on the part of the State. Undoubtedly the revenues would be more exactly known through sincere and honest declarations of their possessors than by any chicanery on the part of the State to estimate them by means of external signs, the latter by its very nature, would always be an approximation. In pure theory, therefore, there can be nothing more just than a self-assessed income tax.

In order to translate this ideal into practice, it would be necessary to obtain from citizens the correct declarations of their incomes. But is this not a veritable Nirvana ? Would the tax payers urge on their conscience their solemn duties towards the State, to which they owe not only their prosperity, but also their very existance, in spite of the fact that the State may not be the product of their active consent, to such an extent as to reveal exactly their annual incomes on the basis of which they plan all their expenses ? The present writer does not believe it possible to say of any people that they are born

with refined conscience. To be sure the furure State may be so organised that it may sow only wheat and reap only wheat, without bothering itself about the tares. The Indian Government is far removed from this. The Indian people, like other peoples, do indulge in defrauding the State, by no means excluding the very honest. The experience of England Italy, United States, and even that of India, proves that one cannot be very much proud of the sincerity of all tax-payers.

Later on we shall try to show how revenues are ingeniously hidden. Somehow or other the State must discover them. This is perhaps the weakest point in the system of income taxation. The inquisitorial practices of an officialdom may transform a just and theoretically sound tax into the most hāted one

In British India the terrible corruptions and extortions consequent upon the introduction of the income tax in the seventies under which incomes were estimated by officials, and there subordinates rather than asked for, have not been forgotten. But under the law of 1886 and that of 1918, though the practice of estimating still prevails, the inquisitorial practices are sagaciously avoided; in return the inequality among the tax-payers is large. The causes of this inequality and the manifestations thereof form the object of the chapters that follow.

CHAPTER VI.

THE COLLECTION AT SOURCE.

(*A*) *Administrative machinery*:—To know how a tax is assessed and collected in any country is to become acquainted with the structure of the Government of that country. Far be it from us to write a a treatise on the Government of India as it exists today, or even to risk a general discription of it. To say, however, that it costs only 1. 7 % [1] to collect the income tax in India is to misunderstand the whole situation.

For administrative purposes Britist India is divided into seven major and three minor provinces ; each of which is admistered in subordination to the Central Government viz. The Governor-General in Council who is responsible only to the Secretary of State for India in London, who in turn generally being a member of the Majority party in the House of Commons, is supposed to be controlled by the House. The Secretary of State for India is assisted by a Council consisting of not less than 10, nor more than 14 members, appointed by himself. At present it has only two Indian members. In all strictly financial matters, such as the appropriation, or approving of the Indian budget, a majority decision is followed ; but in matters of war and peace, the Secretary of State may act independently.

Similarly the Governor-General is assisted by an Executive Council composed of eight members, in-

1 Kennan:—Income Tax P. 150.

cluding the Commander-in chief of the Indian Forces, all of whom are appointed by the British Crown on the advice of the British Prime Minister. At present only one member of the Executive Council is a native of India, but the Government is not bound in any way to appoint Indians. The Governor-General, in short, directs and controls the Civil and Military Government of British India.

There is also the Imperial Legislative Council at present consisting of 69 members including the viceroy (who is the presiding officer of that august body), and the eight members of his cabinet. The number of non-official members comes to 32, or a less than half of the total membership, and again out of this number only 27 are elected by certain officially constituted electorates such as the landlords and the merchantile community, presumably representing the population of about 244,000,000 in British India. The official majority has of course to be maintained. The powers and functions of this legislature, however, are strictly limited. It has no control over taxing or spending departments. It can only criticise and pass resolutions on the preliminary Financial Statement, but it cannot give effect to its resolutions. As a matter of fact the budget is never put to vote.

To return to the provincial administration, each of the major provinces is administered and headed by a Governor or a Lieutenant-Governor or a chief Commissioner by no means depending upon the size or importance of the Province. In Bombay, Bengal,

Madras, and other important provinces, the legislative activities are entrusted to a partially elected Council whose membership varies from 15 to 53 depending upon the size of the province ; the non-official members are generally in majority in the provincial Councils, but their powers are carefully restricted especially in financial matters. As a matter of fact the Provincial Budgets are merged in the budget of the Central Government. The Provincial Budgets are prepared with the advice of the Civil Accountant General, a representative of the Central Finance Department, at each Province, and since these budgets, are subject to the veto of the Governor-General in Council, there is no provincial fiscal autonomy, nor can the provinces be said to be wholly free even in fiscal matters from the Central Government's interference.[1]

Each province is divided into several divisions, each of the latter into as many districts, which at present number over 270, in the whole of British India. The Chief officer of the division is called the Commissioner, generally a member of the Indian Civil Service and usually an European. Similarly the head of a district is called the collector and his qualifications are generally the same as the Commissioner. The district is divided in turn, into Talukas or circles which are in charge of Deputy Collectors, Assistant Collectors or Mamlatdars or Tahsildars called by various names in the different provinces, who are as a rule, natives of India and also of the

1 Decentralisation Commission Vol I Pp. 26-71.

particular province in which they happen to be working. The lowest units of administration for revenue purposes at least are the Municipality, township, and the village with its appropriate staff of officers. The cities like Bombay and Calcutta, Madras and Rangoon, are more or less autonomous and deal directly with their Provincial Governments and are subject to the control of the Governor in Council of the Province.

It is these cities alone that have special departments for the income tax, headed by a collector and other subordinate officers to do the work of assessment and collection.

The income tax work outside these cities, falls to the lot of the regular administrative staff of the district or of the Taluka, or village, who are, as is well known, not only responsible for the assessment and collection in India of the famous land revenue, the unique contribution of India to the science of finance, but also for the excise, registration, stamp and salt. Besides this, the collector of a district has to perform Magisterial functions and other duties; too numerous to mention here. [1] Can we imagine under such circumstances, that these officials, however efficient they may be, are left with sufficient amount of time to do the income tax work? As a matter of fact, we are told again and again in most of the Provincial

1 Royal Commission upon decentralization in India Final Report. Vol. I. Chap. II. P. 17 and seq for details of the Collector's functions and duties.

reports on the Income tax that the district staff or even the Taluka staff is either too busy or too tired for the income tax work. All these officers are responsible to the Board of Revenue or Financial Commissioner, where either exists. In Bombay, however, neither of these exists and the three divisional Commissioners among other things also look after the income tax administration. hear appeals, and remit taxes to the amount of Rs. 250.

Briefly stated the revenues of the Supreme Government though not separated completely from the provincial revenues, are derived from the same sources as the latter, except that the Central Government controls entirely all the receipts from salt duty, opium, now a dwindling source, customs, tributes from Native States, Post Office, Telegraph, Mint, Exchange, Railways and military receipts, while the receipts from Provincial rates, Forests, registration and receipts by Civil Departments and Civil works are allotted exclusively to the Provinces, on the other hand the receipts from land revenue, stamps, Excise, income tax and irrigation which are the growing sources of revenue, are divided between the two governments, approximately two thirds of land revenue, one half of stamps, three fourths of Excise; and nearly one half of the income tax and irrigation receipts are given to the provincial governments. These proportions are supposed to be fixed and permanent, but they can be changed

whenever the Central Government is confronted with a deficit.

The division of expenditure follows almost the same lines, but let us not forget the fact that in India all problems of expenditure are at bottom local, and that the local governments need more money for education and sanitation than the Central Government. At present the Provinces are simply starved for want of revenue. Taking the fiscal year 1913-14, to avoid the effects of the war, we see that the total gross revenue of British India amounts to about Rs. 127 [1] crores or over £ 84,350,000 of which only £ 30,989,118, went to the provinces, and the remainder that is £ 53,361,439 to the Central Government, and over 68 % of the latter is spent upon Military services and Home charges. [2]

In short what we must realize is that most of the revenue is assessed and collected by the Provincial authorities, but a large part of it is spent by the Central Government and this fact probably does make the local authorities less responsible and careful, especially in assessing and collecting our income tax. Bearing all this in mind let us see what methods the

1 Exact figures Finance and Revenue Accounts of the Government of India for 1913-1914. P. 7 Rs. 1,26,52,58,356=£ 84,350,557 and £ 856,618 on account of Military receipts in England which are not revenue at all.

2 Actual figures. (Home Charges) £ 20,311,673 and £ 15,802,948 Military services in India (excluding Military Works and pensions).

law provides for assessment and collection of the income tax.

B. *Provisions in the law of* 1886 *regarding collection at source and its practice* :—Probably no one needs to be told, least of all the Indian Administrator, that ascertaining of income is the most crucial point in the whole administration of an income tax, no matter whether it is levied in the orient or the occident. To avoid this difficulty, ultimately of course to increase the yield from the income tax, many countries, notably England, Italy, and recently the United States have adopted among other methods what is technically known as the collection at the source or " Catching it at the source", as it is popularly known in India, method of assessing and collecting the income tax.

The Indian law of 1886 adopted this method, but its application is rather unjustly restricted. Thus there is at least one category of incomes in which the method of ascertaining has no room namely the incomes from the government or local authority, when the disbursing officer is held personally liable if he fails to deduct the tax before any amount is paid out on account of salaries, pensions, and interest on all public or private securities.[1] It is possible for the government to pay everything it owes to its creditors and then turn round and demand from them the tax which they owe to it, but it seems to be much

1 Sections 7, 8 and 13.

easier and convenient that the government should both in its capacity as a creditor and debtor, in some fashion, make an application of this method. Obviously when the government deducts previously by directly retaining a portion of the income as its due, the assessing, collecting, and recovering the tax are simultaneous operations.

There are thus two kinds of incomes on which the tax may be retained at the time of their payment. They are (1) salaries pensions, etc., paid by any governmental authority, or a company in British India, and (2) interest not only on the Indian Government debt, but also on debentures or other securities issued by or on behalf of a local authority or company.

The examination of the proceedings of the Legislative Council of 1886, however, reveals to us that the Select Committee unwisely, abolished collection at source in the case of employees of Companies or public bodies or private employers[1] and substituted a clause requiring every employer, including every local authority to submit on or before the 15th of April in each year an annual return stating the names of employees and their salaries, pensions, etc., receivable or already received during the year.[2] The Collector, is also authorized to enter into an arrangement with any employer for the collection of the tax for which the latter receives a commission.

1 Proceedings 1886—87 p. 59.

2 Section 10.

In practice, however, the collection at source does not seem to work justly, not because it is a bad principle, but because it is not applied uniformly, not only to similar incomes but also to similar incomes paid by the same authority. For instance in Burma Manual, we have a direction to the effect that the tax on salaries should be deducted with reference to the salary of each month separately. [1]

Then again take the question of deducting income tax from the arrears of salary. The Central Government through its Finance Department in 1913 decided that "income tax should be calculated on the total amount drawn irrespective of when the different sums making up that total were earned".[2] But in the same order it says that this does not apply to pensions. Now, why this inequality? If a pensioner happens to draw arrear of pension, he should by no means be exempted since he is liable to the tax if his pension amounts to Rs. 1,000 or upwards.

The Madras Board of Revenue in the income tax report for the triennium ending March 31, 1902, states that "1, 944 persons drawing salaries of less than Rs. 500 a year, were brought under assessment on the ground their *total income* under all four parts was over the taxable minimum" which was then Rs. 500.[3] This means that all salaried persons mainly

1 Burma Manual P 41.

2 Triennial Report Punjab, 1914, P. 6.

3 Triennial Report Madras, 1902, p. 3.

Government servants are taxed not only on their salaries but also for incomes from other sources, and that the tax is deducted at source, that is, from their salary.

The Burma Manual published after the raising of the minimum to Rs. 1,000 also follows the same rule and prescribes that if "a person", note the word person, it may mean any one whether a governmental employee or a private employee, "receives salary less than Rs. 83-5-4 a month, and also has other income less than Rs. 1,000 a year, but if the two incomes together amount to Rs. 1,000 or upwards, the salary is liable to the tax while his other income is not liable".[1] But again we are told, presumably referring to the government employees, that the disbursing officer "cannot question the recipient as to his other income and deduct extra tax unless the collector brings to his notice that the recipient has other income."[2]

In actual practice, however, the government servants wno are recipients of other incomes, probably with the exception of those who invest in government securities, are seldom assessed on those incomes, since they are rarely available to the disbursing officer. In the Central Provinces and Berar, for instance, they are supposed to be assessed under other sources, but we read from the weighty pen of the Commissioner of Miscellaneous Revenue there, as follows:

1 Burma Manual, P. 41.
2 Ibid P. 41.

"I wish to draw attention to a matter which some Deputy Commissioners would seem to have neglected and this is the assessment to income tax of government officers on their investments. It is a matter of common knowledge that many government employees are the owners of bungalows or have invested money in Club Debentures or in Companies in India *but I do not find that assessments have, as a rule, been made upon them*".[1]

Of course the method of collecting at source cannot be blamed for not taxing the income which never comes under its purview, but it seems to us that it practically makes possible the evasion of income tax on other incomes not only by the government employees but by other employees as well. At any rate their high salaries are made to pay at source and are within the reach of the government which pays them out.

But here too the government servant, who is on leave in the United Kingdom, is exempt from the tax, because, though his allowance arises and accrues in India, yet it is received in the United Kingdom. Similarly the British pensioners living in the United Kingdom are not called upon to pay to the Indian Government, even though they draw their pensions from the Indian revenues.[2]

Again while no provision for refund of tax under the Act of 1886, was made until 1916, and that too

1 Triennial Report, Central Provinces, 1902, P, 2. the italics are ours.

2 Government of India, letter No: 2101, 28th April 1887.

for a period of one year, the salaried class and also the interest receiver could claim refund of income tax paid anytime within six years from the date of payment of the tax.[1]

As to the application of the collection at source to the salaries received by person in the private employe, as opposed to public employe, we can be brief. The application is optional and the collector is left to coax the employer, but he certainly cannot use compulsion against him. Time and again collectors pointed out that the list which the employer is bound to furnish to them, is inadequate and that the employer should be compelled to collect the tax from his employees on behalf of the government, but their suggestions, though worthy of putting into practice, seem to have been rejected on other than economic grounds.[2]

In the earlier years the situation seems to have been pretty bad especially in Assam where most of the tea plantations are owned by absentee landlords, and hence are worked through a manager who is not always willing, or rather able to give complete information about his ever-changing staff of European workers.[3] Moreover the smallness of the commission allowed for collections to the managers does not seem to have attracted them, and the situation still admits of much improvement.

1 Government of India letter No; 1333, 16th March, 1905.

2 United Provinces Triennial Report, 1914, p. 1; Assam Report 1888—89, p. 2.

3 Assam Report, 1889—90—p. 5, and 9.

The Commission allowed to the employers is practically uniform throughout India, presumably prescribed by the Central Government and varies from 1 % to 5 % on the total collections, depending upon the time of payment, whether in a lump sum or in monthly instalments.[1] Although at present over 60% of the tax levied on the private employees is collected at source, nevertheless it would pay to realise the whole tax under this head through stoppage at source, which is especially suitable to salaried incomes.

It is remarkable to note that in this case at least, the Indian income tax did not follow its English model and this may probably be due to the fact that India not being in the same industrial position as England, the Indian Government hesitated to use compulsion on British employers or rather the latter being mostly owners of tea factories, jute mills, and other companies, more so in 1886 than now, brought pressure on the Indian Government to abandon the stoppage at source method in the case of their employees, who are mostly recruited from England, so that they may not have to pay the tax for their employees in the from of higher salaries, and even to-day the government probably will have to face the combined wrath of the British and Indian employers, in case it signifies its intention to apply collection at source for all employees.

C. *Taxasion of securities and collection at source*:– The income derived from securities, as already poin-

1 Burma, Manual p. 26.

ted out, is also tapped at the source and the payer is held liable if he fails to deduct the tax, but if the security-holder, presents a certificate from the collector stating that his total income is below the taxable limit no tax can be deducted. Similarly no tax can be deducted from the interest on securities held by educational, religious or public charitable institutions.

At the time of the passing of the Act some feared that the credit of the Indian Government would be affected if the public debt were to be brought under the income tax. The Indian public debt has enormously increased since 1886 and on March 31st. 1914, it was no less than £ 275 millions of which £ 262 millions were invested in Government railways and irrigation works, but a large part of this debt is held in England and known as the Sterling Debt and is thus exempted from the Indian income tax. The fears of those who thought taxation would cripple public credit are not justified from the current quotations of the 3½ precent. India stock and also the Rupee war loan of 5 Crores in 1915 which was issued at Rs. 95.[1]

At any rate, let us see what other nations are doing in this respect. England and Prussia, as is well known, tax their domestic as well as foreign fund holders, the former has recently exempted her foreign creditors during the present war. Italy and Austria

1 Moral aud Material Progress of India, 1914-15, p. 10. The Italian Government Bonds after paying a 20 o/o income tax are found to be a profitable investment for national and foreign capital-Spoelberch pp. 106-9.

also tax their creditors probably with some hesitation. France, at least before the war, did not tax her public creditors. The federal income tax of 1913 in the United States specifically exempts all public debts from the income tax. Japan, so far as our information goes divides her debt like Italy into two parts; (a) Register bonds, and (b) Unregistered bonds or bonds to the bearer, the latter being for the foreigners who presumably do not pay the Japanese income tax.[1] Spain divides her debt into two fixed categories so that even when they change hands, their treatment is the same, that is, the internal debt pays all the taxes while the external debt is exempted.[2]

The Indian Government was not slow to follow the example of other debtor countries and forthwith divided the Indian public debt into two categories namely[3] (a) the Rupee debe which is issued in India and (b) the Sterling debt which is issued mainly in the United Kingdom by the Secretary of State for India on the authority of the British Parliament and charged to Indian revenues, which although not exempt under the Indian income tax Act as it was enacted in 1886, was in practice never taxed and by Act XII of 1891, the previous clause (c) under Part III taxing the Sterling debt was repealed. Now these two categories are interchangeable. That some of the

1 Finance Manual of Japan, 1913, p. 18.

2 P. Leroy Beaulieu Traite, vol. II, p. 560.

3 Financial Statement for 1916–17. The Finance Minister's statement that Sterling debt of the Government of India is not regarded as Indian securities but as British securities because they are generally taxed by the Imperial Parliament, is nothing but a legal fiction.

rupee debt, about 12 crores or £ 8,000,000 in 1912, is held in London, is a matter of fact.[1] But so far as we know no part of the Sterling debt is held by Indians and that most of it is presumably held in the United Kingdom.

What is then our conclusion with regard to taxation of public debt? Almost all the authorities on finance are agreed that national bonds should be taxed like any other bonds but especially the writers in the World's Creditor countries do not seem to approve of taxing foreign debt holders of a country-like Russia or India. In summing up this question a noted French writer on finance concludes[2] that "the portion of debt of a country which is in the hands of the Nationals, can lagitimately be assessed to all the general taxes levied in the country on similar incomes. On the contrary that portion of the debt which is held by foreigners must be exempt from them. But the state should never assume the right to put a special tax on income from the public debt."

. We agree with the above conclusion in so far as it is against levying any special tax upon the fundholders but when it turns round and advises a sweeping discrimination in favour of the foreign creditors of a nation, it becomes one-sided and may be carried to an absurdity, as it is in India.

It is curious to note in this connection what the Indian Government does with regard to interest on

1 Statistics for British India, 1911—12, Finance and Revenue Part IV (a). P. 53.

2 P. Leroy Beaulieu Traite, Vol. II, p. 563.

the debenture stock issued in Great Britain by a company registered in India to carry on business for profit. In 1913 the Government on the opinion of the Advocate General, the head of the Legal department, held that the interest so payable and paid in Great Britain "is money accruing and arising in British India and therefore assessable under Part IV."[1] The decision is no doubt, legally correct, but why not make the company, already doing business in India, deduct the tax instead of taxing it under Part IV, the tax under the latter is supposed to be collected only from individual traders, manufacturers and professional men. The point is that if such interest is taxable to the Indian tax, why not the interest on the Sterling debt? The interest on the latter is also "money accruing and arising in British India," although not payable in India, because the creditors stay in Great Britain. What shall we say of such a practice which favours one creditor against another. It would be just if England were to free the Indian Sterling debt held in Great Britain from the British Income Tax or pay for the establishment of the Secretary of State for India in London.

D. *Taxation of Profits and Collection at source:*—The profits of companies, incorporated or not, may also be said to be taxed at source since such companies are bound to send through their chief officer an annual statement of "net profits" made in British India to the collector on or before the 15th of April in each year.[2] If the statement

1 Bengal Triennial Report, 1914, P. I.

2 Section 11,

is incorrect or incomplete in the opinion of the collector he can cause the accounts germane to the statement to be produced by the principal officer, provided the accounts are in his possession or power.[1] The new Act for the convenience of companies whose accounts are sent abroad for approval, fixes 15th of June, which the collector may further extend in the case of any company or class of companies.

The law does not define what net profits are. It leaves a leeway for higgling and bargaining, but the practice, generally followed, is that prevailing in England. The law provides that the profits be based on the accounts last made up or those made up during the year ending on 31st of March immediately preceding the assessment year. The collector is also authorized to compound for the tax[2] and the agreement is subject to change in case the rates are changed.

In practice the statement of profits, relates to the preceding fiscal period and the agreements for composition invariably made with companies or persons having an income of Rs. 2,000 or upwards and last usually from three to five years, the latter period is found in Bombay, while the former exists in Bengal, Burma and other provinces. Thus the tax in these cases practically amounts to a tax on the income of previous years, while the rest of the tax payers with some

1 Section 12.

2 Section 31.

exceptions are supposed to pay on current incomes.

Moreover section 33 allows a refund in case a company or person ceases to carry on the trade or business, or becomes insolvent or dies, or suffers a loss owing to a cyclone. This works out rather unfairly as between taxpayers. Suppose a firm agrees to pay a fixed sum, say for three years and that during the last year it incurs a loss. The amount of the tax is refunded in proportion to the loss [1] But it is a mistake to think that the company or person will necessarily apply for a refund. If the profits of the year in which the loss is incurred that is of the assessment year, are less than the first year of the agreement, then and then only it would be profitable for the assessees to apply for refund and also for a resettlement. It is this thought which the Board of Revenue of the United Provinces had in mind, though not clearly expressed, when they said that the traders or firms "except in very flagrant cases would prefer to 'cut their loss' rather than risk further money on a possible futile application for refund." [2]

The three years system in these cases is different from the one found in Great Britain, the latter is an average system, while the former is nothing but the continuation of one year's assessment for the next three years; in actual practice however it does not differ very much from the latter. Under both systems the Government loses revenue if the current year's

1 Bengal Triennial Report, 1908, P. 2.

2 United Provinces Triennial Report, 1911, p. 6.

profits are larger, but in return for this the Government income does not fluctuate, insuring a sort of certainty to the treasury. This certainty, however is purchased at some sacrifice, the quantitative extent of which cannot be estimated.[1]

The new Act in section 19 makes a new provision with regard to fical assessment. The assessee will be assessed on his total income in the previous year from all sources, but in any year he or the collector can claim an immediate adjustment upon the basis of the total income actually received in that year. That is the assessee will get a refund if he paid more or will have to pay more to the Government in case his actual total income exceeds that of the previous year. This is the real improvement over section 33 of the old Act, in as much as the initiative under the New Law lies with both the assessee and the collector. In other words there will be a running account between the Government and the assessee.

That the want of special experts rather than amateurs is keenly felt in the income tax administration in India goes without saying,[2] but the want of a uniform system at least, in the statement of profits to the collector is universal. In the case of accounts of factories, for instance it is not unusual to find sums chargeable to capital account charged against profits such as a new machinery a new wall, and some time

1 For detailed study see the Departmental Committee Report on the British Income Tax, Part VI.

2 Read especially the Triennial Report for Central Provinces and Berar, 1911 pp. 6–8

seven or eight years' depreciation charges against one year's profits.[1] Interest paid to share-holders is also frequently deducted by companies as expenses of operation.

The various income tax manuals provide for deductions to be made in order to get at the taxable income, which we have already discussed, but one cannot refrain from saying that there reigns the greatest vagueness and confusion in this important matter. To be specific the Burma Manual directs that "interest (subject to known current rates) on money borrowed for (a) house-building and (b) trading purposes" should be deducted in assessing the income to be taxed.[2] In the first place what is a "known current-rate"? Secondly, what is a "trading purpose"? If a tramway company or any other company, for that matter wants to expand its business and borrows money should the company be allowed to deduct the interest on borrowed money from its net profits that is the sum left after deducting the operating expenses? The law does not contemplate this deduction to the contrary, it requires the payer to deduct the tax on interest before it is paid out.[3] Even the Financial Commissioner of Punjab seems to confuse the matter when he says, "should the the profits of Railway Companies for the purpose of taxation be held to include interest on securities in

1 Read especially the Triennial Report for Central Provinces and Berar, 1911, p. 8.

2 Burma Manual, p. 45.

3 Schedule 2nd., Part III, (b)

respect of which income tax has been already levied ? "[1] The income tax referred to is evidently the British Income Tax, because he further on says that the question is referred to the Secretary of State for India. The New Law is clear on this point and allows deduction of interest on borrowed capital where the payment of such interest is not dependent on the earning of profits.

Then again take the question of allowance for depreciation of plant and machinery. These allowances are usually determined by the chief financial authority in each province, such as a board of revenue, or a financial commissioner, who may sanction as cases arise, a percentage deduction.[2]

Probably no two countries, however alike they may be in other respects, allow the same percentage deduction for depreciation or follow the same method in calculating the same. In British India on the other hand, not only two neighbouring provinces differ from each other, but two contiguous districts in the same province, cannot be said of following the same method. Here we have a statement from the pens of the august Board of Revenue of the United Provinces. "The practice was found to vary; in some cases a fixed percentage on the capital value was allowed, whilst in others the actual amount carried in any year to wear and tear account was deducted. The former practice has now been prescribed for

1 Punjab Triennial Report, 1914, p. 2.

2 Bengal Triennial Report, 1911, p. 2.

general adoption."[1] But even this practice cannot be called uniform because it depends upon what capital value you calculate your depreciation, whether "book value" or an officially calculated "capital value." Again does the amount for depreciation cover the whole three year period or avarage for the period or still does it represent only the amount allowed for the assessment year? The practice of carring over allowances for the next year to be deducted from the profits of that year in case no profits are made in the current year, which is recognised as perfectly legitimate in Great Britain,[2] does not seem to find favour with Indian officials.

It is hoped that many of the above mentioned defects with respect to depreciation allowance, will be removed when the new Amended Law of 1918 comes into force. It specifically provides in section 9 (2) for depreciation of buildings, machinery or plant. The actual percentage on the original cost is to be fixed by the various Local Governments having due regard to the estimated life there of, and that any balance of the fully admitted allowance may be carried to the following year or years, but the aggregate of the allowances should not exceed the original cost. It would have been wise for the Central Government to fix uniform rates of depreciation at least for standard machinery to avoid tho present chaos. On the whole the new provisions, if worked properly, should enable the assesses to build up a

1 United Provinces Report, 1892-93, p. 20.

2 Income Tax in Relation to Accounts, Spicer and Pegler, p. 72.

reserve for depreciation, free of income tax, ultimately to replace the plant or machinery at the original cost when it is to be scrapped.

E. *Advantages and disadvantages of collection at source:*—The advantages reaped from collection at source especially in a Continent like India, ten times as big as the British Isles in area, are manifold. First, it reduces expenses of collection, in spite of the fact that the commission to employers for collecting the tax is rather high, especially when they pay in one lump sum and receive 5 %. Second the tax-payer is not subject to vexatious practices, since he is not required to declare his income. No investigation or inquisitorial proceedings are necessary. Third the tax is collected at the time favourable to the tax-payer that is, when the payment of income is effected. The tax-payer has the opportunity to discount the tax before receiving his income and this means he can plan his expenses judiciously well ahead of time From the point of view of the public treasury it does not involve much expenses of collection, a single entry in the accounts accomplishes the purpose. Then again the tax is instantaneous at the disposal of the government since it is never out of its coffers. The greatest advantage of collection at source seems to consist in avoiding all fraud and chicanery, thus making the tax more productive to the government.

On the other hand, there are some disadvantages which should not be overlooked. First it produces

inequality of assessement as between tax-payers and tax-payers. In India about a fifth of the tax is paid by government employees and if we add to it the tax collected by private employers from their employees and that deducted at source by payers of interest, including the Government, and the tax on the profits of companies then forty percent of the tax is realized by this method. But it may replied that it is the contractual nature of these incomes that makes possible the application of stoppage at source. Nevertheless this is a real grievance in India in that other contractual revenues are not subjected to this treatment. Here I do not refer to those employers who are unwilling to collect the tax from their employees even for a commission of 5 % but to bank deposits. The tax on the interest on them cannot be deducted and the banker or the joint stock company accepting deposits cannot be compelled to send a list of its depositors or customers.[1]

Second, collection at source changes or affects the incidence of the tax and inequalises the burden which the law never meant.[2] The 5% commission or discount allowed on collections made by private employers or a public body or association such as a missionary or an educational association, is distributed among the individual assessees and this is particularly true of public associations.[3] Whether a private

1 Bengal Triennial Report, 1911, p. 1 Government of India, letter No : 3127 of Exchequer, 23rd June, 1909.

2 The Federal Income Tax by C. J. Bullock, pp. 7-10.

3 A missionary friend of mine informed me of this.

concern pays back this discount, in order to keep down salaries, is not and possibly cannot be known or ascertained. This reimbursment of the tax that is what it amounts to, may be justified on philanthropic grounds, but nevertheless one tax payer is favoured against another simply because the latter does not happen to be connected with an organization. Finally the commission allowed to employers is more than enough and it is not clear why the collectors should complain of its smallness.

In concluding on the collection at source, it is fair to say that its application to Indian conditions has given the income tax a real character. The method of stoppage at source, obviously, cannot be applied to all incomes, but there is no reason why it should not be applied to all salaried incomes and incomes derived from investments. It cannot be applied with advantage to professional incomes, in so far as they do not come under salaries.

CHAPTER VII.

THE ASSESSMENT BY REGISTERS.

The greatest advantage we said, of collection at source consists in the fact that almost the entire amount is realized from assessees it is however otherwise as we shall see, in most cases with the tax levied and collected by means of so-called "Registers" which are supposed to be prepared by officials after searching personal inquiries or investigations of the tax-payers' incomes. If the collection at source is simple, rapid, and fruitful, the collections by means of registers is hard, slow-moving, and susceptible of fraud on a large scale.

The tax from all "other sources" of income and also from property, business, (other than firms) and professional incomes, roughly corresponding to schedule D in the British income tax, together with the tax from those private employees whose employers have not come to an agreement with the collector to collect the tax for the Government is collected by this method. More than half of our income tax is collected in this way and by far the largest number of our tax-payers are assessed through registers.[1] The ascertaining of incomes to be assessed this way is based in part on the tax-payer's declaration or return verified by the assessing officers. We say in part

1 Statistics of British India tor 1911-12 and preceding years, part IV (b) Finance and Revenue p 154. Percentage of tax collected under part IV in 1911-12 was 55. 911; and 55.5 in 1913-14 the latter being the latest year for which we have more or less complete figures.

because the declaration on the part of the tax-payer is not compulsory, and it is wholly left to the discretion of the collectors. Even where it is utilised the taxing authorities are by no means satisfied and often start the assessment *de no-vo.*

During the period 1860-65, as was noted, the system of returns was tried and proved to be a total failure. So much so that the administration has never risked it again. To-day most of the estimation or "wild guessing" of incomes is done by officials who although sincere in their attempts, are far from being successful. The work is rather too much; the staff is hopelessly inadequate and inexpert. To overcome these difficulties unofficial help has been sought, some novel systems, novel at least from the official point of view, such as the Panchayat or group system, the advance or previous agreement system, etc., are found in practice and yet success is no where in sight.

In order to study this important method impartially, since a large portion of our tax is realized through the application of this system, we think it advisable to divide the remainder of this chapter in two halves, the first of which will explain the actual provisions of the law in this matter, while the second half will deal with the exposition of how things pass in reality. It is not pretended, for a moment, that the present writer possesses all the material there is to be had on the subject or all that he would like to have in order to arrive at some general conclusions.

Most of the provincial reports on the subject have been profusely utilized in this monograph and yet there is much to be said in favour of a spot inquiry.

A. *Assessment of Incomes of persons other than a company according to the Law.* I. *The ordinary mode of assessment* :—We have already noticed that British India is divided into districts and that each of the latter is in charge of a district officer called the " collector ". The average area of a district may be roughly stated as being 4,000 square miles, containing a population of 1,000,000 inhabitants. The district, of course, is composed not only, of little hamlets scarcely exceeding 1,000 in population but also of a few small towns. The whole of India, according to the Census of 1911, did not have more than thirty cities of 100,000 and over. Nearly nine-tenths of the Indian population lives in places under 5,000 population. This fact, of course, enhances the difficulties of the collectors, whose main business is to collect the land tax and ensure peace to the agricultural millions. They are also asked to assess, collect, and supervise the income tax, always with the aid of subordinate officials and other prominent worthies of the district.

Ordinarily the collector is authorized to determine persons chargeable and the amount at which each shall be assessed.[1] The income for assessment purposes may either be calculated for the individual fiscal year or for the government fiscal year, preceding the

1 Section 14.

assessment year.[1] If a person becomes liable for the first time under the act, it is provided that the assessment shall be made on the preceding year's income or on the average of his income for such period as the collector may direct.[2]

Further the collector is required in each year, no time being specified, to prepare a list of the persons other than a company liable under the act whose annual income in the collector's opinion is less than 2,000 rupees.[3] The list, of course, must be in a prescribed language generally that of a province or district or in English, and must contain the following particulars in the case of each assessee:[4] "(a) his name, and the source or sources of the income in respect of which he is chargeable;

(b) the year or portion of the year for which the tax is to be paid.

(c) the place or places, district or districts, where the income accrues;

(d) the amount to be paid; and

(e) the place where and the person to whom the amount is to be paid". The list is filed in the collector's office and is open for inspection to the public without any extra payment, and the same list, or a part of it especially, for the benefit of those concerned who do not live near the district head-quarters, is further required to be published after the

1 Section 15, (1).
2 Section 15, (2).
3 Section 15, (1).
4 Section, 16.

manner described and approved by the local government. The next year's list may be based upon that of the last year with such changes as the *district officer finds to be necessary.* [1]

In respect of persons other than a company liable under the act, having an annual income, *in the collector's opinion again,* of 2,000 rupees or upwards, an individual notice stating all the particulars (a) to (e) both inclusive mentioned as before, is to be sent by the collector. [2]

The new law enables the collector to ask for a return setting forth his total income from every assessee other than a company whose income exceeds two thousand rupees, while in the case of those whose taxable income is in the collector's opinion less than two thousand but more than one thousand rupees, the collector may, in his discretion, ask for a statement of income or assess such incomes in summary fashion. Thus it is clear that the new law is no improvement over the old one at least in this matter.

2. *Modifications in the ordinary procedure* :— Notwithstanding the existence of the preceding provisions, section 18 gives sole authority to the local government, that is the provincial administration, to set aside the ordinary process of assessment in special cases, which are defined by the law. For instance, the provincial administration may rule [3] :-(a) to

1 Section 16 (4), (5) and (6).

2 Section 17.

3 Section 18, (1)

authorize or direct a collector in special cases to suspend notices under section 17 and include the assessees in the prescribed list under section 16 for administrative convenience and dispatch, or *vice versa*;

(b) to authorize the collector in any presidency town[1] or in any specified town or place to publish a general notice, inviting every person other than a company chargeable under the act to deliver a prescribed return, within a specified time, of their incomes earned during the year of assessment or the preceding year.

The return handed in by an assessee must contain, of course, the usual formal statements such as the period during which the income in question was earned, that the income shown in the return is "truly estimated on all the sources mentioned therein etc."[2] The declaration, however, is never sworn in but a false return is regarded as criminal and dealt with under the Indian Penal Code. In the case of non-receipt of the return in due time only, the collector can include the defaulting assessee in the list.[3]

A trustee, guardian, curator, or a committee of any infant, married woman subject to the law of

1 There are only three presidency towns, Bombay, Calcutta and Madras. The territory of the East India Company was divided into three divisions, each being presided over by a President, hence the name presidency, a town that is the head quarters of each province.

2 For particulars, Section 18, (2).

3 Section 18 (3).

England, lunatic, etc. is to be charged under Part IV on all income coming into its hands. A non-resident, trader or company, is liable to the tax levied in the name of the agent. Similarly receivers, managers courts of wards, etc., have power under the law to retain duties charged on them.

B. *Assessment in practice* :—The assessment of incomes, in practice, includes not only the assessment of individuals, but also that of the firms and public bodies and their employees. Under Part II the profits of a company are assessed provided it is organized for profit and its stock is divided into transferable shares. All partnerships and factories and mills owned by individuals, or partners, [1] which is so common in India, are taxed under Part IV and this fact swells the yield of the tax under the latter part. When judging the progress of the income tax, the comparison batween the yields for the various years under this part, therefore, should be taken with caution. Official statistics always include the individually owned mills, etc. under this heading.

Like individuals, these partnerships do not make a return of their profits on the basis of the official form, but they may be asked to make a profit and loss statement to the collector, which is anything but uniform, and which is often not asked if the partnership or the individual proprietorship is small. In the latter case the income is estimated on the

1 They do not have to register under the Company's Act if they are in banking business and have a membership of less than ten and less than twenty in case they are in other kinds of business.

basis of accounts provided they are available and the officials have ample time to scrutinize them. The difficulty is very great in view of the fact that they do not publish or are not required by law to publish any financial statement. In short their incomes are estimated and evaluated in the same way as those of individuals Under the new law, however, especially with respect to deductions and refunds a firm constituted under a registered instrument of partnership specifying the individual shares of the partners and whose taxable income is one thousand or upwards, will be treated as a company.

The question arises, why does, notwithstanding the failure in the past, the central administration leave the provincial administrations an opening in the case of townships, municipalities to experiment with the declaration of income method ? Do they think that the town and city people are more honest than their country cousins ? It is true that more than a third of the tax under all parts is realized in the cities of Bombay, Calcutta, Madras, and Rangoon alone, but it is too much to conclude that they have paid or do pay their proper share compared with the rest of the country. For instance, in Bombay city, we are told that the richer classes are under-assessed and that the ratio between sea trade and income tax was worse in 1904-1905 than in 1895-96 and far worse than in Calcutta. Again collections from higher classes in 1895-96 were seven times the

collections from the lower classes while in 1904-05 they were not even two to one. [1]

But the examination of the various provincial reports shows that this method is sparingly used even in " municipal areas and cantons ". In Punjab we are told it is in force in the particular localities while in Bombay it does not seem to be in force at all. [2]

In short, we are justified in concluding that the collector and subordinates, whether in the country or city, are left to assess incomes from information derived by themselves from whatever sources available to them. As regards the declaration form which is used in Burma, for instance, especially for the European mercantile community, no detailed discussion is called for. You are requird to declare your trade or professional income, five-sixths of the gross annual rent of the house, in case you happen to own it, interest on loans or club debentures, Lower Burma seems to be full of the " so-called proprietory clubs ", and income from other sources.

Since most of the incomes under part IV are estimated by the fiscal agents, let us consider the ways and means allowed by law to find out and verify the various incomes.

The law requires first that every employer, whether a municipal body, or a company, or a public body or association, must deliver or cause to deliver in the prescribed form, on or before the 15th of April in

1 Triennial Report-Bombay, 1905, pp. 5-6.

2 Punjab Triennial Report, 1914, P. 3; Bombay Report, 1901-1902 P. 17.

each year, a return in writing containing the name of every employee receiving a salary, pension, annuity or gratuity or has received for the year immediately preceding the date of return He is also required to note down any changes in the staff which have taken place or may take place between the first of April last and the 31st of March next so that this "timely information will render much correspondence unnecessary." [1]

This return is rather inadequate especially in Assam, where the managers of the European tea-plantations are not in the position to supply all the whereabouts of their highly paid English employees who pay nearly half the total income tax in that province. Then again the commissions on profit paid to managers and assistants of tea concerns are taxable in all cases, whether paid in British India or elsewhere. In the former case they are brought under part I, that is, salaries, etc., while in the latter they are taxed under part IV [2] and we are not sure that the administrative officials are satisfied with the information they receive from the parties concerned.

The rent-value of a house occupied by an employee, government or private, free of rent is assessed as salary, but in 1913 the Central Government ordered that until further notice such house-rent or house-rent allowance be held exempt from the payment of

1 General Rules and Orders, Volume. II., P. 841; also p. 87: also Section 10.

2 Assam Report, 1889 p. I. Government of India Resolution, 1889, December 3rd., number 6,108.

income tax, which presumably is in favour of the government servants and the employees of companies, to avoid the increase in salaries or rent allowances. [1]

Secondly, a collector or an officer exercising his powers, may require any person to furnish information respecting lodgers in his own house or let out by him. Similarly, trustees and agents are required to furnish information regarding their beneficiaries and principals. Finally, the fiscal agents may requisition any person to give information to ascertain facts in all cases of doubtful assessments. [2] Failure to deliver any returns or statements is punishable with a fine to the extent of ten rupees for every defaulting day, [3] but fines are rarely levied in this connection and even if levied they may be remitted by superior officers. [4] The new law in section 21 unfortunately, abolishes the money penalty for failure to make a return and thus deprives the defaulter of his right to appeal against any summary assessment.

In spite of these provisions, evidently calculated to help the treasury agents in finding out the incomes, there is nevertheless a large amount of income, from non-agricultural sources, which escapes the tax. How is the officer going to find out interest on oral contracts, or even on written contracts if the latter stipulate a small rate of interest and a large amount of principal

1 Government of India letter No: 1,144 F. 7th of Nov, 1913. Assam Triennial Report, 1911--14, P. I.

2 Sections 41--44.

3 Sections 34 (1).

4 Sections 34 (2).

to be paid on a certain date in the future. The amount of principal may be fictitious Then again what about the interest on the loans in the form of *hundis* which partake the nature of a banker's draft? Do the increasing bank deposits pay their share? How about the profits on the Sutta or speculative transactions? To be sure, it is difficult to discover these various incomes but it cannot be affirmed that they are insignificant.

The interest on capital, however, is only one of the species of income to escape the tax. Certain professional incomes succeed in evading the tax more completely than others. In order to be convinced of this, it is usful to compare the figures of the population census to those of the assessees under the tax. For example, according to the Census of 1901, there were in India 76,892 lawyers; in 1904-05 only 7,534 were liable to the tax.[1] According to the Census of 1911 there were 82,461 barristers, lawyers and pleaders in India; now out of this total number if we exclude say $\frac{1}{5}$ as belonging to the native states, we have about 66,000 for British India and out of this less than 10,000 exact number being 9747 paid the income tax in 1911-12. In 1913-1914 the assessees in this category were 10,739. Similarly there were 1,554 men in 1911-12 and 1770 in 1913-14 in the medical profession who paid that tax, while according to the Census of 1911 there were no less than 270,302 actual practitioners in medicine or say about

1 Financial and Commercial Statistics of British India, 13th issue, p. 193.

216,000 for British India. It must be remembered however, that all professions in India are dependent upon the agricultural millions to eke out their fees and salaries and hence their incomes are limited and with a few exceptions, cannot be as big as those in United Kingdom or in the United States. Never theless it is true that the professional incomes are inadequately assessed.

If the tax does not produce what it should, it does not mean that all tax-payers conceal their incomes. The incomes especially of the richer classes are difficult to estimate and, in practice, they are evaluated much below their real value. Granting that the fiscal agents through the above mentioned means and through personal investigation come to know all the persons liable to the tax, it is still necessary for them, without many inquisitorial practices to insure the correctness or verification of the amounts of incomes To this effect they are authorized: [1] (a) to demand from public officers the extracts of documents, from the Registrar-General, or of the Chief Officer of a Municipality, or from the Railway Board;

(b) to summon witnesses ;

(c) to compel the producing of accounts and to examine them ;

(d) to demand a statement of the net profits ; and finally (e) the central administration has ruled that the amount to be assessed for the building occupied by the owner thereof, "shall not exceed in

1 Section 28, 34, 45, and 72.

any, case 10% of the income from all sources," but it specifically forbids to make the latter as the basis of assessment of the total income.[1]

There can be no criticism against the provisions that allow the various governmental departments to cooperate with income tax officials, but unfortunately the inter-communication and the entente cordiale between the various officers do not seem to be utilised very much in British India. For instance, the Punjab Financial Commissioner, after admitting the paucity of ascertainable facts says, "in this connection the refusal of the Railway Board to allow the disclosure of the sums paid to contractors and the quantities of grain exported from railway stations is regretable.[2] In the following year the North-western Railway was evidently ordered to disclose the amounts paid by them to contractors. [3] The inter communication between assessing offices is still lacking. [4] Similarly Municipalities do not show properly their revenues derived from house rents, thus making the adequate assessments on urban property impossible. We are of the opinion, to ensure equality and justice that the *information at source* should, not only be not neglected but be made effective, in the working out of the income tax and there is no reason why we should adopt the stoppage at source method only.

1 General Rules and Orders, Vol. II. p. 630.
2 Punjab Report for 1912-13, p. 2.
3 Panjab Traennial Report, 1913-14, p. 2.
4 Triennial Report for Central Provinces of Berar, 1911, pp. 809.

The rule providing that the amount to be assessed on the occupying owner for his dwelling shall not exceed 10% of the aggregate income from all sources is certainly unjust. It is true that two persous living in the same kind of house. have the same amounts of income ? No doubt it may be argued that persons with large incomes should live in more comfortable houses than those with small incomes, but it is doubtful whether a person with an income of Rs 1,50 000 would live in a better house than the one with an income of say Rs, 1,00 000. And yet both of them will have to pay the tax on 10% of their income as representing the house rent. This rule, of course, is meant for official guidance and uniformity, but there can be no such uniformity in practice. As a rule, except in large towns which are few and far between, we do not live in rented houses but exemption on this ground would have been unjust especially in cities like Bombay and Calcutta where a large population lives in rented tenements or chawls What we are driving at is this, that this rent-percentage practically, though disapproved in theory becomes the basis of aggregate assesssment This more than anything else, enables the assessing officers to estimate the incomes of small merchants and traders more easily than those of the richer classes. It is for this reason that the tax still weighs, in general, more heavily on the smaller and moderate incomes, between Rs. 1,000 and 1,800, than on large incomes.

The estimation of the professional incomes is still more inexact than that of the profits of industry or commerce. What are, in practice, the indices of professional incomes which are depended upon? For instance it seems to be the practice to estimate honoraria or fees of a barrister, pleader, or a legal practitionor, on "the basis of the Court Registers, showing the number of cases in which each practitioner appears"[1] But is there any necessary connection between the number of cases pleaded and the amount of fees received? A Sinha or a Ghose may plead a few cases in course of a year and yet make a large fortune. How about the incomes of a consulting attorney, or a solicitor, who provides no external clue to his income except possibly the location of his office, or of his residence?

Probably the same method is followed in assessing the incomes of physicians and Vaidyas or Hakims. The salaried health officer or the city attorney, of course pays at the source on his salary. Then again take the case of a government medical officer, who in the very nature of his profession is also allowed to practice privately but there seems to be no way of finding out his income except through his declaration. The incomes of engineers or achitects, who by the way do not seem to be very many, being only 113 who paid the tax in 1911-12, on the other hand, can be more or less easily deduced from the number of contracts of structures erected, but these by no means

1 Triennial Report, United provinces. 1911, p. 2.

enable us to find out the real gains. The incomes of professors or teachers, in private or public institutions, are supposed to be taxed at source but it is not certain that they include the additional incomes derived from writing text-books, examination fees, or private tutoring. Incomes devoted to temples and shrines are exempt; it is not so with those received or appropriated by the managers thereof for their personal use.[1]

The Sowcars or the money lenders, so familar to us, contribute more than one-fourth of the tax under Part IV and more than one-third of the collections under "commerce and trade." According to the Census of 1911, there were 421, 465 money-lenders in the whole of India but only 68,612 seemed to have paid their tax in 1911-12 and yet we hear so much of their usurious practices. These money lenders are taxed on the basis of registered mortgages and the number of civil court decrees of over Rs. 500.[2] We have already pointed out that this does not necessarily reflect the income of the assessees and the danger is that the officials are liable to tax capital instead of income.

The profits of the piece-goods merchants and other traders are fixed or taken at a definite percentage of the turn-over.[3] This is also uncertain since the turn-over may be rapid or slow, and this may determine the rate of profit. The octroi or railway

1 North Western Report, 1892—93, p 14.

2 Central Provinces and Burma Triennial Report, p. 8.

3 United Provinces Triennial Report, 1911, p. 3.

returns are also used to ascertain incomes of large firms, but it is possible to send consignments in other names. [1]

The greatest difficulty in assessing individual traders and large trading firms consists in the examination of accounts which is necessarily tedious. Legislation to enforce keeping of proper accounts is absolutely necessary. Then again the present agency, that is the the regular land-revenue staff, has very little time to examine such accounts and hence expert examiners are necessary. Moreover the government salaried examiners are necessary because the traders and merchants do not willingly produce accounts if the latter are to be examined by Commissioners who may happen to be their rivals. [2]

C. *The Various Methods Followed* :—After describing the ways and means of estimating incomes, let us summarise some of the methods of assessing incomes under other sources.

The usual method is that of preparing the lists of tax-payers by the Collector. In practice the deputy collector or mamlatdar, generally a native of the province, with the aid of a Committee usually consisting of the village officers, and one or two prominent non-official persons, makes a list of the tax-payers with incomes below Rs 2,000 per annum and submits it to the collector for his approval, while the latter officer with the aid of his official staff, makes a lists of asses-

1 United Provinces Triennial Report, 1911, p. 2.

2 Central Provinces and Burma Triennial Report, 1911 p. 7.

sees with incomes of Rs. 2,000 or upwards, to whom he may send individual notices if the list is rather large, and urban. or if the district is rural, he may include them in one list, which may be affixed at the court house and at all police stations for the information of the public. This system is known as the "Committee system" and that it is supplemented by systematic inquiries by special officers from time to time for every three years when the assessments are ordinarily revised.

The defects of this system are well known. First it lacks experts. The work of the local committees must be supplemented or better, superseded by officers whose business would be to become experts in income tax assessment. Mr. Hartley, the energetic tax-officer of the Bombay Presidency has shown how it pays to employ experts. There is no reason why expert assessors should not be employed in towns of 30,000 or upwards. Second the present land revenue staff is overburdened with work and has little time to examine accounts. Thirdly, there is lack of co-operation between the tax-payers and the assessing staff; and finally the "rough and ready reputation system", that is the method of presuming incomes, involves less harassment, but it invariably leads to increase of appeals and makes the task of finding new assessees in the lower classes easier than raising the assessments of the higher groups to a proper figure. [1]

1 Punjab Triennial Report, 1905-08, 11, and 14; also Central Provinces Triennial Report, 1911.

Particularly this rough and ready reputation system increases the difficulties of the assessor in cities more so than in the country districts. The Collector of Calcutta rightly has these difficulties in mind when he says [1] "one circumstance, which prominently differentiates the work of Calcutta from that of the Mufassal (country districts) is that in the latter place the more well-to-do classes are widely known and attracts the attention of their neighbours and when authentic accounts are not filed, the assessing staff can, without very great difficulty obtain useful information from the residents of the locality In Calcutta, on the other hand, the popular attitude of unconcern towards their neighbours' affairs adds to the difficulty of the local inquiries, and the more refined methods of evasion prevailing among certain classes demand greater care and circumspection on the part of the assessing staff."

It is no exaggeration to say that one of every three tax payers appeals to the collector and out of this nearly one-fourth are successful in Madras. [2] While in the province of Bombay the percentage of successful appeals is still higher. In the year ending on March 31st, 1914, it is about forty-seven for the province as a whole and for the city of Bombay it is no less than sixty-five. [3] Surely something must be wrong in the defective system of assessment and the

1 Bengal Triennial Report, 1905. p. 6.
2 Triennial Report, Madras, , 1914, p. 4.
3 Bombay Triennial Report, 1914, p. 11.

trouble seems to be that the government officials are too confident of themselves and their opinions.

To avoid or rather to mitigate some of these difficulties the Provinces of Agra and Oudh, and the Province of Punjab, the latter in only some of its districts, have modified this system to some extent. For instance, the former introduced as early as 1897 the so-called Panchayat System, to help the fiscal agents in the assessment work. The Panchayat, meaning a collection of five, is a committee of non-official assessors who are consulted in most of the districts and their assistance is found useful generally in large towns and trading centres. It is said that the assistance is of special value in fixing the relative wealth of the assessees. The defects of this system are obvious. First, the difficulty of securing proper persons who are willing to act as assessors ; secondly their unwillingness to face the wrath and odium consequent upon disclosing the full income of a tax-payer ; thirdly, their lack of interest in safeguarding the treasury ; and finally, their defective information regarding the affairs of the assessees. [1]

In conclusion we may say that the first difficulty is being overcome everyday. The honest man does not have to be afraid of the second but the third and fourth are real defects of this system, and hence its success is limited. The fixing of "relative means of assessees" as compared with the well known assessee in the town is at best a "rough and ready reputation"

1 North Western Provinces, and Oudh, Report 1898, pp. 1--2.

system, which differs but little from the "official Committee system" except that the former takes some members of the public into confidence, but these non-official committees hsve no powers at all and the incomes of assessees are again verified from the facts, "in the tahsildar's note-book". Again the introduction of this system in the United provinces does not seem to have materially lessened the percentage of successful appeals. [1]

The United Provinces do not rest contented with this experiment alone. The Triennial Report of 1911 tells us that in one of the districts the Bar is allowed to assess themselves and the arrangement is said to be working well. But this class or group system of assessment, mainly applied to the assessees under other sources is better illustrated in the Province of Punjab, which is discussed below.

The tahsildars or the subordinate revenue officers are required to keep note-books in which they record all their observations and remarks about the assessees. The superior officials may make fresh inquiries especially in the case of the upper class assessees and record the results in the note-books which are made the basis of assessments. The assessees are also required to state if they have any accounts for verification. It is also suggested that the assessees be compelled to sign the register in the presence of their neighbours in token of the fairness of assessment.

1 United Provinces Triennial Report, 1914, p. 3, 35% to 67% of the objections are successful

The Board, however, wisely points out that the signatures will be obtained under duress and that this does not solve the question of the too-high an initial assessment.[1]

It is curious to note that in spite of all these experiments, the incidence of the tax in the various divisions of the United Provinces continues to be unequal. For instance, the most populous and supposedly prosperous divisions of Benares, Gorakhpur, Lucknow, and Fyzabad, as late as 1910-11 had only one third of the total assessees under other sources, who in turn paid one-third of the tax.[2] Surely the old capitals and holy cities are making way for the new centres of foreign trade and commerce !

The group apportionment and assessment system is known in the Punjab as the Sialkot system, the latter city being the first in that province to adopt this method in 1912.[3] According to this arrangement all the assessees under other sources are divided into sixteen or more groups such as the grain dealers, wholesale merchants, the piece-goods dealers and so on. The total assessment for each of these groups is fixed by the Collector on the basis of the collective assessment of individual assessees after considering the general prosperity of the particular area. This total figure for the group is submitted to the whole group, which may " exclude any old or include

1 United Provinces Trinnial Report, 1911, pp, 2-4.

2 United Province Triennial Report, 1911, p, 5.

3 For particulars of this system see Punjab Report, 1912—13 which contains abstracts from the Sialkot District Report.

any new assessees without altering the total figure" After this the group selects a small committee, the membership of which is strictly confined to those who do not ask to have their assessments reduced below the last year's figure. This committee then proceeds to apportion the total assessment among the members of the group. At this stage any individual who wants to raise an objection may do so without any hesitation. All objections are evidently decided by the whole group reassembled for this purpose. If any individual assessments are reduced, the committee redistributes the total amount on the remaining tax-payers in the group. Finally the Collector comes forward and announces the final individual assessments. Any objections from now on may be considered on their own merits.

The merits of the system are not far to seek. It is voluntary in its operation; no group or individual can be compelled to come under its operation. Secondly it may stabilize the government revenues and distribute the burden more equitably; and finally it may reduce the number of appeals but it is doubtful if they will ever reach the vanishing point, as is vouched for by the Deputy Commissioner of the Sialkot District.

The Financial Commissioner of Punjab is right when he says that [1] "the functions of the Panchayat are of distribution rather than of assessment and its operations can be of little assistance to the collector in finding the total assessment." But even the func-

1 Punjab Report, 1913—14, p. 1.

tions of distribution are far from satisfactory because the Sialkot Collector himself acknowledges the weakness when he says " I could not accept the distribution of the Interior Committee, that is the Committee selected by the group, as it seemed to me to be selfish and to endeavour to throw an undue burden on the weaker members of the group." This is the real danger of the group system. The apportionment method, no doubt, can be applied to incomes arising from commerce industries, and professions, to restrain the inequalities consequent upon the introduction of the income tax, but the difficulties of estimating the basic income of the group is not removed thereby.

Our own opinion on the Sialkot System is that it is too early to judge because of the paucity of facts. The greatest difficulty, however, consists in finding the total figure for each group, and in this the government official is not only supreme but he has to use his "wild guess", in other words it comes to be based upon the " rough and ready reputation. " Of course in cities the municipal octori figures may be used, as is suggested in the report, as a basis for the total group assessments, but it is rash to say that these figures are adequate enough to enable us to guess even approximately the incomes of merchants and traders, not to speak of bankers and money-lenders. Then again if one wants to extend this system to rural areas, which are the most predominant in India, what should be the basis of group assessment, presumably the figures of the preceding year.

In concluding on the whole subject of assessment of incomes in India, it is fair to say that the holders of private and public securities bear the tax by stoppage at source and probably pay to the treasury what they owe to it with the important exception of the holders of the Sterling debt. The tax on the profits of companies is based on the declared profits shown in printed accounts, kept regularly and scrutinised by auditors, accepted at the annual meeting of the share holders, and filed finally with the Registrar of Joint Stock Companies and is paid by all the companies registered in British India. But we have seen that the foreign shipping companies, and the tea companies registered in London do not pay a pie to the Indian Treasury. Similarly all those whose incomes are fixed and received in the form of salaries, pensions, commissions, etc-, also contribute their fair share. Salaried persons may have other incomes, which if known are taxed under other sources, if not they escape altogether. But the individuals exercising the industries, commerce, and professions and taxed under other sources pay the tax only in a general way and probably pay on one half to two-thirds of their incomes in cities and in country districts respectively.

The assessing machinery is rather feeble and over worked and invariably follows amateurish methods. The official committee system has its faults. The panchayat system or the nonofficial system as it exists in the United provinces, and the modified

Panchayat system of Sialkot are strictly limited in their operations. The collection at source, though modelled after the English practice, lacks the quality of universal application. Moreover the collection at source in India is not applied to private employees unless their employers choose to do so, to whom it should be applied at the earliest opportunity when the income tax law is overhauled.

All the present methods should be supplemented *by the information at source* method and that the clauses of the present law relating to the furnishing of information are meant for enforcement and not for decoration merely. Also the system of filling a return of income and the production of accounts not only at the time of appeal and final decision, but also at the time of the initial assessment be introduced. At present no doubt the assessees are invited to do so, but there is no reason why they should not be compelled through an amendment to the present law requiring everyone having an income of rupees one thousand (Rs. 1,000) to file a return of his or her income on pain of a fine of Rs. 5 or this obligation may be enforced by depriving the defaulter of certain political rights such as the voting power in a municipal or a district board's election.

It is in this way that the income taxes are enforced in Prussia and the United Kingdom; in the latter country a penalty of £ 5 is levied if a tax-payer after receiving a form, fails to make a return. It is true that even the application of this system in

England does not avoid the inequalities among the tax-payers, for instance under Schedule D a large evasion does take place, [1] but at least it does not lead to injustices of taxation found in India as between tax-payers. If the income tax in India, especially under other sources,† were assessed on the declaration of the tax-payer and supplemented by the information at source, it would perhaps be distributed more equitably than under the present system of assessing on mere signs of incomes. The system of presumption very naturally gives rise to a number of objections and appeals on the part of the tax payers, the regulation of which is the theme of the next chapter.

1 Departmental Committee, p. V and VI.

† *Note* :—'Other sources' throughout this monograph mean business (other than a company), professional and other miscellaneous incomes.

CHAPTER VIII.

OBJECTIONS AND APPEALS.

The fiscal agents who assess the incomes by the various methods indicated above, must bring the results of their labours to the notice of the tax-payers. That some of the latter should not be inclined to accept with equanimity the veracity of the estimates of their incomes made by the officials is natural. The law accords them the right to petition against unjust claims.

The classification of incomes under various heads scarcely raises any difficulies, but on other hand, the finding of the amount of income gives rise to numrous contests. It is safe to say on examining the various provincial reports that over ninety percent of the objections come from the assessees under " other sources ", whose incomes vary from year to year and are thus left to the wild guesses of the officials, based on external indices.

Most of the new asessees are year in and year out those whose incomes are belw Rs. 2,000. This is partly because the law itslf is defective. It puts the incomes below Rs. 2, 000 -- under other sources on a lump sum basis while the incomes of Rs. 2,000 or upwards pay a straight income tax at the rate of five pies in the rupee. For instance, an income of Rs. 1000 - pays Rs. 20, of Rs. 1,250, Rs. 28 and so on. This means that the asessing officer must try his best to put the assesees into one of these pigeon-holes,

instead of estimating incomes accurately. Naturally enough under this arrangement many are brought on the assessment rolls who have no reason to be there.[1]

The law in section 39 specifically stipulates that no suits either to set aside or modify "any assessment under this Act" shall be entertained in any Civil Court and so far we have had only two cases that were carried as far as the High Court

The disputes regarding assessments, therefore, are decided by the administrative and revenue authorities in the following order; the collector of the district, the commissioner of the division, the Board of Revenue, generally a member of the Board who is in charge of the miscellaneous revenues, or the Financial Commissioner or the Chief Revenue authority in the province, and finally the government of India itself, that is, the Governor - General in Council acting through the Central Finance Department at Delhi.

At the outset it may be said that the objections and appeals seldom pass beyond the chief revenue authority in the province. The legal points involving the definition of the taxable income, exemptions, etc., are always referred to the Central authority for its decision, to bring about harmony in interpreting the provisions, but the psovincial authorities invariably decide the minor points and are generally responsible for assessing and collecting the tax.

A *The collector*:- Whether the assessment rolls are prepared by the subordinate officials or by the

1 The new law of 1918 has abolished this distinction but no conclusion can be drawn for the present.

collector himself, the latter is responsible for their correctness. He is supposed to compare the current year's roll with that of the previous year to inquire as far as possible into the circumstances of each assessee and to satisfy himself that reasons for a proposed increase or decrease in the estimate of an assessee's income or for the inclusion or omission of any person's name for the first time in the roll are adequate and proper. All the persons named in the list are required to pay the amount stated therein within sixty days from the date specified in the notification or to apply to the collector for reducing or cancelling their assessments within thirty days from that date.[1]

The paucity of facts, the presentation of incomplete accounts, the habit of doing the income tax work in the last minute resulting in the delay of publication of the lists, the issue of blanket notices and the fluctuations in the trading incomes, all result in wild guesses even on the part of the officials who are on the spot, not to speak of the distant and ever-shifting district staff.[2] The upshot of the whole thing is that the revenue officials push up the initial assessment of the lower class of tax-payers so high that it results in the increase of the number of objectors.[3] Add to this the facility the administration gives to the aggrieved person. All he has to do is to drop a petition on one anna stamped paper to the district collector or if he fails there, to the Commissioner on

1 Section 16 (3)

2 Burma Report, 1902-03, p. 2.

3 United Provinces Triennial Report, 1911, p. 3.

one rupee stamped paper. This is the greatest boon that the Indian Income tax-payer enjoys and in our judgment this privilege should not be curtailed even though it is liable to be abused by some unscrupulous tax-payers and the stamp duties should not be increased. As a matter of fact in practice so far, it does not seem to have been misused.

It is sometimes stated that the assessees by means of the cheap appeal succeeds in putting off the evil day, say for six months in order to make a handsome interest on the sum payable as tax. [1] This is rather an exaggeration, but it indicates at least which way the wind blows. The Indian tax-payer like any other tax-payer, is interested, though not primarily, in 'profit-making" and that it is careless to say that the economic motive is absent in India.

The district collector, in the touring season, generally from September to May, fixes a day and place for hearing the petitions, examines any documents sent with the petition by the objector, calls witnesses and gives his decision, confirming the subordinate assessors, revising the assessment or remitting the amount altogether if the latter does not exceed say Rs 42 in individual cases. Unfortunately, this takes a long time and the tax-payer after petitioning sits still waiting for the decision of the collector and does not pay until that decision is rendered. It is remarkable that most of the reports are silent about the punctuality of assessment. The energetic Board of Revenue of the United provinces in the Triennial Report of 1911 curtly puts it this way" delay in

1 Punjab Triennial Report, 1905, p. 8.

notifying assessments mesns delay in deciding objections and delay in collection."

The figures of original assessment for the whole of India are not available. To illustrate the point, therefore, we shall use the provincial figures. In the Bombay Presidency for example, for the three years beginning with 1911-1912, we have the following figures :—

TABLE I [1] (Refers only to assessments under Part IV).

Years	Original demand		Revision by Collector		Revision by Commissioners.		Final Demand.	
	No. of assessees.	Amount of tax in Rs.	No. of Petitions	Demand after disposals in Rs.	No. of Petitions	Demand after disposals in Rs.	No. of Assessees	Amount of tax in Rs.
1913-14	43,849	45,91,063	15,188	40,26,850	414	39,35,067	41,119	40,43,989
1912-13	41,141	41,57,317	14,486	36,77,590	442	36,32,247	38,647	36,90,390
1911-12	39,313	36,71,689	12,947	33,04,257	426	32,87,366	36,922	33,18,654

TABLE II [1] (Refers to all Parts).

Years	No. of assessees at close of previous year.	No. of assessees added during year.	No. of assessees struck off.	Final No of assessees.	No. of appeals	Percentage of unsuccessful appeals.
1913-14	55,516	7,505	3,216	59,805	15,723	53-29
1912-13	51,583	7,084	3,087	55,580	15,003	52-21
1911-12	48,677	5,287	2,034	51,330	13,422	54-46

1 Taken from the Bombay Triennial Report, 1914, p. 11.

TABLE III [1] (*Refers to all Parts in Bombay City only*).

Years	No. of assessees at close of previous year.	No of assessees added during year.	No. of assessees struck off	Final No of assessees.	No. of appeals.	Percentage of unsuccessful appeals.
1913-14	27,957	3,657	1,272	30,337	6,572	38.76
1912-13	25,523	3,564	1,135	27,952	5,671	35.32
1911-12	24,313	2,318	1,108	25,523	5,601	35.35

The tables need some explanation and comments. It will be seen that there is a difference of over five lakhs of rupees between the original and final demand in 1913-1914 and that the collectors alone reduced the original demand by over five lakhs of rupees, thus giving a great relief to the aggrieved tax-payers. On the other hand, the reduction by Commissioners, although not very great, is not negligible. It seems if the collector is given more power, at least in Bombay, he probably will have the whole situation well in his hands and would relieve the tax-payer from extra expense incurred in taking the appeal to the intermidiate commissioner, but in any case the final appeal to the chief revenue authority in the province should be kept open .

Again the percentage of unsuccessful objections for the whole province in 1913-1914 is 53.29 while that for Bombay city is 38. 76, that is on an average in the province nearly 47 objectors out of 100 objected successfully, while in the Bombay city no less than

1 Taken from the Bombay Triennial Report, 1914, II.

61 out of 100 objected successfully ! No doubt the general average for the province was pulled up owing to the large number of successful appeals in the city, still the official conclusion that the " country districts are fond of useless litigation" is unwarranted. From the same source we find in the city of Bombay a cembination of increased arrears, relatively smaller collections and a very high percentage of appeals which is certainly not an indicative of an economical tax administration. Similar figures for other provinces tell the same old story.

B. *The Commissioner* :—The Commissioner is a divisional officer who has a charge of a number of districts. In other words he supervises the work of the collectors, who, until recently, at least in Bombay, had to submit the lists before publication for his approval.[1] This red-tape still exists in most of the other provinces. The previous sanction of the Commissioner is an empty formality. The actual work is done by the officials on the spot and the commissioner's check would be perfunctory. The removal of this check should serve to make the collector and other subordinate officials more responsible and accurate in their assessment work.

At present the law hands over to the commissioner all the cases either under section 12, sub section (2) or section 26 involving two hundred and fifty rupees or upwards, but he may in his discretion call for the

1 Bombay Report, 1901—02, p. 3.

record of any case involving less than that amount. Moreover in the appeal over the collector's assessment preferred by the assessee under section 27 the commissioner has full powers to raise that assessment if the facts warrant.[1]

In short, the collector and the commissioner carefully consider the tax-payers' side and try to be just to them at least in those cases that come up before them without being unjust to the treasury. Appeals to Board of Revenue or the Financial Commissioner or any other chief revenue authority in the province are taken only when legal points are involved. Recourse to judicial authority cannot be had without the permission of the government. The provincial governors are usually the final authorities on questions of fact and the fixing of assessments is definitely regulated by the revenue officials who are always careful to guard the treasury's interest zealously with the result that enthusiasm often outruns discretion.

C. *The Law Courts* :—The barring of civil suits, though it prevents a large amount of litigation, has not succeeded in abolishing litigation altogether. The cases involving the question of what is taxable and what is not under the present income tax law, owing to the absence of any definition of "income" are generally referred to the High Courts in British India and from thence may be taken to the Privy

1 Punjab Triennial Report, 1911, p. 7.

Council in England. The only two cases, with which we are familiar, on this subject, have been already noted. The barring of suits in Civil Courts can be defended on no other ground except that of expediency and it practically gives the administrative bureaucracy supreme authority over the tax-payers.

PART IV.

RESULTS OF THE TAX.

The object of this last part is to discuss the results of the income tax. This involves the discussion of the tax rates the modes of collection and recovery, and the yield of the tax.

CHAPTER IX.

THE TAX RATES.

Although in the chaptor on classification and differentiation of incomes, the question of rates is mentioned, it is thought useful to summarise the actual rates and the incomes to which they relate.

The law of 1860 levied 4 per cent on all incomes of Rs, 500 and upwards, the highest rate known to us, while the law of 1871, levied 2 pies in the rupee about 1 1/24 per cent; the lowest rate known. The law of 1886, on the other hand, steered the middle course and this is one of the reasons why the upper class of tax-payers do not complain very much against it, at least not openly. Moreover, the tax strikes only non-agricultural incomes which amount to Rs.1,000 or upwards a year. But this exemption is not absolute nor relative, the Indian law taxes the whole income instead of the surplus above the minimum. Nor does it allow any abatements in the case of lower incomes as is done in the United King-

dom, obviously because it would reduce the yield of the tax to a very appreciable degree.

The incomes are classified into four cour categories with reference to sourecs as follows :—[1]

Part I. Salaries and Pensions :-below Rs. 2,000 a year pay at the rate of 4 pies in the rupee, that is about 2.08 %, while those of Rs. 2,000 and upwards at the rate of 5 pies in the rupee about 2·6 per cent. Since April 1916. however, the rates under parts 1 and 4, for all incomes of Rs. 5,000 and upwards presumably for war purposes have been raised. The incomes between Rs. 5,000 and Rs. 10,000 pay six pies in the rupee, about $3\frac{1}{8}$ %. For incomes between Rs. 10,000 and Rs. 25,000 nine pies in the rupee or $4\frac{11}{16}$ percent, and for incomes of Rs, 25,000 and upwards, one anna (12 pies) in the rupee or $6\frac{1}{4}$ percent.

Part 2. profits of Companies :—All net profits of Rs, 1,000 and above pay 5 pies in the rupee. Since April 1916 the companies pay at one anna in the rupee on the whole of their net profits, but refunds to the individual stock-holders are allowed in proportion to their incomes from all sources.

Part 3. Interest on Securities:—All Government securities with the exception of those issued in the United Kingdom, as well as private securities pay at 5 pies in the rupee, and the tax is deducted in advance of payment unless the holder produces a certificate signed by the Collector to the effect that his other income is below the minimum, in which case

1 The second schedule of the act ; the new act classifies incomes into six categories for which see Chapter IV.

no deduction is made or less than Rs. 2,000 then at 4 pies in the rupee. Sincse 1916, however, interest on sacurities pays at one anna in the rupee, and refund, similar to that under part 2, is provided.

Part 4, other sources of income :—That is any source of income not included iu the preceding parts. Incomes under this part pay as follows :—(1) if the annual income is assessed * at not less than Rs. 1,000 but less then Rs. 1,250 the tax is Rs. 20.

„	1,250	„	„	„	„	1,500	„	„	„ 28
„	1,500	„	„	„	„	1,750	„	„	„ 35
„	1,750	„	„	„	„	2,000	„	„	„ 42

(2) If the annual income is assessed at Rs. 2,000 or upwards five pies in the rupee. Since 1916, the new rates for incomes of Rs. 5,000 or upwards, discussed under part 1, have come into force.

At the time of the passing of the present law in 1886 there was practically no discussion on the question of rates, because everybody, except the government officials. thought that the tax was a temporary measure. The maximum rate, therefore, was retained at 2·6 per cent until 1916, when it was raised to 6¼ percent. If the antebellum maximum rate in India was the lowest in the world for the higher incomes, on the other hand the minimum or the basic rate is the highest in the world for the lower incomes and this weighs relatively very heavily on the lower middle class. The antebellum graduation from 2·08 percent to

* The New Act abolishes these compartments but it would not come into force until April 1919.

2·6 percent is rather slight as compared with the present graduation from 2·08 percent te 6¼ percent in force since April 1, 1916. If we were to consider the supertax, [1] levied for war purposes in addition to the income tax on all incomes of Rs. 50,000 and upwards since April 1917 the present graduation would range from 2.08 percent to 25 percent.

The question of rates cannot be discussed without a reference to differentiation and graduation. Ordinarily differentiation, as we have already observed, means a practice of distinguishing between what are commonly called "earned" and "unearned", "labour and lazy incomes" and applying to them separate rates, the latter are generally higher in the case of unearned incomes than in the case of earned incomes.

The distinction between earned and unearned incomes is not a very sharp one. Take, for instance, incomes secured from investments in mining business which in a sense may be called unearned, but still are not permanent. The investor will always have to be on his look-out unless he or she employs some one to look after them. Similarly some incomes though earned are not precarious. Nevertheless, it is possible to distinguish them. Income of a private merchant or a trader is more precarious than that of a joint

1 The supertax is levied on the total income of any person or company in excess of rupees fifty thousand. The rates are as follows :—

1 on the first fifty thousand— one anna in the rupee.
2 on the second ,, ,, one and half anna in the rupee.
3 on the third ,, ,, two annas in the rupee ;
4 on all taxable income over two lakhs of rupees three annas in the rupee.

stock company, and the latter may be termed an investment income, while the former as earned, [1]

But in our opinion, the application of the principle of differentiation should not be confinad to investment and earned incomes only. There is no reason why, especially in a country like India, where the government salaries are far more important in size and magnitude than the private salaries, there should not be higher rates on the former than on the latter.

As a matter of fact there is a sort of differentiation in the Indian law which cannot be overlooked. For instance, we have seen that the profits of companies are charged 5 pies in the rupee irrespective of the amount whether it is below or above Rs 2,000/. That is, the investment incomes pay one pie in the rupee more than other incomes of the same amount. The tax on securities such as debentures, and government promissory notes etc. is also paid at five pies in the rupee, but refund is provided for incomes below Rs. 1, 000 and Rs. 2,000. Besides, it must be remembered that our land tax and the excise duties are levied on the principle of differentiation, the former according to the quality and nature of the soil, the latter according to the strength of the liquors and spirits

The principle of differentiation even in England was not recognized and accepted until 1907, while it is altogether absent in the Federal Income Tax of the United States. Even the Prussian Income Tax does

1 Report from the Select Committee on British Income Tax pp. VI—VII

not seem to recognize this principle. In view of these facts it is not possible in a vastly agricultural country like India to adopt this highly advanced principle.

The principle of graduation, on the other hand, is not very difficult of application The leading point in progressive graduation is to impose higher rates as the income increases, so as to equalise the burdens of the tax-payers by demanding relatively more from those who are able to pay. There are many ways of securing graduation and that they differ from country to country. In Prussia and in the United States, for instance, it is secured by directly asking the tax-payer to declare his income and then levy progressive rates. In England, on the other hand, since 1910 it is secured through what is called a "supertax", the latter is nothing but a second tax and supplementary to the normal tax on all incomes exceeding £ 5,000. The third way of securing graduation is by allowing abatements to smaller incomes as is done in the United Kingdom.

The treatment of incomes according to their amount by fixing higher rates for higher incomes is not altogether absent from the Indian Law and yet prior to 1916, the progression was very slight from 2.08 to 2.6 percent. Since April 1916, we have a very markedly progressive scale starting at 4 pies and culminating at 12 pies in the rupee or from 2.08 to 6¼%.

The principle of progressive graduation is accepted in almost all the countries where income tax forms one of the sources of public revenues. Therefore it

is no more of academic interest only. Political parties are vying with one another to make it one of the planks of their reform platforms. No doubt, it is accepted with limitation in practice.

The progeessive principle is not incompatible with collection at source provided the burden of refund is thrown on the government officials. But, can we recommend its introduction into India?

The principle is already there, and of late, the progressive scale has been raised. The logical defence of the principle is, of course, based upon the ability of the tax-payer to pay. [1] It is also true that the ability to pay increases at a much more rapid rate than the increase of the income itself and certainly this cannot be denied in the case of the upper class tax-payers in India. It may be, however, argued that only one tenth of the Indian population is urban and that most of the income tax is borne and paid by them, or at best, by the seats of foreign trade such as Bombay and Calcutta. It is no doubt true that each of the latter cities has more than half of the assessees under all parts in the respective provinces and that over 45 percent of the net revenue is paid by the provinces of Bombay and Bengal alone. Some would also maintain that not

1 For details for defence of this principle, Seligman, Progressive taxation in theory and practice, Chapters III and IV; also Adams, Science of Finance, PP. 341-53. Against the progressive principle John Stuart Mill-Principles Longman's 18th edition1878, Vol. 2, PP. 397-407; Bastable, C. F. Pnblic Finance, 3rd. Edition PP. 304-313 for a brief resume of the whole controversy.

only the application of the progressive principle but even of the income tax itself is discrimination against these two provinces.

As a matter of fact, the acceptance of the principles whether of differentiation or graduation is no discrimination at all except if it arises from the fact that Bombay and Bengal are wealthier than other provinces and therefore ought to pay a larger sum. None of us ever thinks of seriously protesting against the justice of levying of customs duties because as a matter of fact so large a proportion is collected from Bombay and Calcutta.

This does not, however, mean that we can carry out the principle of progressive rates to its logical absurdity. What should be our maximum rate ? Is there any limit ? The answer is that we have to stop at some arbitrary rate say of 4 or 5, depending upon the social income and the character of the administration, which profoundly affects the yield of the tax. In normal times, the present scale will have to be materially reduced, but the scale itself cannot be fixed at present since the whole Indian fiscal policy needs to be changed in the interest of India.

CHAPTER 10.

THE MODES OF COLLECTION AND RECOVERY.

The collection of the tax is very important in a large country like India and the collection at source method is certainly to be commended in this respect. Besides this method of collection we have the direct payment of the tax by the tax-payers to the treasury officials.

A. *Collection at Source:*-In the case of government officials and pensioners, the disbursing officer is responsible for the deduction of the tax from the salaries and pensions and the tax on a fraction of a rupee, to simplify calculations, is neglected. The tax deducted by a municipality from the salaries of its employees must be paid to the credit of the government of India within one week from the date of such payment. [1]

The tax on the interest payable by the government of India is deducted and credited to the government on the same day while in the case of other securities the tax deducted by payer must be paid to the treasury within one week from the date of payment of such interest. [1]

Similarly, the employer who may have arranged with the collector for the collection of the tax from his employees is required to pay the tax directly to the treasury, for which he receives a commission of

1 General rules and orders Vol. 2, pp. 837 and 839.

2 to 5 percent varying with the time of payment. The net profits of the companies are also collected from the chief officer of the company and may be said to form part of the collections at source. In all about 40 percent of the total tax is collected at source.

B. *Direct payment to the Treasury:*-The method of direct payment to the fisc is resorted to in all other cases. Here, for instance, would be included all the private employees for whom the tax is not collected by their employers and also all persons under Part 4. In all, about sixty per cent is collected and paid this way.

The collection as well as assessment are made by the land revenue officials and no regular officials are employed for the income tax work except in cities like Bombay, Calcutta and Madras which have special establishments, but for revising assessments special assessors are no doubt employed even in country districts. No special remuneration is paid to the regular land revenue staff for collecting the income tax, except in Burma where the village headmen receive a commission of 3 per cent on the collection. [1]

It is interesting to note that the taxes on incomes below Rs. 2,000 under Part 4, must be paid in one sum on the date specified in the list or notice, while the tax payable on incomes of Rs. 2,000 or upwards may be paid in two or three equal instalments if the income does not exceed Rs. 20,000 or exceeds Rs. 20,000 respectively. [2]

(1) Burma Manual P. 41.

(2) Ibid, P. 28.

C. *The outstanding Balances and Modes of Recovery*:-The discussion of collection involves two questions, namely, the amount of balance outstanding and the hardships felt by the tax-payers or rather the number of coercive processes issued and the penalties levied. On none of these points complete figures are published for British India as a whole and hence we fall back upon the available provincial figures. It may, however be mentioned that the receipts brought under income tax in the government accounts include both the tax for the current year, including fines and penalties, and the collection of arrears of previous years, but no distinction between them is made.

As regards arrears, for instance, in Bengal for 1913-14, we have the following figures:—

Total Final Demand	Tax Realized	Balance Outstanding.
Rs.	Rs.	Rs.
60,53,278	58,37,845	2,15,433

The final figures, on the other hand, stood at Rs. 2,85,472 nearly five per cent of the total collections. Nearly 60 percent of the above balance stood in the name of the city of Calcutta alone ! The prescribed standard of collection in Bengal is fixed at 95 percent of the demand. [2]

Similarly, the outstanding balance for the city of Bombay alone for the same year was nearly five lakhs of rupees or about 11 percent of the total final demand in that city,[3] and yet the preceding year and even the

1 Bengal Triennial Report, 1914, P. 2.
2 Triennial Report, Bengal, 1911, p. 8.
3 Triennial Report, Bombay, 1913-14 p. 11

year 1913-1914 were banner years for Indian trade and industry. The banking crisis of the latter year does not seem to have been reflected at least in the collections for that year, presumably because the tax was assessed and collected on the incomes of the preceding year.

No doubt, some tax-payers may be accused of recalcitrancy or contumacy, but that does not explain the existence of the large ontstanding belance, especially in cities which boast to possess special income tax dapartments. The trouble is that foreign firms and companies in Calcutta for instance, are not assessed until the latter part of the year. The delay in assessing contributes to the delay in deciding objections and the latter gives rise to a large outstanding balance.[1]

The question of hardship, the number of coercive processes issued, and the penalties levied are all related to the mode of recovery. The law provides that the tax shall be payable on the date specified in the notice or if not, then, on the first day of June in each year.[2]

The list or notices are seldom published before the first of April and even the latter date is not observed scrupulously, because of the manifold duties entrusted to revenue officials, such as plague, famine or a rush of criminal cases, which in other countries would be delegated to health or judicial officers.

1 Bengal Triennial Report, 1911, pp.8-9.

2 Section 29.

Then again, when the lists are published or a blanket notice is posted in a police station, no one is obliged to take the trouble of reading it and to find out whether he is liable to the tax or not unless individually informed of it. Even then, there is a chance of escaping it by lodging an objection unless the latter is rejected. The collector of the district is prompt in deciding objections provided he is not otherwise engaged.

In order to maintain punctuality in the matter of payment of the tax, the collector is authorized under the law to recover from the defaulter a sum not exceeding double the amount of the tax.[1] The enforcement of this rule differs from province to province. Some are strict, while some are lax. In Burma, for instance, we are told that the collectors often threaten penalties, but either do not impose them or when imposed remit them.[2]

The other legal methods of recovering the tax are as follows:- (1) Writs of demands or warrants, (2) arrest, (3) imprisonment, (4) attachment of moveable property, and (5) finally sale of immoveable property.

Here again the various provinces differ. The ratio of the milder processes, such as the writs of demand issued to the coercive processes in Bombay, for instance is five to one,[3] in the Central provinces,

1 Section, 30 (1)

2 Burma Triennial Report, 1911 p. 3.

3 Triennial Report, Bombay, 1913-1914 p. 11.

the same ratio for 1910-1911 is one to sixty, while in Berar, it is about 26 to 1, being the lowest in India.[1] Even these figures do not give us completely any idea of the number of properties sold in order to realize the collections. An extreme incident reported to have occured in Punjab may give an idea of hardships felt by income tax-payers, at least, before the raising of the minimum.[2]

"One Damodar Kohli (fisherman) was informed last year that he would have to pay Rs. 28 (thirty seven shillings) as income tax. He was thunderstruck; the amount was absolutely beyond his means to raise. He informed the authorities accordingly but the only result of his appeal was that a fine of Rs. 7 (nine shillings and four pence) was imposed on him for delaying to pay the tax. He was unable to pay the impost as well as the penalty, so his dwelling was searched. But nothing worth taking away was found in it. Next his shop was ransacked, and everything found in it attached and sold. The sum of about Rs. 2 (2s 8 d.) was realized by the sale. Then the "house" of the man was attached and put to auction. It fetched the sum of Rs. 65 (£ 4, 6s,8d.). Out of this the Sarkar's (Government's) dues, Rr. 28 (£ 1, 17s, 4 d.) tax aud Rs. 7 (8s 8d.) for delay, were realized. The balance is under attachment for this present year's demand! Imagine,

1 Triennial Report Central Provinces and Berar 1911, return No; 9.

2 Quoted in Digby's prosperous British India, p. 6 from the Lahore Tribune, of July 23rd. 1901.

says the Tribune, a man whose stock-in-trade was worth only a couple of rupees, and the hovel in which he lived was sold for not more than Rs. 65, required to pay Rs. 28 or nearly half the value of his whole worldly possessions as income tax ! "

The cost of collection is the hardest thing to find out since most of the work is done by officials who performed not only general administrative duties but also judicial functions. Therefore it is misleading to say that the sum of Rs 468,801 for 1913–1914 or 1.7 % of the net collections charged against the income tax in the finance and revenue accounts, represents the whole cost. True, that part of this sum which is expended by the income tax establishments in the cities like Bombay and Calcutta covers a great part of the cost of collection in the latter. But as regards the rest of the conntry the district staff which does the income tax work is not paid any additional salaries and probably to the absence of all such expenditure may be attributed to poor returns from the income tax. In other words there is no extra inducement to do this extra work.

Briefly stated the charges include the whole of the collection cost in cities having special establishments, commissions allowed to employers for collecting the tax from their employees, and also those allowed to village headmen in Burma, travelling allowances, and general clerical help. The real money cost would be much greater than the above mentioned charges, which exclude the work caused to the

different provincial authorities, Secretariates, army and police, the printing, translating, telegraphing, stationery, and all other incidents which as a rule should be included. Even this elaborately calculated money cost of collecting the income tax would not take into consideration the vexatiousness and trouble undergone by the tax-payers.

Other administrative features of the law deal with penalties for failure to furuish the required information, and to deduct the tax. The penalty may be increased for the failure to give information or the section dealing with it may be more vigorously enforced than at present and the habit of removing fines under this section by the commissioner of the division seems to be unwarranted and vicious. False declarations are of course dealt with under the Indian Penal Code, but the Higher Courts seem to take a very lenient view of the matter.

As to the secrecy of income tax assessments the law makes ample provisions but if a government official discloses any secrets he cannot be prosecuted without the previous sanction of the government, and this probably hinders many a trader or merchant from showing or disclosing his accounts to subordinate officials.

The claims for refund of income tax paid under parts I and III are allowed if preferred within six years from the date of realization of the tax, white there was no general provision for a refund of the

tax until April, 1916. The absence of such a provision was probably one of the main reasons why objections against assessments were many and various. Since the above-mentioned date a claim far refund will be entertained if preferred within one year of the payment of the tax. [1]

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1 Section 39 A is inserted in the Income Tax law of 1886, since April 1, 1916.

CHAPTER XI

THE YIELD OF THE TAX.

The three direct taxes the land revenue, the provincial rates, most of which are now delegated to the district boards and the income tax furnish a large portion of the general sources of the Indian Government. During 1913–14 the last fiscal year before the present war, the total net revenue from taxation proper was about 74 crores of rupees [1] out of a total gross revenue of about 127 crores of rupees, [2] or more than eighty-five millions of pounds sterling.

Out of the total net rsvenue from taxation proper, the three direct taxes raised over 35 crores of rupees or about 47 %. The land revenue alone produced more than 90 percent of the revenue derived from the direct taxes, while the income tax brought in less than 9 percent of the same. Whereas the land revenue produced nearly one fourth of the total gross revenue, the income tax is responsible for even less than three per cent of the same, showing a large predominance of agriculture. It is remarkable to note that the salt tax in India produces twice as much as the income tax.

The total income assessed in 1913–1914 calculated from the amount of the tax paid, was in round

1 Taxation proper is composed of the following: (a) Land Revenue, (b) Provincials rates, (c) Income Tax, (d) Excise, (e) Customs, (f) Registration. (g) Stamps, (h) Salt; the actual net revenue from them was about Rs. 74 crores; for details see Appendix II

2 Actual figures, Rs. 126,52,58,356.

figures over 114 crores of rupees, equivalent to about £ 76 millions, less than even one-tenth of what is assessed under the British Income Tax, but the latter taxes agricultural incomes, as well as other incomes, while the Indian tax not only exempts agricultural incomes, but also incomes such as those of foreign shipping companies and all interest, salaries, pensions, etc., payable in London on behalf of the Indian Government.

The catching at source method has naturally made the Indian income tax fairly successful when the smallness of the maximum rate, and the large pressure upon land for earning livelihood, are taken into consideration. As one can ascertain from the following table, the yield has more than doubled since its establishment. The produce of the tax from 1886–87 is as follows:—

Year (ending 31st March).	Total Gross Produce in Rupees.	Rates.	Minimum taxable income in rupees.
(a) 1886-87	1,36,91,800	2 to 2½%	500
1887--88	1,34,73,640	"	"
(b) 1888--89	1,49,33,490	"	"
1889--90	1,55,38,380	"	"
1890--91	1,57,79,390	"	"
1891--92	1,60,90,830	"	"
1892--93	1,65,56,130	"	"
1893--94	1,71,71,070	"	"
1894--95	1,78,60,160	"	"

(a) The figures for 1886-87 to 1894-95 are taken from the sixth issue of Statistics for British India Part IV. (b) Finance and Revenue and include refunds.

(b) In 1888-89 the income tax Act was for the first time enforced in Burma and even to day it is not in force in the whole of Burma.

Year (ending 31st March).	Total Gross Produce in Rupees.	Rates	Minimum taxable income in rupees.
(c) 1895--96	1,83,51,890	"	"
1896--97	1,87,28,090	"	"
1897--98	1,89,54,650	"	"
1898--99	1,92,21,910	"	"
1899--00	1,95,04,416	"	"
1900--01	1,98,31,402	"	"
1901--02	2,05,39,654	"	"
1902--03	2,11,56,473	"	1,000
(d) 1903--04	1,82,19,976	"	"
1904--05	1,9 ,47,032	"	"
1905--06	1,98,20,899	"	"
1906--07	2,13,56,809	"	"
1907--08	2,25,61,693	"	"
1908--09	2,33,01,287	"	"
1909--10	2,33,84,463	"	"
191 --11	2,38,99,513	"	"
1911--12	2,47,93,181	"	"
1912--13	2,61,35,963	"	"
1913--14	2,92,53,745	"	"
1914--15	3,05,50,995	"	"
1915--16	3,13,51,635	"	"

(c) The figures for 1895-19 to 1902-03 are taken from statistics compiled from the Finance and Revenue Accounts of the Government of India for 1895--1903 and include refunds, small collections from Pandhari, and License taxes in Central provinces and in Berar which were abolished in the following year.

(d) The Figures for 1903--04 to 1915--16 are taken from the Finance and Revenue Accounts for those years. From April 1903 the minimum taxable is raised from Rs. 500 to Rs. 1,000 (At present the minimum raised to Rs. 2,000).

During the last twenty eight years, no doubt the revenue from the tax has doubled in spite of the raising of taxable minimum and the consequent reduction in the number of the tax payers. Again take the increase by periods. Between 1886-87 and 1902-03, the annual increase is less than five lakhs of rupees, while between 1903-04 and 1913-1914, the annual increase is no less than eleven lakhs of rupees. The increase in the net revenue from the income tax during the last decade is nearly fifty three per cent, while, for the same period the net revenue from the general import duties [1] alone has more than doubled. Similarly the net revenue from the excise duty on cotton manufactures has more than doubled during the same period. Thus it is clear that our income tax has not kept pace with the increase in commercial and industrial progress of the country, as shown by the official statistics.

The total number of tax-payers has always been a very small fraction of the total population being less than one fifth of one per cent of the present British Indian population, which is about 244 millions. In the first year the number of assessees was about 334,549; in 1902-03 it was 530,800. In April, 1903, the minimum taxable income was raised from Rs. 500 to Rs. 1000 and the number of assessees in 1904 was reduced to 239,993 being about 45 % of the number assessed in 1903. Since then there has been a slow but steady progress and in 1913-14 the latest year

1 General Rate for imports was 5 percent throughout this period.

for which detailed figures are available, the number was 331,000.[1]

In 1913-1914 it is interesting to note that those having incomes below Rs. 2000 formed 65 o/o of total tax-payers, but returned only 20 per cent of the total collections, while persons with Rs. 2,000 or upwards numbered one-third of the total, but paid 80 per cent of the tax and nearly one-fourth of the latter was paid by government employees and pensioners alone. The incomes below Rs. 2,000 or those above that sum, during the last five years have increased, however, at one and the same rate, that is 17%.[2]

Coming now to the discussion of collections by parts we find that the finance and revenue accounts do not sufficiently distinguish between the various sources. For instance, under the head of ordinary collections are included all the collections made under Part IV, that is trading and professional incomes, Part II, profits of companies and part I, all tne collections made from private and municipal employees. Hence the resort to other government documents equally reliable for our purposes namely, the Finance and Ravenue statistics issued annually since 1908.

A. *Salaries and Pensions:-* We have already discussed what salaries and pensions are, but in practice all leave—allowances, pensions, salaries, gratuities, etc. payable in the United Kingdom,

1 Statistical Abstract for British India Volume II Financial Statistics 1917, p. 266.

2 Statical Abstract for British India, Vol. II Financial Statistics 1917 p. 273.

whether they are payable on behalf of the Government of India or payable by railway companies, are not taxed to our income tax even though they arise and accrue in British India.

Again a gratuity, that is any capital sum paid in commutation of the whole or a part of a pension is liable to the tax, but in practice only a few gratuities are taxed and even then separate collections are not shown. Thus you cannot always tell how much tax is paid by pension-holders and how much by gratuity receivers. On the other hand the Indian Government seems to have ordered that such payments be exempted.

Similarly the specific allowances, such as horse, tentage, etc, are exempt on the ground that the officers receiving them are required to supply themselves with proper equipment, and if they neglect to do so these allowances are regarded as "salary" and taxed accordingly. In the absence of collections from this source at least they are not shown separately even in the provincial reports, we infer that every official spends his specific allowance in purchasing proper equipment.

Going over the question of salaries we find that no tax is deducted in the case of salaries of employees, *including the Secretary of State for India*, of the India Office in London though paid out of Indian revenues. It does not seem just to us that a Secretary of State receiving £ 5000 a year from the Indian revenues should go scot free, while a petty

trader with a precarious income of Rs. 1,000 (£ 66) should be asked to pay Rs. 20 as an income tax. There is good reason why the Secretary of State and his staff should be paid by the British Treasury. But at present this suggestion may sound as visionary and outside the pail of " practical politics. "†

The collections from salaries in 1913-1914 amount to a little over 74 lakhs of rupees or nearly 26% of the total collections. Out of this sum about sixty two per cent is deducted from salaries paid by the government including municipalities, but the contribution by the latter is even less than three lakhs or scarcely four per cent of the total collections under part I. The remaining thirty-eight per cent is collected from salaries paid by companies, public bodies, and private employers.

The high salaries paid by the Indian Government are reflected in the large collections from this source and in 1913-1914 no less than Rs. 47,75,991 or say about forty eight laksh of rupees were deducted from the government salaries and pensions alone, making about seventeen percent of the total net revenue from the income tax for that year. The increase in the tax from the government salaries during the ten year period 1905-14 amounts to about twelve lakhs of rupees or thirty three per cent over those for 1905,[1] and most of this increase is no doubt due to the increase in the number of salaries and pensions of Rs. 2, 000 or upwards.

† This has been accomplished under the Reforms Act.

1 Finance and Revenue Accounts, 1904-05, 1913-14, p. 53.

The detailed statistics for 1913–14 do not show us a single employee either in the joint stock companies or private employment who received a salary of one lakh or over while there were no less than ten such persons in the government employment including one pensioner. If one were to go through the whole gamut of salaries, the only conclusion one can draw is that the scale of salaries paid by the government in India can scarcely be found anywhere else except possibly in the case of the presidents of the big corporations in the United States of America. The remuneration, the honour, the stability, and the responsibility that accompany the government service are so great in India, that it is impossible for private concerns to compete with the government in getting the best talent. With the industrial and commercial expansion and the provincial autonomy, the tax under this part is bound to increase in the future.

B. *Profits of Companies*:—It is well known that the industrial revolution has just begun in India and hence no one expects to find there very many modern corporations. In the fiscal year of 1913-14 there were no less than 8,740 joint stock companies that paid an income tax amounting to more than forty lakhs of rupees or about fourteen per cent of the total collections; in 1909-10 this percentage was over twelve percent, while in 1910-11 it was about eleven percent. It is also interesting to note that most of the tax paid under this part in 1913-14 was paid by companies with Rs. 2,000 or upwards of annual net profits.

According to the various sources of their income the joint stock companies are divided into twenty one classes, apparently for income tax purposes, but the present classification seems to be such that no less than 7,388 companies or nearly eighty-five per cent of the total do not come under it and they have to be reported as " others " [1]

Mention also may be made of the fact that most of the business in India being carried on a small scale, a large number of the concerns, such as cotton mills and presses, soap factories etc., though partaking the character of a business enterprise are really owned and operated by individual proprietors who, as we shall see, are taxed under part IV.

If we were to compare the amounts of the tax collected under this part for the five year period, 1907-08-1911-12, we find that the amount collected in the latter year has decreased as compared with that in the first year of the quinquennium by more than two per cent, although the number of companies that paid the tax increased from 7,222 to 8,166 an increase of 13.6%. There were 301 banking companies that paid the tax in 1907-08, while in 1911-12 there were no less than 533, an increase of seventy-seven per cent, but the increase in tax amounted to only fourteen percent. Similarly there were 171 cotton spinning and weaving Companies in 1907-08, while in 1911-12 there were only 137, and the tax paid in the former year was three times as big

1 Finance and Revenue Statistics, p. 159.

as that paid in the latter. The number of the tax paying ocean steam navigation companies registered in India is reduced from six to three, while the number of river steam navigation increased from six to ten in the same period.

Then again the number of various joint stock companies paying the income tax, cannot be favourably compared with that given in the Moral and Material Progress for 1911-12. There were, for example, 254 joint stock cotton mills working in that year, 226 in 1910 and 215 in 1909, but only 137 were assessed to the income tax in 1911-12. Evidently nearly forty six per cent of the cotton mills did not make an income of even one thousand rupees mainly because of foreign and domestic competition. Similarly there were 59 jute spinning and weaving mills, but only 30 of them were assessed to the tax. This discrepancy may be partly explained on the ground of the depression in the jute trade or may be that some of these companies are registered in London and hence not liable to the Indian income tax. It must be confessed that this explanation is merely temporary in the absence of adequate information on the subject.

The reader must not, however, forget that most of our ever growing foreign trade is not only carried on by foreigners but also in foreign bottoms, mainly British, and that these shipping companies are unjustly exempted under the present law. This wholesale exemption cannot be too strongly condemned, in

view of the fact that the domestic shipping companies, that is those registered and having headquarters in India are taxed to the income tax. In short, the present exemption is uneconomical and unjust. It is interesting to note that the new Act abolishes this exemption.

C. *Interest on Securities*:—The tax on interest bearing securities is deducted at source and the payer is held responsible for the same. Securities are divided into (a) securities of the Government of India, and (b) securities and debentures issued by municipal corporations, port trusts, and joint stock companies.

As matter of convenience, the securities issued by private corporations should be separatly shown, but it is to be regretted that this little precaution was not observed even in the provincial reports until 1913. To be sure, the Indian private or municipal finance does not make much use of debentures or bonds, but the signs of the times are not wanting in Bombay, Bengal, and Burma.

The registered debt of the Government of India consists of rupee loans issued in India and sterling loans raised in England. Taking the figures for 1st April, 1914, we find that the total outstanding rupee debt bearing interest amounted to Rs. 1,42,83,64,790 or £ 97¶ 123, 719, and the sterling debt to £ 177,064,757.(1) There were also small rupee and sterling loans not bearing interest, with which we are not here concerned There

1 Statistical Abstract Vol. II 1917 p. 44.

is another distinction that is usually drawn, namely the "ordinary" and the "productive" debt, but it is sufficient for our purpose to point out here that eighty eight per cent of the Indian debt in 1914 was invested in railways, irrigation, and other capital works. It may further be observed that over ninety per cent of the rupee debt issued bore interest at $3\frac{1}{2}\%$ in the same year and the rest at 3 and 4%, while nearly fifty per cent of the sterling debt bore interest at $3\frac{1}{2}\%$and the rest at $2\frac{1}{2}$ and 3 per cent.

In the foregoing discussion we have pointed out that theoretically from the stand point of taxation, the public debt should be treated exactly like any other debt, but in practice some governments like the United States and Japan take a rather lenient view of the matter and exempt their public debts, the latter partially and the former wholly. In India we follow the Japanese practice, that of exempting the foreign creditor and thus create an invidious distinction between the domestic and the foreign holders of our debt. In short, the whole of our sterling debt, that is about sixty five per cent of the total Indian debt, even to this day is exempt from the Indian income tax.

Now if the Indian people, assembled in the Imperial Legislative Council were to exempt all public debt from any tax, whatsoever, it may be justified probably on other than economic grounds. But if a government though technically, not of or by the people, is supposedly administered in the interest of

the whole people, it can ill afford to discriminate between the various government creditors. The fact is that the Indian Government cannot adopt an independent fiscal policy whithout the consent of the Secretary of State for India in London, and indirectly that of the British Parliament. By some legal fiction, however, it is contended that since the sterling debt is created by the British Parliament as a charge against the Indian revenues, the securities representing that debt are *ipso facto* Imperial and not Indian securities and hence liable to the British income tax, but not to the Indian income tax ! This means that the Indian Government cannot realise a single farthing as tax on the ever-growing sterling debt. At the end of 1914-15 the interest on the sterling debt amounted to no less than £ 5,682,698, in 1885-87 it was £ 3,165,411 being about half as much as in 1914. [1]

As regards the rupee debt the tax on the interest thereof is deducted at source. At the end of 1914-15 the total interest charge on rupee debt was Rs. 5,25,30,534, or say five and a quarter crores of rupees on about 142 crores debt. The total tax in 1911-12 from interest on all seeurities was over twelve lakhs of rupees or about 4½ per cent of the collections under all parts and out of this nearly three-fourths of the tax came from the rnpee debt of the Government of India, most of which is held by persons with incomes of Rs. 2000

1 Statistical Abstract Volume II 1917 p 44.

or upwards. The variation from year to year in the proportion of the collections under this part to the total collections is very slight and calls for some comment.

The small amount of the tax collected under this part may be explained on the grounds that (1) the domestic companies make very little use of debentures in financing enterprizes; (2) nearly two-thirds of our public debt is held in England and hence not liable to the tax; finally (3) a substantial proportion of the securities, both public and private, nearly one half of the former, is held by religious, public, charitable and educational bodies, and the various "service funds," and the currency reserve which are exempt from the tax.

D. Other Sources of Income:- After dealing with the specific sources we now proceed to the discussion of incomes derived from "other sources," somewhat similar to schedule D. in the British Income Tax. The tax-payers under this part are for administrative purposes, divided into four general categories. *viz:* (a) the learned professions, such as education, engineering and architecture, law and medicine; (b) manufacture construction, and manipulation, (other than companies which are assessed under part II) such as builders, mills of various kinds, tanneries, breweries and potteries; (c) commerce and trade, such as agents and brokers, bankers and money lenders, merchants, and dealers in various things, and printers and publishers including news-

paper offices; and finally (*d*) the owners of property such as houses, and other taxable estates.

The incomes under this part, we have seen, are entirely assessed by the government agents, and the tax, unlike under other parts is collected from the tax-payers themselves. Now this official assessment, minute as it must be, necessitates an army of temporary informers or underlings inadequately paid. Of course, the tax-payer may petition and have his assessment reduced, but all of them never do petition and it is likely that in many cases the rights of the lower class of tax-payers at least, are sadly neglected. Probably nowhere else in the world, the bureaucracy is so powerful and the people so soft and meek before officialdom. Even the Prussian analogy here does not hold, since Prussia is an independent nation, while India is not. Some may reply that it is your own native officials that turn the screw on the tax payers, but the argument does not hold water. The subordinate native officials, like their British Chiefs, are members of one and the same government. In other words the officials are not responsible to the tax-payers.

Actual collections under this part in 1913-14 were over one hundred and fifty lakhs of rupees or about fifty five and a half per cent of the total collections from the income tax. Of this total about seventy five per cent was contributed by merchants and traders, about eight per cent by the professions, about ten per cent by the property owners, and only about

three per cent by manufacturers and builders. These figures tell their own tale. It is unnecessary to remind the reader that manufacturing has not gone beyond its infancy in India and that the few manufacturing concerns are assessed under Part II.

In respect of the professions there is much room for improvement in the case of educators, engineers, physicians and lawyers, than is commonly supposed, and at present the latter form more than three-fourths of the assessees under this sub-head and pay about four-fifths of the tax or nearly twice as much as the manufacturers. Evidently there are more tax-paying lawyers than tax-paying manufacturers.

Among the commercial and trading classes, as one would expect, the bankers and money lenders, agents and brokers, and the dealers in cotton, woolens and silk piece goods, and food grains are prominent. Nearly three-fifths of the assessees and the tax under this sub-head is contributed by the bankers and money lenders, the agents and brokers, and the piece goods merchants alone.

It may be noted here that the incomes of money lenders are very much affected by famines, and sometimes many lakhs of rupees are written off as bad debts.[1] Similarly since the establishment of the co-operative credit societies their number and business is reduced. Moreover the land alienation Acts in the various provinces, such as the Punjab, the Central Provinces, the United Provinces, and the

[1] Central Provinces Triennial Report, 1902, p. 2.

Bombay Presidency seem to have reduced their business because these laws have withdrawn the powers of the peasant proprietors to transfer their holdings, thus reducing the security on which money lenders could rely and it is said that in one of the districts of Punjab " in anticipation of the Land Alienation Act a considerable number of hypothecatory mortgages bearing interest were converted into usufructuary mortgages, and the mortgagees were thus freed from liability to income tax in respect of such interest. " [1]

The tax from property especially houses, does not play as important a part as it does in the British income tax because in India living in hired houses is not very common. In 1913-14 the income from house rentals and similar property paid about ten per cent of the total tax under Part IV, three times as much as the manufacturers. This shows at least an increasing tendency of living in hired houses especially in big cities like Bombay and Calcutta. Again the receipts from this sub-head manifestly do not include the tax assessed on the psychic incomes derived from living in one's own house, measured in terms of money, but probably this income is taken care of under the occupations of the owners. At any rate it is desirable to show separate figures for the purposes of comparison, otherwise it is impossible to tell how much is paid by a physician or a lawyer on his professional income and how much on income derived from living in his own house.

1 Punjab Report, 1901-02, p. 5.

In spite of the changes in the classification and the raising of the minimum, the collections under this part are slowly but steadily increasing. Roughly stated the collections under this part in 1903-04, when the present minimum came into force, amounted to 101 lakhs of rupees, while in 1913-14 lakhs of rupees, excluding arrears of collections or an increase of about forty seven per cent in ten years. The increase under the sub-head of commerce and trade is from 78 lakhs to 118 lakhsof rupees during the same period or about fifty one per cent, while the increase in the exports and imports of merchandise alone on private account for the same period, is from 159 million pounds sterling to 298 million pounds sterling or an increase of about eighty one per cent? No one for a moment can conclude that our income tax has kept pace with our sea-borne trade, much less with the internal trade.

E, *Incidence af the Income Tax*:—The income tax being a direct tax paid out of the income of the tax-payer, generally stays where it is put. Bearing this in mind let us discuss very briefly the per capita burden of the income tax in India. Since the income tax is not applied to the subjects of the Native States, and also to persons living in the French and Portuguese possessions in India, it is clear that most of our tax is paid by the British Indian subjects.

In 1911-12, for instance, Bengal was first with five annas per head of population, Burma with about four annas was second, while Bombay came third

with two and half annas. Behar and Orissa paid the smallest amount per head, being less than half an anna. Five years ago the figures of per capita burden were just the reverse of these. Bombay was first while Burma was a close second, but owing to its partition. Bengal came third. The preponderance of Burma in the income tax is due mainly to the exploitation of its rich mineral resources by foreign capital and enterprize.

The per capita burden cannot conclusively show whether a province is rich or poor, because the amount collected, depends not only upon the commercial and industrial development of the province but also upon the strictness or laxity of administration and yet many jump to extravagant conclusions on this point. A recent official writter [1] on the land systems of Bengal and Behar quotes with approval an anonymous statement to the effect that poor Bengal pays less per capita income tax than rich Bombay. Now this statement has no basis in facts at all. It may however, be argued that this statement though not true since 1911, it is nevertheless true, say for 1907-08. But it should not be forgotten that Bengal was partitioned in the latter year, and hence no comparison is sound. From this and other per capita tax burdens, the above mentioned writer comes to his preconceived conclusion that the permanent settlement of land revenue in Bengal has not made that province richer or wealthier than Bombay, where the periodic settlement of land revenue exists.

(1) Guha. A. C. Land Systems of Bengal and Behar,, pp. 108-09

We do not hold any brief either for or against either of the two settlements but in so far as that conclusion is based on the comparison of the per capita burden of the income tax in the two provinces, it is unwarranted. At any rate the profitableness or unprofitableness of the permanent settlement or for that matter, that of any other settlement, cannot be decided by simply comparing misleading per capita tax burdens.

It has become of late fasionable with Englishmen taking interest in Indian economic and fiscal conditions to deal with the Indian income tax, compare it with the Prussian income tax and draw many interesting conclusions. It was our fortune to come across a leaflet by Lord Ampthill and others of the East India Association in London, entitled "Truths about India" Now it does not concern us here to deal with all "Truths about India" but it is our desire to deal with the truth as far as it relates to the income tax.

In the first place we cannot follow his lordship's comparison of the Indian and the Prussian income taxes for the simple reason that the Prussian tax is a tax on all incomes and does not exclude the agricultural incomes, while the Indian tax excludes them. Secondly in the Prussian statistics, the members of a household are included which swells the number of assessees and lowers the average income per assessee and unfortunately the figures given for Prussia by his lordship are all misleading.[1] For instance, it is

1 For Prussian income tax statistics see "*Statistisches jahrbuch Für den Preussischen Staat*, 1912, p. 547.

stated that 88.000 000 persons are assessed to the income tax in Prussia! Thirdly, it is true that the minimum taxable income in Prussia is £ 45 and in India it is £ 66. But it should not be forgotten that the rates in the two taxes are different. The basic rate in Prussia starts with ·67 % on £ 45, rises to four per-cent and that the two per cent rate begins with £ 150 (3,000 marks) incomes, while in India an income of Rs. 1,000 (£ 66) pays the rate of two per cent and that the higher incomes do not pay more than two and a half per cent. The sweeping statement that 'the income tax in india is infinitely more moderate in its incidence than in Germany" therefore, should always be taken with a grain of salt.

Then again let us take the total income assessed to the tax. In 1907-08 it is officially estimated that the total income on which the tax was assessed practically based on the amount of tax paid, was in round figures over 9,004 lakhs of rupees or £ 60,000,000 and that the same income in 1911-12 amounted to over 9,670 lakhs of rupees or £ 64,550,000. In other words the income increased in the quinquennial period by about seven and a half per cent or something like one per cent and a half each year. Now it should be remembered that this total income is calculated on the tax paid, including the tax deducted from public salaries and pensions and also that paid by foreign mining, oil, and jute companies. Besides the Government statistics do not distinguish between the incomes of the natives and those of foreigners. Thus it is impossible to say

whether the natives of India are getting rich or poor. If we were to judge from the collections made in the cities of Bombay, Calcutta, Madras, and Rangoon, we find that more than a third of the total collections in 1911-1912 came from these cities put together. But all these cities with the exception of Bombay, possibly, abound in foreign companies, and enterprises and besides the collections include government servants and pensioners.

Of course, the total collections are increasing steadily from year to year but the increase is not very singnificant. It is again alleged that this steady increase in the income tax revenue is a sure proof that " the general wealth of India, is at any rate not decreasing " Now pray, what is the connection between the general wealth and the income tax, which is paid by a ludicrously small fraction, less than one fifth of one per cent of the population ? It is undoubtedly true that in 1886-87 there were only 105 persons with an income of 1 lakh (£ 6,666) and more including government servants and pensioners and companies while in 19.3-1914 there were no less than 487 such persons, but does it follow that the population as a whole is faring well ? The relatively small collections from the income tax, confirm the impartial view if they confirm anything at all, that the great masses of the Indian population are nothing but the " hewers of wood and drawers of water " and often go without sufficient food and clothing while the few prosper and bask in the sun-shine of the British Raj and even among these fortunate few the number of Indians is not quite plain.

CHAPTER XII.

CONCLUSION.

In the course of this monograph appreciations and criticisms have been added at the end of each chapter. In the conclusion proper, therefore, we can be brief and discuss a few very general considerations. If the figures correspond to the reality it would be necessary to conclude that the Indian industrial and commercial progress has not redounded to the benefit of the State and that it is painfully slow.

Many of the criticisms urged against the tax are indeed not justified. Thus it was maintained that the income tax is as bad and obnoxious a mode of raising revenue as it is possible to imagine in a country like India. Mr Liang, one time Finance Minister of the Government of India, said "I think that for an oriental country, and with an Eastern habit of mind, any tax which imposes inquisition into individual means is attended with innumerable evils which are little felt in a country liko England."

Now there is nothing oriental or occidental about an income tax or the abuses consequent on the introduction thereof. The principle on which the tax is based is not only sound and just but it is also within the grasp of the oriental mind.

It was also said at the time that it would be impossible to prevent abuses connected with the assessment of the tax in a country like India. "For

every rupee that comes into the treasury, two will be extorted from the population that have to pay the tax." The last objection was probably true of the income tax laws preceding that of 1886, but to-day it is certainly an exaggeration. We have seen that direct taxation did exist in India from the earliest times. Land revenue and the taxes on trades and artisans were direct taxes, and it is surprising that no one even suspected that land revenue is inquisitorial in character.

The income tax law of 1886 amended in 1903 to raise the taxable minimum from Rs 500 (£ 33) to Rs 1,000 (£ 66), is far from being perfect. It is very vague in its definitions and unjust in exemptions. It was probably good for the period for which it was enacted, but economic and political conditions have changed enormously since 1886. The change in economic conditions, was, no doubt, perceived in 1903 that is seventeen years later, when it was amended. But the amendment does not affect the main features of the law. Of course the raising of the minimum gave relief to more than 250,000 or over fifty per cent of the tax-payers of small means who were groaning under the burden.

But the real evil, which the assessors have to encounter and from which the lower class of tax-payers suffer is still unremoved and the cry is again heard for raising the minimum still higher. The non-official members of the Imperial Legislative Council in April 1916, proposed to raise the minimum to Rs. 1,200,

but one of the Revenue Commissioners in the United Provinces, as early as 1914 went as far as proposing to the Board of Revenue of the same province, to use their influence with the central government to raise the minimum to Rs. 1,500. But the Board vetoed the suggestion as being unpractical. Now why is it that both officials and non-officials strive to raise the minimum again. Has the cost of living increased so much since 1903, as to demand another raise in the minimum within less than thirteen years ? The cost of living has certainly gone up. Again the standard of living is also higher to-day than what was either in 1886 or 1903 and hence a direct and a lump sum tax of Rs 20 on an income of Rs. 1,000 is naturally felt very heavily by the lower middle class.

On the other hand if the minimum is raised, say to Rs. 1,250, the government would lose in revenue over twenty lakhs of rupees or about seven per cent of the total collections in 1913-1914, while nearly one third of the present taxpayers would enjoy relief. The experiment at any rate is worth trying but there is another defect in the law as far as it affects the incomes below Rs. 2,000. These incomes, as we have seen, are put so to say under a license tax which mars the symmetry of the law. As long as this lack of symmetry and the system of estimating incomes by officials according to their own sweet will combined with the high basic rate of two per cent, exist, the Indian income tax cannot be but an " assessed tax, " that is a tax on expenditure rather then on income.

The new consolidated Act of 19 8 removes this lack of symmetry by putting all incomes under a straight income tax. It also improves the existing machinery for assessing incomes, but it is too early to pronounce any judgment inasmuch as the new. act does not come into force until April 1919†.

As regards the progressive graduation and differentiation it is thought, that since our income tax is not a general income tax it would be rather difficult to apply the principle of differentiatiou consistently but it is our firm belief that equity and justice demand the adoption of a progressive scale. The present war scale of two to six and a fourth per cent is rather high for peace time and it is suggested that for incomes of Rs. 10,000 or upwards there should be only one rate of nine pies in the rupee insteed of the preseut two rates, viz nine and twelve pies in the rupee. As for companies' profits the rate should be nine pies instead of twelve pies in the rupee. Of course, these rates cannot be considered as final and may be changed as the exigencies of the state demand.

Though the problen of the separtion of the sources of revenues or the division of the yield of the various taxes between the Central Government and the various provincial governments in India needs a separate treatment in a volume by itself, it is not out of place to suggest here that in order to make the local government more responsible and interested in the

† The minimum has also been raised to Rs 2,000

assessment and collection of the income tax, three-fourths instead of the present one-half of the revenue derived from the income tax should be handed over to them and similarly the district collector and his subordinates be made more resposible than at present.

Taking as a whole the Indian income tax like those In other countries is a product of a long and necessarily slow growth. The Indian tax-payer is not the only one to hate direct taxation. That it falls with undue severity on all the lower salaries, pensions and other life incomes as distinguished from incomes derived from capital is just as true today as It was in 1870. It would be unhuman to say that the income tax is no longer an unpopular tax, but time and experience of more than a quarter of a century seem to have blunted the edge of popular opposition. The Indian National Congress, a non-official public body representing the educated public opinion of the countryhas approved it and was first to recommend it in1886. The present yield of the tax is not very large, but it is an increasingly important source of income to the state The income tax in India, however, is bound to remain for a long time to come a mere supplementary source of revenue.

It must be observed that sixty years ago the trading and professional classes, and the highly paid government servants contributed little to the government in the form of revenue whieh was main'y raised

from land. To-day they are called upon to bear their share of the burdens of the nation although that share is not yet quite fair and equitable.

May the Imperial policy with regard to India be changed, and the rejuvenated Empire follow the laws of sound econmics as well as sound politics more than before. In that final re-adjustment, when the consummation of a democratic empire is achieved, let us hope that this permanent source of Indian revenue will not fail to receive proper consideration both at the hands of the government and the representatives of the Indian public.

APPENDIX I.

Tax Year	GENERAL PUBLIC		GOVT. SERVANTS		TOTALS.	
	Number of assessees	Amount in rupees	Number of assessees	Amount of rupees.	of columns 2 and 4	of columns 3 and 5
1	2	3	4	5	6	7
Income tax of						Rs.
1860–61	842,514	1,52,88,725	39,495	24,83,537	882,009	1,77,22,262
1861–62	1,[illegible]17,038	1,57,41,071	38,313	29,33,141	1055,351	1,86,74,212
1862–63	308,400	1,[illegible]7,07,729	36,230	30,53,063	344,630	1,57,60,791
1863–64	217,006	95,06,745	20,599	24,24,783	237,599	1,19,31,528
1864–65	222,894	98,22,880	43,288	82,36,149	266, 82	1,3[illegible],59,029
License Tax of						
1867–68	730,422	54,15,204	12,467	8,28,951	742,889	62,44,155
Certificate Tax						
1868–69	226,254	37,94,539	37,511	7,24,380	263,765	45,18,918
Income Tax of						
1869–70	521,494	1,02,02,462	58,568	15,26,325	580,062	1,17,28,787
„ 1870–71	387,856	1,74,97,695	60,416	32,14,151	448,274	2,07,11,846

1 Taken from the Appendix to the Report of Finance Committee, Volume II, 1872 p. 658.

APPENDIX II.[1]

Net revenue from taxation proper in 1913-14.

		in Rs.
(1)	Land Revenue	32,08,73,629
(2)	Provincial Rates	26,95,332
(3)	Income Tax	2,90,51,573
(4)	Customs	11,13,78,267
(5)	Excise	13,28,16,901
(6)	Stamps	7,89,01,787
(7)	Salt	5,15,08,811
(8)	Registration	77,63,642
	Total	Rs. 73,49,96,042

APPENDIX III.

Indian Currency.

Pie	equals	1/12 penny	(English)
Pice (3 pies)	,,	1 farthing	(,,)
Anna	,,	1 penny	(,,)
Rupee (16 annas)	,,	1s 4d	(,,)
		0.324 dollar	(U. S. A.)
Lakh	,,	100,000 ruppees.	
Crore	,,	100 lakhs.	

1 Taken from the Finance and Revenue Accounts of the Government of India for 1913-14.

APPENDIX IV.*

Gross revenue from Income Tax in the chief provinces in 1913–14.

(including Government salaries)

	Rs.	%of whole.
Bengal	66,37,916	22.5
Bombay	67,09,105	22.8
United Provinces of Agra and Oudh	26,80,693	9.2
Burma	22,90,649	7.8
Punjab	17,19,918	5.7
Bihar and Orissa	13,85,293	4.7
Central Provinces and Berar	8,62,741	3 07
Assam	4,27,067	1.3
Madras	37,48,360	12.9

APPENDIX V.*

Gross revenue from Incom Tax for 1913–14.

		Rs.	%of whole.
(1)	Ordinary Collections (include tax collected from private employees, private securities and all under Parts II and IV).	2,33,26,127	79,7
(2)	Government Salaries and Pensions.	47,75,991	16.4.

* Taken from the Finance and Revenue Accounts of the Government of India for 1913–1914 p. 53.

(3)	Interest on Government Securities.	8,96,641	3.08.
(4)	Miscellaneous Items	2,54,995	.82.
	Total Rs.	2,92,53,754	100.00.

APPENDIX VI [1]

Gross Collection by Parts for 1913–14.

		Rs.	%of whole.
I.	Salaries and Pensions	74,33,228	26
II.	Profits of Companies	40,88,542	14
III	Interest on Securities	12,76,388	4.5
IV.	Other sources	1, 56,86,447	55.5
	Total Rs.	2,84,03,605	100.00

1 Taken from the 7th issue of statistics for British India Vol. II Financial Statistics p. 269.

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VITA.

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Page	Line	Wrong	Right
11	13	buggys	buggies
15	12	summarize	summarise
22	18	Conclusion	Conclusion:—
36	30	Slet	and seq
41	11	&c	etc
41	22	1917	1918
43	29	1917	1918
44	27	1917	1918
45	29	1917	1918
45	30	1917	1918
47	19	1917	1918
47	19–20	The income taxable under the Act	1 *The income taxable under the Act*
48	30	1917	1918
58	1	ex-officio	*exofficio*
60	17	summarize	summarise
61	3–4	"the...arbitrary."	"*the...arbitrary*"
65	6	tha	the
65	20	fron	from
66	30	P	P 94
69	23	Nill	Mill
72	25	Tax	Tax.
89	31	Seligman	Seligman,
95	2	Native	Indian
95	5	Native	Indian

PAGE	LINE	WRONG	RIGHT
106	16	Native	Indian
162	9	an	no article
165	7	chaptor	chapter
172	18	incme	income
173	Heading	10	X
180	28	white	while
186	23	Ravenue	Revenue
194	4	whithout	without
194	28	rnpees	rupees
195	8	enterprizes	enterprises
203	12	singnificant	significant
203	19	886-87	1886-887
203	22	19 3-1914	1913-1914
204	18	liko	like
207	1	19 8	1918
207	16	insteed	instead
208	2	fourths	fourths
208	8	ln	in
208	14	It	it
208	20	countryhas	country has
208	29	whieh	which
208	29	main y	mainly

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