



Income-tax in Britain

By

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INCOME-TAX OFFICER, AGRA

GAIA PRASAD & SONS

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INTRODUCTION

This book has been prepared as a result of the author's recent visit to England and the study of the British system of Income-tax at the Somerset House, London, rendered possible by the kind courtesy of the officers of the Inland Revenue Department. It has been compiled with the object of setting forth briefly, largely in a narrative form, the law and practice of Income-tax in Britain and particularly those aspects of the British system which have been thought to be of special importance from the Indian point of view.

It is not possible to describe within the scope of this small treatise every phase of the British system of Income-tax, but an attempt has been made in this brochure to bring out facts which are in striking contrast with the Indian system of taxation, the last chapter

being specially devoted to this contrast.

The book might offer an interesting and useful reading to those who are in some way connected with the Income-tax legislation and procedure in India, and to the tax-payers in general who are affected thereby. For, after all, many of the basic ideas underlying the present Income-tax Act in India, as so many other legislative enactments, owe their origin to Britain, which undoubtedly continues to be the main source of inspiration for new ideas and improvements in all walks of life and administration in India.

CHAPTER I

EXTENT AND SCOPE

The provisions of the British Income-tax Act extend to the British Isles and Northern Ireland. The Act now in force was last passed in a consolidated form in 1918. Various amendments, as a result of the experience gained, have since been made year after year along with the consideration of the Finance Bill which is passed by Parliament in the Spring of each year, for the purpose of prescribing the rate or rates of tax to be levied.

The Income-tax Act is applicable to all incomes arising within the United Kingdom (except those which are specially exempted); and in the case of the residents in the United Kingdom it also extends to incomes arising or accruing abroad, irrespective of the fact whether or not the income is received in the

United Kingdom.*

The incomes specially exempted are more or less of the same nature as in the Indian Income-tax Act, 1922, such as wounds and disability pensions, interest on national savings certificates, scholarships, interest on 4 % war loans, and certain specified incomes of educational, charitable, religious societies and public institutions.

*There is only one exception relating to income from business controlled abroad in which case the income must be received before it can be assessed.

CHAPTER II

TECHNICAL TERMS

Income. The word 'income' is not defined in the Income-tax Act. Tax is charged upon 'property, profits and gains' which are classified into five groups known as Schedules A, B, C, D and E, and the taxable amount or the income is determined in accordance with the rules respectively applicable to these Schedules.

Earned Income. "Earned Income" means—

- (a) Any income arising in respect of any remuneration from any office or employment of profit held by the individual, or in respect of any pension, superannuation, or other allowance, deferred pay, or compensation for loss of office, given in respect of the past

services of the individual or of the husband or parent of the individual in any office or employment of profit, or given to the individual in respect of the past services of any deceased person, whether the individual or husband or parent of the individual shall have contributed to such pension, superannuation, allowance or deferred pay, or not; and

(b) Any income from any property which is attached to or forms part of the emoluments of any office or employment of profit held by the individual; and

(c) Any income which is charged under Schedule B or Schedule D, or the rules applicable to Schedule D, and is immediately derived by the individual from the carrying on or exercise by him of his trade, profession, or vocation, either as an individual, or, in the case of a partnership, as a partner personally acting therein.

Statutory Income. "Statutory Income"

is a hypothetical income based upon the actual income received in the year of assessment from certain sources, and on the income received in the preceding Fiscal year from other sources, according to the nature of the income.

Total Income. The expression "Total Income" in relation to any person means the total income of that person from all sources estimated, as the case may be, either in accordance with the provisions of the Income-tax Act as they apply to income-tax chargeable at the standard rate, or in accordance with those provisions as they apply to Sur-tax.

Assessable Income. The expression "Assessable Income" is applied to the sum remaining after deducting from the total statutory income the earned income allowance or the age allowance, whichever is appropriate.

Taxable Income. The expression "Taxable Income" means the sum remaining after deducting from the assessable income the

personal allowance for self, wife, children, daughter, house-keeper, dependent relatives, as the case may be in each case.

Preceding Year. This expression is not defined. It, however, has the same meaning as the term "previous year" in the Indian Income-tax Act, 1922.

Fiscal Year. This expression in Britain represents the year beginning on 6th of April and ending after 12 calendar months on the 5th day of April for which taxes are imposed, and is distinguishable from the 'Financial Year,' (commencing on the 1st day of April and ending on the 31st of March) to which public accounts are made up.

CHAPTER III

EXEMPTION LIMIT AND ALLOWANCES

In theory the income of a person up to £ 125 per annum is exempt from tax just as incomes up to Rs. 999/- are not liable to tax in India. In practice, however, the exemption limit under the English law varies according to the nature of income and personal obligations of a tax-payer. Statutory income both in Britain and India is worked out almost on similar lines, but the allowances by way of relief in Britain are varied and multifarious depending upon the circumstances of each case.

All incomes are first classified into two groups viz., 'earned income' and 'unearned income.' The former has

Earned Allowance.	Income
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been defined in Chapter II, and, roughly speaking, represents income earned by a person as a result of his own exertions, such as income from salary, profession, vocation, business while 'unearned income' is usually the yield of investment, such as from property, interest, dividend. In fact, all income which does not fall under the definition of 'earned income' is treated as 'unearned.'

The above-mentioned classification has been made with a view to giving relief to the earned income. It is presumed that a person whose income is earned by his own exertions is under greater necessity to look after his health and to save out of that income, in order to make provision for his old age or dependants, than a person whose income is derived from fixed sources, since the sources of income in the latter case remain undisturbed by the age, health or death of the owner. Consequently, relief is provided in the shape of deduction of one-fifth of the earned income from the statutory income, but this allowance

is not to exceed £ 300 in any case. This can be clear at a glance from the following examples :—

(1) A has an 'earned' income of £ 300 and an unearned one of £ 100. Total £ 400. A's taxable income is worked out as follows :—

Statutory income	..	..	£ 400
Deduction—one fifth of earned			
income	..	..	£ 60
			£ 340
Taxable income	..		£ 340

(2) B has an 'earned' income of £ 3600 and an 'unearned' income of £ 400. Total £ 4000. B's taxable income will be as under :

Statutory income	..	..	£ 4000
Deduction one-fifth earned in-			
come allowance subject to a			
limit of £ 300	..	..	£ 300
			£ 3700
Taxable income	..		£ 3700

Wife's income. For income-tax purposes a wife's income is deemed to be the income of the husband, and he is liable to pay tax

thereon. There are, however, special provisions permitting separate assessments, where either the husband or the wife claims it. The allowances would be equitably divided between them, and the total amount of tax payable will not be affected and will remain the same.

If the combined total income includes any earned income of the wife, the personal allowance is increased by four-fifths of the amount of the wife's earned income but not exceeding, in any case, an increase of £ 45. If, therefore, in addition to the husband's income a wife earns anything up to £ 56.5s a year none of her earnings will attract tax, in view of a deduction of one-fifth for earned income allowance and the additional deduction of the balance for special personal allowance:—

Example 3.

C a married man with a wife living with him and maintained by him has his own 'earned' in-

come	£ 500
His own 'Unearned' income ..	£ 100
His wife's 'earned' income ..	£ 50
	<hr/>
Total ..	£ 650
Deduct earned income allow- ance at 1/5th of £ 500 + 50..	£ 110
Deduct special personal allow- ance from wife's earned in- come	£ 40
	<hr/>
	£ 150
Balance taxable	£ 500

Example 4.

If the wife's earned income had been £ 60, instead of £ 50, the taxable income would be worked out as below:—

Husband's earned income ..	£ 500
Husband's unearned income ..	£ 100
Wife's earned income ..	£ 60
	<hr/>
	£ 660

Deduct earned income allowance, one-fifth of £ 560 ..	£ 112
Deduct special personal allowance from wife's earned income limited to £ 45 ..	£ 45
	<hr/>
	£ 157
Balance taxable ..	£ 503

If the wife's income had been 'unearned,' the taxable income would have been £ 550 in Example 3, and £ 560 in Example 4.

The statutory income is subject to further deduction in the case of each individual resident in the United Kingdom for certain personal allowances, to which his circumstances entitle him. Some persons have to maintain more than one individual. A married man is required in law to maintain his wife and children. Usually, a man is also found to be supporting one or more members of his own or wife's family or distant relatives.

A single man might get along fairly well with an income of £ 120 a year and might even save £ 20; but another person with a wife and a couple of children will not find it so easy, in normal circumstances, even to live on an income of £ 150, to speak nothing of saving therefrom. The utility of £ 150 to him is much greater than that of £ 120 to the former. In order to meet difficulties of this nature, a system of personal allowance has been worked out, designed to bring all tax-payers on a common level and with a view to leaving untaxed a certain portion of one's income which is likely to be merely sufficient to maintain oneself, one's wife, children and dependents.

The allowances are as noted below:—

1. Single person, widow or widower	£ 100
2. Wife	£ 70
3. Married couple without children	£ 170
4. Each child	£ 50

5. Each dependent	..	£ 25
6. House-keeper	..	£ 50
7. Daughter kept at the house to look after infirm parents		£ 25
8. Divorced allowance	..	The actual allowance payable.
9. Old age allowance	..	One-fifth of the total income subject to the limitation mentioned later on.

- 'Child' includes (a) Born during the tax year.
 (b) Under 16 years of age in the beginning of the tax year.
 (c) Full time scholars if over 16 years.
 (d) Adopted and step-child.
 (e) Illegitimate child when parents have since married each other.

Dependent's allowance is applicable only

in case of relatives maintained by a tax-payer, and except in case of widowed mother or mother-in-law, such relatives must be incapacitated by old age or infirmity.

Note. No allowance is admissible for a child or dependent where the personal income of such child or dependent exceeds £ 50.

House-keeper allowance is admissible only for a female person residing with a widower or widow to take care of children,

or

resident with an unmarried person to look after young brother or sister. In this case the female must be a relative, and, if a mother, must be living separate from her husband or be a widow.

Old age allowance is admissible in respect of unearned income where the age of a tax-payer or his wife is 65 years or more and where the total income does not exceed £ 500. In other words, income up to £ 500, whether

'earned' or 'unearned,' is treated as 'earned' for purposes of relief. If a person enjoys earned income of £ 500 or more, he gets no extra relief on account of old age.

In cases where the income exceeds £ 500 the total assessment arrived at shall not exceed the amount which would have been determined if no age allowance had been given at all. The tax is worked out in the following manner.

1. The tax which would have been payable if the total income had not exceeded £ 500

plus

2. One half of the amount by which the total income exceeds £ 500.

Example 5.

Let the income of a married man be—

Earned income ..	..	£ 300
Unearned income..	..	£ 210
		<hr/>
Total income ..	..	£ 510

Calculation of tax if income	
had been only	.. £ 500.
Deduct earned income and	
old age allowance	
at one-fifth.	.. £ 100
„ Married allowance	.. £ 170
	<hr/>
	£ 270
Taxable income	.. £ 230

Tax liability—	£	s.	d.
£ 135 at 1s. 6d.	=	10	2 6
£ 95 at 4s. 6d.	=	21	7 6
		<hr/>	
		31	10 0

Half the amount of income exceeding £ 500 is now to be added. In the above example adding £ 5, the tax payable will be £ 36. 10s.

Reduced rate allowance. The net taxable amount left after making personal and other allowances mentioned above is liable to tax at two rates; partly at a reduced rate and

partly at the full standard rate. The first portion of the income up to £ 135 is taxable at one-third and the balance at the full standard rate.

Premiums for Life Insurance and Deferred Annuities. An allowance of tax in respect of premiums paid for Life Insurance of self and wife and Deferred Annuities is allowed as follows :—

- (a) Where the policy was effected on or before June 22, 1916.
 - (1) If the total income does not exceed £ 1000—at half the standard rate.
 - (2) If the total income exceeds £ 1000 but does not exceed £ 2,000—at three-fourths the standard rate.
 - (3) If the total income exceeds £ 2,000 at the full standard rate.
- (b) Where the policy was effected after June 22, 1916—
 - (1) At 1s. 6d. per £ up to taxable income of £ 135.

- (2) At half the standard rate on excess
over £ 135.

The maximum amount on which relief can be given is not to exceed one-sixth of the total income.

In the case of policies securing a capital sum on death, the amount on which allowance can be given is not to exceed 7 per cent of the capital sum.

In the case of other policies where a fixed sum is not assured at death, the premium on which allowance is admissible cannot exceed £ 100 and this only in respect of policies taken out up to June 22, 1916. For policies or contracts effected after that date no allowance is admissible except in connection with certain superannuation or pension schemes. The same considerations apply to deferred insurance policies taken out after June 22, 1916.

The allowance of tax on Life Insurance and other premiums, while having the practical effect of a reduction in the amount to be taxed, is really a tax credit on small savings, rather

than a deduction from income.

The working of the various allowances is illustrated by the following examples :—

Example 6.

D a single person or widow with one dependent.

Investment income (unearned). £ 600

Deduct personal allowance at £ 100

„ dependent „ „ £ 25

£ 125

Taxable income .. £ 475

Tax liability. £ 135 at 1s. 6d.

„ „ £ 340 at 4s. 6d.

£ 475.

Example 7.

E a person of 65 years of age with one child and house-keeper.

Earned income	..	..	£ 50
Investment income	..	..	£ 400
			<hr/>
			£ 450

Deduct age allowance			
at 1/5	..	£	90
Personal allowance	..	£	100
House-keeper allowance	..	£	50
One child allowance		£	50
			<hr/>
		£	290

Taxable income .. £ 160

Tax liability	£ 135	at 1s. 6d.
" "	£ 25	at 4s. 6d.

Example 8.

Married couple with three children.

Earned income	..	..	£ 600
Investment income	..	..	£ 200
			<hr/>
			£ 800

Deduct earned income		
allowance	..	£ 120
Married allowance	..	£ 170
3 children at £ 50		
each ..	..	£ 150
		<u>£ 440</u>
Taxable income	..	£ 360
Tax liability	£ 135 at 1s. 6d.	
" "	£ 225 at 4s. 6d.	

Example 9.

Married couple with two children and one dependent.

Earned income	..	..	£ 2,000
Investment	„	..	£ 400
Deduct earned income			
allowance (maximum)	£ 300		
Married allowance	..	£ 170	
2 children	..	£ 100	
1 dependent	..	£ 25	
Taxable income	..	£ 1,805.	

Tax liability	£ 135	at 1s. 6d.
„	„	£1670 at 4s. 6d.

Example 10.

F of 70 years of age paying divorced allowance to wife at £ 80 and keeping at his house widowed daughter to look after him.

Pension (earned income)	..	£ 350
Investment	..	£ 150
		<hr/>
		£ 500

Deduct earned & old age allowance at one-fifth	..	£ 100
Divorced allowance	..	£ 80
Personal allowance	..	£ 100
Daughter's „	..	£ 25
		<hr/>
	..	£ 305

Taxable income .. £ 195

Tax liability	£ 135	at 1s. 6d.
„	„	£ 60 at 4s. 6d.

Example 11.

Married man with a widowed mother, 3 children and an aged aunt whom he supports and whose wife's earned income is £ 300 and unearned from her house £ 40 paying a premium of £ 50 on his own life and £ 30 per annum on his wife's.

Earned income	..	£ 600
Wife's earned income	..	£ 300
		<hr/>
		£ 900

Investment income		
Bank deposit (untaxed)	..	£ 20
Dividends (taxed)	..	£ 30

Wife's income from house owned by her annual value	..	£40
Less ground rent	..	£10
„ „ interest	..	5 £15 £ 25
		<hr/>
Total income		£ 975

Earned income allow- ance at 1/5 of 900 =	£ 180
Wife's special allow- ance on earned income (maximum)	£ 45
Married allowance	£ 170
Dependant (aunt) al- lowance	£ 25
3 children at £50 each	£ 150
	<hr/>
	£ 570

Taxable income .. £ 405

	£	s.	d.
Tax liability £ 135 at 1s. 6d. =	10	2	6
Tax liability £ 270 at 4s. 6d. =	61	15	0
	<hr/>		
	71	17	6
less Life Assurance allowance at 1s. 6d. on £ 80(50 plus 30)	6	0	0
	<hr/>		
Net liability ..	65	17	6

In the examples quoted above, tax paid at source on certain incomes will have to be adjusted and given credit for in determining the net amount of tax or refund due.

CHAPTER IV

SCHEDULES OF TAX

Schedule A

The tax levied under this Schedule is commonly known as the "Landlords' Tax" and the nature of the income assessed is interest in property, land and building.

Assessments are made on the basis of annual value which is periodically determined upon by an Act of Parliament after five or seven years. If the actual rent is more than the annual value, excess is not taxed. On the other hand, the assessment can be claimed on actual rental value in any year, if it has decreased since the last valuation. However, if during the period of two valuations property is altered and improved, assessment can be made on the increased annual value.

Taxable income is arrived at after making deductions, from the gross annual value for repairs, maintenance, insurance and management, of $\frac{1}{8}$ th in the case of lands, and in the case of houses and buildings as follows :—

<i>Gross annual value</i>	<i>Deductions</i>
Not exceeding £ 40 ..	$\frac{1}{4}$ th of the annual value
Exceeding £ 40 but not exceeding £ 50.	£ 10
Exceeding £ 50 but not exceeding £ 100.	$\frac{1}{5}$ th of annual value
Exceeding £ 100 ..	$\frac{1}{5}$ th of £ 100 i.e. £20 plus $\frac{1}{6}$ th of excess over £ 100

If the expenses for repairs, maintenance, insurance and management have, in reality, on an average of the five preceding years, exceeded the allowance for the year, tax can be reclaimed on the excess.

Further deductions are admissible for houses remaining vacant, rents irrecoverably

lost, ground rent, interest on mortgage or loan, annuities and other annual charges, and in respect of certain ecclesiastical dues, public local rates in the tithe rent charges, drainage rates etc. payable by the landlord.

The tax under this Schedule is payable by the occupier in all cases where the annual value is more than £ 10 and he is entitled to deduct it from the next payment of rent, but all the tax so paid is liable to be adjusted in the assessment of the owner, and, if, as a result of business losses, personal and other allowances, he is found liable to tax at the reduced rate or not liable to tax, the excess of tax so recovered can be refunded on his preferring a claim for the same.

Where a loss has been sustained on growing crops or stock by reason of flood or tempest and the landlord has, in consequence, agreed to a reduction of the rent, the assessment for the year is proportionately reduced.

Collection of Tax. Tax under this Schedule is payable in one instalment on or

before the first January in each year. The income is generally 'unearned,' except where the property forms part of the emoluments of any office or employment as in case of clergymen etc., wherein it is treated as 'earned' income and the tax is payable in two instalments on the first of January and the first of July following the assessment.

Schedule B

Tax charged under this Schedule is known as the "Farmers' Tax" and is levied on income arising from the occupation of lands. For purposes of assessments, lands are classified into the following four groups :—

1. Lands occupied for Husbandry.
2. Woodlands.
3. Nurseries and Market Gardens.
4. Other lands.

Assessment on No. 4 is made on one-third of the annual value, and on No. 3 in accordance with the rules of Schedule D, although tax is charged under this Schedule;

and in the remaining cases, Nos. 1 and 2, assessments are generally made on the gross annual value without any deduction for repairs etc. If the actual profits are in excess of the annual value, no additional assessment can be made, but where it is less, the farmer has the option to adopt any of the following courses for getting relief:—

(a) A person occupying lands for purposes of husbandry can have the assessment already made on annual value, reduced on the basis of actual profits, if he is able to satisfy the assessing authorities (General Commissioners) that the profits or gains for the year fall short of annual value. Notices for such a claim must be given within 12 months after the expiration of the year to which it relates.

(b) If the occupation of land for purposes of husbandry has resulted in loss in a year, the farmer, by giving notice in a similar manner as in (a), can claim

repayment of the tax on the amount of loss suffered.

(c) By giving notice within two months after the commencement of the year of assessment, he can have his assessable profits computed according to the rules applicable to Schedule D, as if he was carrying on a trade. By adopting this course he can also carry forward losses for six years to be set off against the available profits in future.

(d) He can claim relief in respect of losses caused by flood or tempest to growing crops or stock.

(e) In case of woodlands assessment can be claimed according to the rules of Schedule D, if it is proved that the woodlands are being managed on commercial basis; but, once the choice is made, the same method of computing income remains in operation for all future years so long as the woodland remains in the same occupation.

Where the farmer is also the owner of the land, he has to be assessed both under Schedules A and B.

Schedule C

Tax under this schedule is levied in respect of interest, dividends, annuities and shares of annuities payable out of any public revenue i.e., the public funds of the United Kingdom, Dominion, British Possessions, or any foreign state, where the payment of interest is entrusted to an agent resident in the United Kingdom. Tax is assessed upon the resident agent and has to be paid into the Bank of England to the credit of the Commissioners of Inland Revenue.

Schedule D

Schedule D has a wide scope and deals with a variety of forms of income. It is divided into six types of cases as follows :—

Case I is applicable to every trade carried on in the United Kingdom or else-

where. This is the principal case under which all income arising from business controlled in the United Kingdom is assessed.

Case II is applicable to every profession and vocation carried on in the United Kingdom.

Case III applies to profits of uncertain value not chargeable under Schedule C, such as tithes, and the tax is charged on the gross receipts within the preceding year without any deduction.

Case IV is applicable to the interest arising from securities in any place out of the United Kingdom except such as are charged under Schedule C. As in the case No. III tax is levied on the gross amount of interest received without any deduction.

Case V relates to income from stocks, shares, rents and other possessions out of the United Kingdom. Assessment is made on the gross amount on accrued basis as in case of No. III and IV; but profits or gains of a business carried on abroad, covered by the

term 'other possessions' cannot be taxed until actually received in the United Kingdom. Such income is liable to assessment in the succeeding year on "preceding year" basis.

Case VI is applicable to profits and gains not chargeable under other cases of Schedule D or other Schedules. This is a sweeping clause to cover all kinds of cases which do not come within the scope of Schedules A, B, C and E and cases I to V of Schedule D.

Basis of Assessment. The basis for assessment in Schedule D is ordinarily the income of the preceding year, but there are special provisions for the first three in case of a new business and last two years' assessments for a discontinued one.

The first year's assessment is made on the profit of the period from the commencement of business to the end of the fiscal year i.e., 5th April following, and the taxable amount is worked out proportionately on the basis of the income of the first twelve months.

The second year's assessment is made normally on the profits of the first twelve months on the preceding year basis and the third year's assessment on the profit of the second twelve months on the same principle. But the law gives option to the tax-payer to have both the second and third years' assessments revised, if he finds it to his advantage on the basis of actual profits of the fiscal year ending on 5th April following the first assessment. For example, let the income of a person who commenced business on 1st July 1932 be as follows :—

1st year ending 30th June 1933 £ 1200/-

2nd year ending 30th June 1934 £ 600/-

3rd year ending 30th June 1935 £ 2400/-

Assessments in the ordinary way will be

1933-34 at £ 900 i.e., 3/4th of 12 months' income.

1934-35 at £ 1200 i.e., profit of the first twelve months.

1935-36 at £ 600 i.e., profit of the preceding year.

1936-37 at £ 2400 i.e., profit of the preceding year.

If the tax-payer finds that the actual profit for the second and the third year's assessments fall short of the amount on which he is assessable as noted above, he has the option to have the assessment reduced on the basis of actual profits. Taxable income calculated proportionately will be as given below :—

1933-34 period ending on 5th April 1933—
£ 900 No change.

1934-35 year ending 5th April 1934—£ 300
plus £ 450 i.e., £ 750.

1935-36 year ending 5th April 1935—£ 150
plus 1800 i.e., £ 1950.

1936-37 year ending 30th June 1935—£ 2400
income of the preceding year.

The assessment for the first year has to be made on the actual profit of the year of assessment and that of the fourth year on the preceding year basis and the tax-payer has no option.

From the above examples it is clear that

the tax-payer has to pay tax on income of £ 1800 (1200 plus 600) for the second and the third year assessments in the former case and on £ 2700 (750 plus 1950) in the latter, and will not naturally have recourse to the other alternative, which can only be exercised at his option.

If, instead of an income of £ 2400 in the third year, there had been a loss of £ 100, the tax-payer would have found it to his advantage to exercise the option and have the assessments for the second and the third year reduced as follows :—

1934-35 year ending 5th April		
1934: £ 300 +	£450	i.e.,
£ 750	..	.. £ 750
1935-36 year ending 5th April		
1935: £ 150 -	£ 75	i.e.,
profit of £ 75	...	£ 75
		£ 825

In this case he pays tax only on £ 825 and naturally he will exercise the option.

When a business is discontinued in any year the last assessment is made on the basis of the actual income from the 6th April to the date of discontinuance, whatever be the preceding year. The revenue authorities also possess powers to review the assessment for the preceding year i.e. the penultimate fiscal year, if the actual profits for that year are greater than those calculated on the basis of the preceding year.

Following the same example let us suppose that the business is discontinued on 31st December, 1945. Last year's assessment i.e. for 1945-46 will be based on actual income from 6th April to 31st December 1945. Further, the revenue authorities are entitled to make assessment for 1944-45 on the basis of actual profits in the fiscal year ending 5th April 1945 in place of normal assessment on the basis of preceding year's income. The option to depart from the normal basis of assessment lies with the tax-payer for the second and the third year's assessment when tax is charged

twice on one year's income, and with the revenue authorities for the penultimate year when the business is discontinued and when the income of one year is left unassessed.

Collection of Tax. Tax under this Schedule is payable in two instalments, one on the 1st of January and the other on the 1st of July following the assessment.

Deductions. No deduction is admissible in cases III, IV and V and the whole income is assessed. In case, VI, computation of taxable income is made according to the circumstances of the case as directed by the Commissioners.

The cases I and II are most important. Rules applicable to both are substantially the same. The following deductions are permissible under the law :—

1. Expenses and disbursements not being capital expenses wholly laid out or spent for the purposes of trade or profession.

2. In the case of building, partly used as a dwelling house, the maximum deduction is normally two-thirds of the annual value but

it may be increased, if the assessing authorities are of opinion that a greater sum ought to be allowed in a particular case.

3. Cost of repairs to business premises and sums spent for the supply, alterations or repairs to any implements, utensils or other articles employed for purposes of trade or profession.

4. One-sixth of the annual value of mills, factories or similar premises situated outside the United Kingdom and occupied by the owner for purposes of trade.

5. Foreign Income-tax paid in respect of profits in the place where they arise.

6. Bad debts actually incurred and also doubtful debts in so far as they are estimated to be bad. In bankruptcy cases the amount expected to be recovered from the debtor is taken to be the value of the debt and the balance may be treated as bad, provided good reasons exist to anticipate the difference as loss in specific cases, but not the amounts thrown into a reserve against debtors generally.

7. Wear and tear allowances for plant and machinery considered reasonable by the Commissioners. Allowance is given on the basis of written down values usually at fixed rates determined by the Board of Inland Revenue in consultation with Trades Associations and business men, plus one-tenth of the wear and tear deduction so worked out as additional allowance. If, however, a case is made out for an enhanced rate for any particular asset, the allowance may be given at the increased rate at the discretion of the Commissioners.

8. Obsolescence allowance is admissible in respect of plant and machinery which has become obsolete and is replaced by an up-to-date equipment. The allowance is worked out by deducting from the cost of the machinery or plant replaced :—

- (a) the total amount of allowances made at any time in respect of such machinery or plant for wear and tear and the additional deductions of $\frac{1}{10}$ th, and

- (b) any sum realized by the sale of the obsolete machinery or plant.

Inadmissible.

1. Interest on proprietor's capital.
2. Drawings or salaries of partners or proprietors.
3. Payments taxable at source, such as annual interest on loans, patent royalties and annuities.
4. Reserves for bad debts and anticipated losses.
5. Losses not connected with the business or profession.
6. Losses recoverable under an insurance or contract of indemnity.
7. Losses of capital nature.
8. Expenditure of capital nature.
9. Expenditure of the nature of charity, presents or voluntary gifts.
10. Personal and private expenses not connected with the business.

11. Depreciation on buildings, lands and leases.

12. Income-tax and Sur-tax paid in the United Kingdom, or a Dominion.

Miscellaneous Provisions.

(a) **Losses.** Loss in one trade is not only set off against profit of the same year in any other trade carried on by the same person, but the unabsorbed amount of loss is allowed to be carried forward for six years to be set off against available profits in future. It can also be set off, if claimed by an assessee, against the income assessed in the preceding year and a person can claim to have repaid to him tax on so much of that income as is represented by the loss; for example, let the income of a person who keeps his accounts by the calendar year be £ 1000 for 1933 and a loss of £ 600 for 1934. There will obviously be no assessment for 1935-36 because of the loss; and, further, the assessment for 1934-35 can be revised on a net income of £ 400

(£ 1000 minus £ 600). If the tax on assessment of £ 1000 is already paid, the excess paid on £ 600 is liable to be refunded.

Refund and Revision of Old Assessments. As in case of business losses, the claims for refunds are admissible for the last six years. In a similar manner, where income has escaped taxation, assessment can be revised or made afresh up to six years. In other words, in the year 1935-36 assessments up to the year 1929-30 can be made or revised, and the claim for refund relating to that year can be entertained.

Errors and Mistakes. Where a person discovers an error or a mistake in his returns or accounts and finds that, as a result of the same, he has paid tax in excess of the correct amount, he can get the mistake rectified and can claim refund of the excess, within six years after the year of assessment.

Partnership. Although a separate return has to be filed for partnership income and the statutory income is determined on the

same lines as in any case of an individual, the assessment is not made on the income so arrived at. Individual partners may claim the relief and allowances to which they are entitled. The tax payable is calculated on the basis of the liability of the individual partners and is payable by the firm.

New partnership. (a) If a person engaged in trade, profession or vocation takes in one or more partners, the change in the proprietorship does not affect the basis of assessment i.e., the assessment will continue to be made on the basis of the income of the preceding year. But if all the partners wish that the business may be treated as newly set up at the date of change, the person originally carrying on the business will be treated as having discontinued it and will be assessed according to the provisions relating to the discontinued business; and from the date of change, assessment will be made according to the rules applicable to newly started business.

(b) Where there is not merely a change

but a succession to business by a new set of partners, the business is treated as discontinued. There will be two assessments, one on the discontinued business up to the date of discontinuance and the other in respect of the new business commencing from the date of change.

Companies. The limited companies are assessed at the full standard rate on their entire profits. This is of the nature of a corporation tax which is not refundable. When distributing dividends to share-holders the companies are entitled to deduct tax at the standard rate from the dividends payable and are required to supply to each share-holder a statement with the dividend warrant showing:

1. the gross amount payable,
2. the rate applicable and amount of Income-tax deducted, and
3. the net amount actually paid.

The total amount of tax so deducted has to be accounted for in their revenue accounts by the companies.

Schedule E

Tax under this Schedule is levied in respect of every office or employment of profit or pension, and upon every annuity pension or stipend payable by the Crown or out of the public revenue of the United Kingdom, except annuities chargeable under Schedule C.

Tax is deducted at source on the salaries of Government and Railway Officials and not in the case of others who are required to pay tax direct on assessment.

All money remuneration or profits such as commission, bonus, directors' fees are chargeable under this Schedule; but not board, lodging and clothes etc. or similar items which are not capable of conversion into money; but where gross salary includes board and lodging and a deduction is made for the same, the entire salary is liable to tax.

In addition to the allowance in respect of earned income, a tax-payer is entitled to

deduct from the emoluments received any expenses necessarily incurred in the performance of the duties of his office. Allowance for wear and tear of any machinery, such as a motor car used for purposes of employment, is admissible in a similar manner as that to a businessman. Travelling expenses if paid out of emoluments are admissible deductions, but not the expense of travelling to and from a residence to the office of the employer, since the duties do not commence until the employee reaches the place of employment.

Basis of assessment. As in case of business and profession under Schedule D, the basis of assessment is normally the income of the preceding year; but similar rules apply to the first three years' assessments in the case of a new employment and to the last two years' assessments on the termination of it, as in the case of new and discontinued business, respectively.

The following classes of income, however, are assessed upon the basis of actual income for the year of assessment :—

- (1) Leave salary, pensions or annuities paid out of the funds of any of the Dominions to a person regarded as a resident of the United Kingdom.
- (2) The remuneration of any office or employment held or exercised occasionally or intermittently in the United Kingdom by a person not continuously resident.
- (3) Manual weekly wage-earners, in whose case assessment is made half yearly up to 5th October and 5th April.

CHAPTER V

GENERAL SYSTEM OF ASSESSMENT

The original scheme relating to the British system of taxation appears to have been devised with the idea of collecting revenue from each or a group of small districts through a local non-official agency consisting of prominent and influential residents of the area. These gentlemen are designated as General Commissioners with no salary attached to their office. The plan was obviously very economical.

Originally, the General Commissioners were entrusted, within their own areas, with the duty of assessment, hearing of appeals and collection of tax, and were empowered to impose certain fines and penalties in order to discharge their obligations. All these privileges, with the exception of collection of tax,

are still enjoyed by this non-official body.

As the General Commissioners could not, by the very nature of their position, be well versed in law and procedure, and, possibly, not as mindful of the interests of the Government as of the tax-payers, their neighbours, an official body, the Board of Inland Revenue, was created and entrusted with the duty of watching and guarding the interest of the Crown and of seeing that all assessments and appeals were determined in accordance with law and that no inaccuracies of any nature crept in.

The Board has a large number of subordinates designated as Inspectors of Taxes, who are allotted separate areas consisting of one or more districts.

Gradually, with the increase in the rates of taxes, the income-tax has developed into an important source of revenue to Government. The Act has become more and more defined and the work more technical. As the officers under the Board of Inland Revenue grew

technical experts in determination of taxable incomes, the real power of assessment and determination of points in appeals has, in practice, passed from the General Commissioners into the hands of the Inspectors, though, theoretically these officials represent a party and are on an equal footing with the tax-payers.

In order to eliminate objections to assessments on behalf of the Crown, the Inspector under statutory provisions now receives the prescribed returns from the tax-payers. He examines these returns and asks for particulars and details. When satisfied with the income shown and the details furnished, he proposes assessments to the General Commissioners either on the basis of the return or the figures arrived at, as a result of scrutiny of details. These proposals are usually adopted by the General Commissioners who sign the assessments, and thereafter notice of assessment is accordingly sent to the tax-payer by the office of the General Commissioners, indicating

therein the income determined and the tax payable by him.

If, however, the Inspector is not satisfied with the income shown in the return, or has not been furnished with the details required by him, he usually proposes assessment on enhanced figures as compared with the past assessments. Here it is worth mentioning that an Inspector has no power to call for the account books of a tax-payer, though usually the same are, as a matter of convenience, produced by the assessee in response to requisitions from him for details and particulars. The General Commissioners are not bound to accept the Inspector's proposals and are entitled to make assessments on any figure they consider reasonable, though cases where they disagree with the Inspectors are rare. It may be observed that like a tax-payer an Inspector is equally entitled on behalf of Government to prefer appeals against the assessments made by the General Commissioners within his jurisdiction.

Within 21 days of the assessment, either side can file an appeal. The tax-payer is entitled to prefer an appeal in all cases whether he has or has not filed the return and complied with the Inspector's requisitions, and the appeal has to be decided on merits. A date is fixed for the hearing when the assessee himself, or assisted by a lawyer, solicitor or accountant, puts up his case. The Crown, on the other hand, is represented by the Inspector. After hearing the arguments on both sides the General Commissioners, who also act as appellate authority, usually deliver the judgment immediately and their decision on questions of *fact* is final. On points of *law* arising from the facts of the case, an appeal by either side can be filed before the High Court. If any party remains dissatisfied with the findings of the High Court, further appeal lies to the "Court of Appeal" and, subsequently, to the House of Lords.

As in the matter of assessments, it has been found convenient both to the tax-payer

and the General Commissioners to get the returns showing incomes examined and scrutinised by the Inspector, the Inspector on the filing of an appeal is empowered to examine the assessee's contentions and to come to an agreement with him, if possible, on behalf of Government. More often than not this is the case and the appeal is decided accordingly. Where, however, the parties do not agree between themselves, the appeal is heard and decided by the General Commissioners on the basis of facts placed before them. Thus, though not in theory and law, yet in practice, the determination of appeals, to a large extent, now rests with the Inspectors of Taxes. Obviously, practice is taking precedence over theory with a view to avoiding litigation and saving time and expense to all concerned.

CHAPTER VI

ADMINISTRATION

The existing machinery for administration of the Income-tax Law in Britain is generally regarded as complicated, but it is highly specialized and technical and is designed, on the one hand, to secure proper revenue to Government and, on the other, to gain the confidence of and give satisfaction to tax-payers. The result is very gratifying, as evidenced by the fact that the average number of appeals filed in a year hardly comes to one per cent. The machinery is divided into two broad sections consisting of officials and non-officials. The officials represent a party on behalf of Government to watch its interests as distinguished from those of the tax-payers who constitute the other party.

The General Commissioners. The non-officials associated with the administration are designated as General Commissioners. They are important and influential persons in their own localities and are generally drawn from the land-owning classes in the rural areas, and merchants and professional men in big towns. They are theoretically responsible in their respective districts for the assessment of income-tax and determination of appeals. Of course, a particular commissioner who signs an assessment or technically speaking makes the assessment is debarred from hearing appeal in that case. It is heard by the other commissioners. Usually, there are seven to fourteen commissioners in a district or group of districts. As they are quite independent of the Executive Government or officials of the Inland Revenue Department, the tax-payer feels confident that any assessment made on him will be fair and impartial and the General Commissioners constitute a bulwark

to protect the assesseees against any arbitrary action of the paid officials of the Department. Although the General Commissioners are not usually experts in income-tax laws, yet they are believed to be quite capable of forming sound judgment on facts after hearing both the sides, having to their advantage the first-hand experience of local conditions of the area wherein they perform their duties. On questions of law they frequently have the assistance of a solicitor or lawyer, expert in income-tax laws. In order to discharge their duties they possess powers to impose various penalties for a number of offences under the Act.

The General Commissioners are empowered to appoint the following:—

1. Additional Commissioners. These are also unpaid non-officials belonging to the same area and are appointed by the General Commissioners, whenever they are deemed necessary for a district. Their duty is to consider returns made by the tax-payers and

make assessments under Schedule D i.e., in cases relating to trades, professions and vocations etc. The necessity of making these appointments arises from the fact that most of the business and professional cases require technical knowledge to determine taxable income. In some places no Additional Commissioners are appointed, the General Commissioners themselves acting as Additional Commissioners.

2. **Assessors.** They are annually appointed for each parish. The office is a compulsory one i.e. any resident of the parish can be called upon to work as an assessor. The chief duties which by statute the assessors are called upon to perform are to issue return forms under Schedules D and E annually, to compile a list of all persons in the parish likely to be assessed under Schedule D and to make estimate of profits, under Schedule D, of those assesseees who have failed to file the returns. They are also to examine returns under Schedules

A, B and E and propose assessments under those Schedules which, after revision by the Inspector, are approved by the General Commissioner.

3. Clerks to the General Commissioners. These are solicitors or lawyers in income-tax laws and procedure who act as legal advisers to the General Commissioners and also perform the secretarial and clerical duties connected with the offices such as issue of notices of assessments, demands, requisitions and other orders on behalf of the General Commissioners.

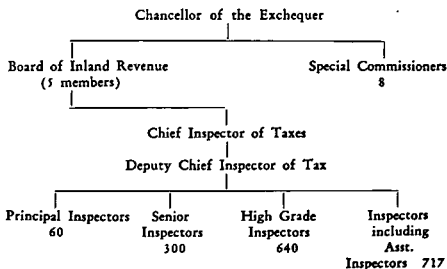
While the office of the Additional Commissioners is honorary, the Assessors and Clerks to General Commissioners are remunerated by the Crown through the Board of Inland Revenue. But the appointment and dismissal of these officials is entirely in the hands of the General Commissioners and all of them are quite independent of the executive. The salary of the Clerks to the

Commissioners varies considerably from place to place, and in some divisions it is as high as that of a senior grade Inspector. Though the appointments are formally made each year, in practice they are continuous.

Until 1927 the General Commissioners were empowered to appoint, in their districts, collectors also whose duty was to collect the tax, and usually the same persons were appointed to work as assessors as well, but since that year the duty of the collection of tax and appointment of collectors has been transferred to the Board of Inland Revenue, and owing to the increasing complexity of the income-tax laws the more technical work connected with returns and assessments is being done by the Inspectors. It is now the Inspectors and not the assessors who examine returns, and prepare assessments under Schedules A, B and E. In a large number of cases, it is again the Inspectors who estimate the profits in the absence of returns and settle with an assessee the amount of tax pay-

able by him.

The official section of the administrative machinery is commonly known as the Inland Revenue Department. It consists of a paid staff under the ultimate supervision of the Chancellor of the Exchequer, the First Lord of the Treasury—but under the direct control of the Board of Inland Revenue. It would be convenient to show the official machinery in a tabular form and then briefly to explain the functions of each. Along with the designations the number of officials is also indicated.



Chancellor of the Exchequer is the Minister responsible to the House of Commons for all questions relating to public revenue including income-tax. He puts forward all legislative proposals and prepares and presents the annual budget. He remains in and goes out of office with the party to which he belongs.

The Board of Inland Revenue consists of a Chairman, a Deputy Chairman and three other members. All these are permanent officials who, together with the staff under them, remain intact and do not change with a change of the political party in power. The members of the Board are ordinarily drawn from amongst the brilliant members of the Civil Service. They are appointed by the Crown, and are charged by Statute with the general care and management of the income-tax and other inland revenue taxes such as death, stamp, mineral rights and corporation duties. They are responsible for the proper administration of income-tax law and continue

to issue general instructions to the Inspectors of taxes in order to make the practice uniform throughout the country. They are the administrative heads of the department. They advise the Minister (The Chancellor of the Exchequer) on all questions of public revenue, legislative proposals and amendments of the Act where necessary. All cases going to the High Court for decision either on the initiative of the tax-payers or the officials involving questions of law, not covered by departmental instructions, come up before them for consideration. They have no power to reduce, cancel or enhance an assessment but can order the writing off of demand in cases of hardship and where it cannot be recovered. Our present Finance Member, Sir James Grigg, K.C.S.I., has been the Chairman of the Board of Inland Revenue for a number of years before taking up office in India.

The Special Commissioners are highly paid whole time officials appointed by the

Treasury by virtue of their high qualifications and technical knowledge in matters of income-tax. Members of the Board of Inland Revenue are also Ex-officio Special Commissioners. They perform certain definite functions specially assigned to them under the Act. Their most important duty is to hear and determine appeals preferred before them. Appeals are as a matter of course filed before the General Commissioners, but every assessee has the option to have his appeal heard and decided either by the General or the Special Commissioners. Usually big business men, contesting on highly technical questions of facts and law, want their appeals to be decided by these experts who, even as paid servants of the Crown, inspire great confidence and are considered to be absolutely fair. Another consideration which prevails in preferring appeals before the Special Commissioners is the motive of not disclosing the trade secrets or the financial position to their neighbours who might even be rivals

in trade. Other duties of the Special Commissioners are :

(a) to make assessments under Schedule D at the request of any taxpayer who prefers not to be assessed by the General or the Additional Commissioners.

(b) to administer Sur-tax, both as regards assessment and collection.

(c) to assess all railways and their officials in the United Kingdom.

(d) to make assessments under Schedule C, on interest and annuities payable out of any public fund.

(e) to deal with repayment of income-tax.

The Chief Inspector of Taxes, with his deputy and more than 1700 other Inspectors, controls the working of the department, which is mainly in the hands of the Inspectors of Taxes. The Chief Inspector's office is located at Somerset House, London. He receives many enquiries from his subordi-

nates with respect to important points and questions involving specialized experience or technical knowledge such as relating to Dominion Income-tax Relief, life assurance companies, mines, depreciation, and obsolescence allowance. These and similar important subjects are assigned respectively to specialists amongst the principal and other senior Inspectors, who are, however, shifted from one assignment to another from time to time. Departmental instructions, in order to make the practice uniform and to explain the law on certain points as laid down by the latest decisions of the High Court, are constantly issued by the office of the Chief Inspector.

The Deputy Chief Inspector is the senior most officer immediately below the Chief Inspector. He is to assist the Chief Inspector in the performance of his duties.

The Principal Inspectors. They are senior executive officers belonging to the Chief Inspector's branch. They are usually

entrusted with the duty of inspecting offices. They also specialise in different subjects to be able to give technical advice, when needed, by the Inspectors of Taxes. Whenever it is considered desirable they are put in charge of important districts to perform the duties of Inspectors.

The Senior Inspectors. These officers are next below the principal Inspectors. Most of them work as inspecting officers. They are put in charge of an area comprising several districts under a number of inspectors. Their chief duty is to visit, at least twice a year, the various districts in their charge in order to examine and check the work of inspectors and to report on it to higher authorities for promotion or otherwise. They may also take charge of the actual disposition of some cases involving, for example, an unusually complex reorganisation having ramifications in several districts. They are always available for consultation to the Inspectors within their

area on important points.

The Inspectors of Taxes including Higher Grade Inspectors and Assistant Inspectors. These are the officers dealing directly with tax-payers within their jurisdiction. The key-note of the British system of administration is decentralisation and the pivotal figure is the local Inspector. The whole of Great Britain and Northern Ireland is divided into about 725 districts each in charge of an Inspector with one or more assistants and a clerical staff varying in size with the importance of the district. He has wide discretion and the whole spirit of the administration is to invest him with wide authority and to hold him responsible for the prompt and satisfactory disposition of cases within his jurisdiction. An Inspector who cannot reach an agreement upon the liability with the tax-payer, in the majority of cases without any further reference or appeal, is supposed to be falling below the normal standard of efficiency. It would be

wrong to suppose that this is the only criterion of his ability and efficiency, but it certainly forms an important consideration in determining an Inspector's merits.

The important duties of the Inspectors are:--

1. to issue forms of return for assessments.

2. to examine the returns filed particularly relating to trades, professions and vocations and to determine the taxable income after obtaining necessary details and also after examining account books if these are produced by the assessee himself. Ordinarily he does not examine original books of accounts, nor can he call for them but he relies on statements prepared and certified by the qualified accountants, and proposes assessments to the General Commissioners.

3. to make inquiries and propose assessment on estimates in cases where returns are not filed and details not furnished.

4. to receive notices of appeal by asses-

sees who are dissatisfied with the assessments.

5. to file appeals on behalf of Government (in cases in which he is not satisfied).

6. to examine the contentions of the assessee on appeals and to come to a determination on various points by exchange of views and personal discussion with an assessee or his representative.

7. to conduct and argue appeals on behalf of the Crown before the General and the Special Commissioners.

The success of the British system rests on the high calibre of the Inspectors, upon the general reliability of information furnished to them by the assessee and by the qualified accountants, but mainly on the desire of the Inspector and the tax-payer to arrive at a correct and equitable determination of the tax liability at an early date. All this results in the saving of much time for all concerned and makes for general satisfaction. It may be mentioned that excepting the important assessments relating to trade,

professions or vocations under Schedule D all others which require clerical work are completed by his staff. For instance the relief calculations on account of personal and other allowances even in Schedule D cases are left by the Inspector to be done by his office. The clerical work is re-examined and verified and then put up for his signatures before the Inspector. As accountants are usually believed to be furnishing accurate details from the accounts, the necessity of examining original books of entry does not arise, thus saving the Inspector a good deal of time which he would otherwise have to spend.

Unlike Indian system the duty of collection of tax is entrusted to separate officials and an Inspector is not concerned with it.

CHAPTER VII

CONTRAST

Having dealt in general terms with the provisions of the Income-tax Act in Great Britain and the system of assessment, the fitting conclusion to this treatise will perhaps be to point out categorically the remarkable points and aspects of law and procedure in Great Britain which materially differ from those in India; and consequently the following pages will be devoted to the said subject.

Scope. The scope of the provisions of income-tax Act in Britain is much wider than in India. While the agricultural and zemindari incomes are specially exempt in India they are taxable in England. A resident in Britain is liable to pay tax on all income from foreign possessions i.e. property, busi-

ness, interest, dividends etc. whether the income is received or not: if it only arises or accrues to him outside Britain during the year under consideration it is taxable. On the other hand in India such incomes cannot be taxed until actually received or brought into British India. Certain classes of income as mentioned in Chapter VI are assessable in Britain in the year in which they accrue even before the year is completed. Such provisions do not exist in India. It is only in case of discontinued business and of persons about to leave British India that tax can be levied on current year's income, otherwise all assessments have to be made in this country on the basis of the income of the previous year.

Association of Non-officials with the Administration. Both as regards assessments and appeals the non-officials occupy the important position of Judges in the Administration while the department under the Board of Inland Revenue definitely represents

a party on behalf of the Crown and is on an equal footing in relation to the other party represented by the tax-payers. Both sides are equally entitled to file appeals if dissatisfied with the assessments and can approach higher Courts of Law, if not satisfied with the appellate orders. On the other hand in India, the non-officials are not associated with the administration except as referees in a few matters, and the Government Officials have unfortunately to assume the double role of a party and a Judge. Income-tax Officer is not only an investigating official to find out tax-payers but has also to act as judge to determine the amount on which a person is to be taxed. He has to decide all objections that may be raised by the tax-payers with regard to their liability to tax and in respect of the taxable amount so far as assessment is concerned. A tax-payer is entitled to file an appeal before the appellate authority designated as Assistant Commissioner, another superior officer of the Government.

On hearing of appeal an assessee is entitled to represent his case fully and can have the assistance of lawyers and accountants but no body is deputed to represent the Government. The presence of the Income-tax Officer who made the assessment is specially prohibited and the Assistant Commissioner himself, in his peculiar position, is called upon to look to Government side and thus both to approbate and reprobate the assessment made by an Income-tax Officer.

The Rate of Income-tax at which tax is levied in Britain is one and the same for all incomes and is known as the standard rate of tax. There is, however, a reduced rate for the first portion of the taxable income up to £135. The current standard rate is 4s. 6d. and reduced rate is one-third of the standard rate i.e. 1s. 6d. in the £. The rates for Sur-tax (the same as Supertax) are in accordance with the progressive system of tax as in India i.e. the rate increases as the income increases and the Sur-tax is levied

on all incomes exceeding £ 2000 which is equal to about Rs. 26,666/-

The reduced rate together with various allowances go to make up the system a graduated one to a considerable extent but the principle of progressive taxation, so far as income-tax is concerned, is not so clearly observed as in India.

Allowances. The statutory net income is worked out almost in the same manner in both the countries, but there are numerous allowances in Britain such as Earned income, Reduced rate, Old age and Personal allowances for self, family and dependents which ultimately have the effect of raising the taxable limit much higher than £125 fixed by the statute.

Deduction of Tax at Source. Including the amount of tax recovered from companies about 70% of the tax in Britain is collected by deduction at source. Not only the interest on securities and salaries of the Government and Railway employees

are taxed at source but the payer is made responsible for deduction of tax from all payments exceeding £10 in respect of rent of property, land, buildings, tenements, royalties, annuities and interest on loans; and the tax so deducted has to be credited to revenue. He thus becomes the collector on behalf of the Government and is entitled to deduct, under the law, the tax so paid from the subsequent payment of rent or interest as the case may be. This makes for considerable economy of administration and prevention of evasion as every kind of assessment at source does. In India the scope is wider in respect of salaries as tax is deducted at source on all salaries but is much narrower in other respects as it is charged at source only on interest on Government Securities, debentures issued by limited companies and local authorities.

Collection of Tax from Persons Directly Assessed. Assessment in Britain is made separately under each Schedule and the tax is collected separately. Usually

the returns are issued to assesseees about the 6th of April and are due back in 21 days and the assessments are completed by September. Tax payable in each case is as follows:

- | | |
|--|--|
| (1) Assessments under Schedule A and B based on annual value and also under Schedule C. | Single instalment
1st. January following. |
| (2) Others i.e. under Schedules D & E as well as those under A & B made on business lines. | Half on 1st Jan.
half on 1st July
i.e. six months later |
| Sur-tax | Single instalment on 1st. Jan. of the following year. The assessment to Sur-tax in Britain is made in a subsequent year and not simultaneously with the income-tax assessment as in India. |

Basic Income for Assessment. In India all assessments are made on the basis of the income of the previous year. In Britain the rules are different. Assessments under Schedules A, B, and C and on certain specified incomes mentioned in Schedule E are made on income of the year of assessment. The basic income under Schedules D & E ordinarily is that of the preceding year, which is the same as the previous year in India but there are separate provisions as explained under Schedules D & E for the first three and the last two years of assessments in respect of business, profession, vocation and employments i.e. cases falling under Schedules D & E and also those under A & B dealt with on business lines.

Dividends. Income-tax is paid by limited companies direct on their entire profits as in India at the standard rate of tax prescribed for the year in which assessment is made. This is treated as a corporation tax like Supertax in India and is not refund-

able. The companies are further entitled to deduct income-tax at the prevalent rate when distributing dividends to the share-holders and are required to indicate in the dividend certificate to be issued to each share-holder the net amount paid and the tax deducted. The total of these two figures is considered to be the gross income of the recipient and represents his statutory income. The consideration whether a part of the income of the company which is distributed as dividend is derived from non-taxable sources is ignored, the net and the gross income of the share-holders being regarded as shown in the dividend certificate. The claims for refund are immediately settled and the assessments involving income from dividends are not delayed. The tax recovered by the companies when distributing dividends has to be credited to the revenue account of the year in which disbursement is made. In India, on the other hand, the dividend distributed is considered to have been paid out of the

taxed profits. The percentage declared on each share is paid in full to the share-holders and the amount so received has to be made gross and split up into two portions—taxed and untaxed, with reference to the company's income subject to assessment. The taxed portion is then made gross. The result is that until the assessments of companies are completed the share-holders' gross income cannot be known, with the natural result that assessments involving income from dividends and claims for refund cannot be settled and are considerably delayed.

Business Losses. Business losses are allowed to be set off against available profits for six years and are carried forward in a like manner as unabsorbed depreciation in India. The tax-payers in Britain are also entitled to have the loss in any year set off against the income assessed in the preceding year and thus to pay the tax on the aggregate income of two consecutive years. If the tax for the preceding year is already paid in full a refund of

tax on the amount represented by the loss can be claimed, and if only a part is deposited the outstanding balance of tax can be claimed to be set off against the amount of refund worked out.

In business cases tax levied for a year is split up into two equal portions and is payable in two instalments, one on the 1st. January during the course of the assessment year and the other on the 1st July in the following year. Thus if a person suffers loss in a subsequent year he is entitled to set off the tax refundable on the amount represented by the loss against the tax due from him on 1st July on account of the preceding year's assessment and if the entire tax has already been paid he will be entitled to cash refund.

Escaped income and refunds. Income which has escaped taxation in a year can be brought under charge for six years and in a similar manner claims for refunds are admissible for a period going back up to the past six years.

Errors and Mistakes. If a tax-payer finds that due to an error or a mistake in his return or accounts tax paid in a year was in excess of the correct amount, he can claim a refund of the difference within six years, while in India the mistake must be apparent from the assessment record and can only be rectified in a year.

Assessments on individuals. England is an individualistic country. There is no system like that of joint Hindu family. There are firms and associations of individuals enjoying income in corporate capacity but the tax is determined with reference to the liability of individuals whether enjoying separate income or as members of a firm, or in association of other individuals.

Depreciation. Depreciation is admissible only on plant and machinery. It is not allowed on buildings as it is presumed to have been allowed in making one-sixth statutory deduction out of the annual letting value of the premises. No fixed percentage for each type of machinery or plant is determined by

Legislature. It merely provides for allowance of a reasonable amount by the assessing authorities in each case representing the diminished value by reason of wear and tear during the year. In practice, however, reasonable rates for different kinds of plants and machinery are determined by the Board of Inland Revenue in consultation with the representatives of the business community and are adhered to, but in special cases, where claim is established as equitable for allowance at increased rates, the assessing or the appellate authority allow the same at reasonably enhanced rates.

The Depreciation in Britain is calculated on written down value and not on original cost as in India. It naturally diminishes year after year on the same asset and obviously the original cost is never written down. It may, however, be observed in this connection that the scrap value of machinery or plant never becomes zero.

The depreciation allowance is not only

given to the owner as in India but also to the tenant where he undertakes to bear the actual cost of maintaining and restoring the plant.

Obsolescence allowance. The idea of this allowance is the same as in India, i.e. the compensation for loss of useful value. It is allowed in respect of plant and machinery abandoned as out-of-date and replaced by an up to date equipment. The depreciated minus the scrap value represents the amount admissible. No allowance for obsolescence, however, is given in Britain, if the machinery or plant is merely abandoned but is not replaced.

Penalties. Penalties in Britain are much more severe than in India.

The penalty for neglecting to make a return, or for making an untrue or incorrect return is a sum not exceeding £ 20 and treble the tax chargeable. A penalty not exceeding £ 5 may be imposed for neglecting to make a return, even though the person proceeded against may prove that he was not chargeable to Income-tax.

The penalty for fraudulently concealing or untruly declaring any particulars in making any claim for any allowance or deduction is £ 20 and treble the tax chargeable in respect of all the sources of income.

If any person, for the purpose of obtaining an allowance, reduction, rebate, or repayment in respect of Income-tax, either for himself or for any other person, or in return made with reference to Income-tax knowingly makes any false statement or false representation, he is liable, on summary conviction, to imprisonment for a term not exceeding six months with hard labour.

Sur-tax (The same as Supertax) is charged in a subsequent year, that is to say, if in the year 1935-36 the assessment to Income-tax is made on the income of the preceding year i.e. 1934-35 the Sur-tax assessment will be made on the income of the year 1933-34. Taxable income for Sur-tax is increased by the earned income allowance and the personal allowances deducted for income-tax purposes.

Tax at source on small incomes. In India income-tax is deducted at source on interest on securities whatever be the payment. In Britain no tax is deducted where the half yearly payment does not exceed 50 shillings. This is in the interest of small investors and with a view to avoiding a large number of claims for refunds.

Double Income-tax Relief. The appropriate rate of tax for purposes of double income-tax relief as worked out in Britain is the average rate of income-tax borne on the taxable income plus the average sur-tax rate on the total income.

In the end it would be useful to point out by means of a table the comparative incidence of existing taxation on the same incomes in the two countries. The official rate of exchange i.e. 1s. 6d. to a rupee is assumed. It must, however, be remembered in this connection that there is sufficiently heavy Estate duty in England which does not exist in India. A table for Estate duty will be

found in the end.

Tax liability in case of a person with a wife and three children, which may be presumed to be the case of an average type in India:—

Britain			India	
Income	Percent- age where income is earned	Percent- age where income is unearned	Income	Percent- age of income-tax
£ 75	nil.	nil.	Rs. 1,000	0.69
„ 90	nil.	nil.	„ 1,200	„
„ 120	nil.	nil.	„ 1,600	1.39
„ 135	nil.	nil.	„ 1,800	„
„ 150	nil.	nil.	„ 2,000	3.65
„ 320	nil.	nil.	„ 4,266	„
„ 350	nil.	.64	„ 4,666	„
„ 400	nil.	1.5	„ 5,333	5.47
„ 450	.66	2.17	„ 6,000	„
„ 525	1.43	4.93	„ 7,000	„
„ 600	2.63	7.13	„ 8,000	„
„ 750	5.7	10.2	„ 10,000	7.29
„ 900	7.25	12.25	„ 12,000	„
„ 1,125	9.8	14.2	„ 15,000	9.72
„ 1,500	11.85	16.35	„ 20,000	11.54
„ 1,800	13.63	17.38	„ 24,000	„
„ 2,000	14.51	17.88	„ 26,666	„

Percentage of combined income-tax and Sur-tax (Super-tax in India), in Britain and India on different incomes

Britain		India	
Income	Percentage	Income	Percentage
£ 2,400	21.64	Rs. 32,000	14.32
„ 2,700	22.44	„ 36,000	14.89
„ 3,300	23.83	„ 44,000	16.93
„ 3,900	25.28	„ 52,000	17.64
„ 4,500	27.20	„ 60,000	18.53
„ 5,400	29.37	„ 72,000	19.49
„ 6,000	30.61	„ 80,000	19.98
„ 7,500	33.39	„ 100,000	21.45
„ 9,000	35.85	„ 120,000	22.63
„ 12,000	39.85	„ 160,000	24.34
„ 15,000	42.43	„ 200,000	25.92
„ 18,000	44.61	„ 240,000	27.57
„ 21,000	46.29	„ 280,000	29.15
„ 24,000	47.79	„ 320,000	30.67
„ 27,000	48.95	„ 360,000	32.15
„ 30,000	49.88	„ 400,000	33.62
„ 33,000	50.89	„ 440,000	35.15
„ 36,000	51.73	„ 480,000	36.65
„ 39,000	52.45	„ 520,000	38.13
„ 42,000	53.06	„ 560,000	39.59
„ 45,000	53.59	„ 600,000	41.05
„ 50,000	54.33	„ 666,000	43.06
„ 60,000	55.90	„ 800,000	46.13

Note.—The above table shows percentage of

tax liability in Britain and India in respect of income enjoyed by individuals. The percentage shown for Britain will slightly decrease on account of personal allowances where for instance the individual has a wife, children and dependents etc. The percentage in case of Hindu Undivided Family in India will be reduced in a similar manner since the income up to Rs. 75000/- is exempt from Super-tax against Rs. 30000/- in case of individuals.

In working out the above figures the current rates of Income-tax and Super-tax in Britain and India have been taken into calculations.

ESTATE DUTY

<i>Principal value of Estate</i>		<i>Rate per cent</i>
Exceeding £ 100	Not exceeding £ 500	1
” 500	” 1000	2
” 1000	” 5000	3
” 5000	” 10000	4
” 10000	” 12500	5
” 12500	” 15000	6
” 15000	” 18000	7
” 18000	” 21000	8
” 21000	” 25000	9
” 25000	” 30000	10

<i>Principal value of Estate</i>		<i>Rate per cent</i>
Exceeding £ 30000	Not Exceeding £35000	11
„ 35000	„ 40000	12
„ 40000	„ 45000	13
„ 45000	„ 50000	14
„ 50000	„ 55000	15
„ 55000	„ 65000	16
„ 65000	„ 75000	17
„ 75000	„ 85000	18
„ 85000	„ 100000	19
„ 100000	„ 120000	20
„ 120000	„ 150000	22
„ 150000	„ 200000	24
„ 200000	„ 250000	26
„ 250000	„ 300000	28
„ 300000	„ 400000	30
„ 400000	„ 500000	32
„ 500000	„ 600000	34
„ 600000	„ 800000	36
„ 800000	„ 1000000	38
„ 1000000	„ 1250000	40
„ 1250000	„ 1500000	42
„ 1500000	„ 2000000	45
„ 2000000	„ —	50

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