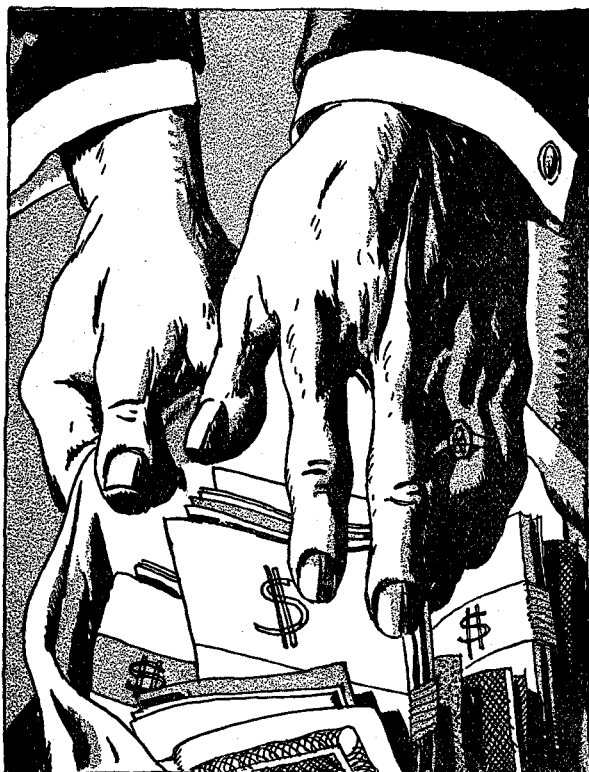


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# TAXING THE CITIZEN'S INCOME

BY P. W. WILSON

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**T**HE UNITED STATES and Great Britain are today facing the same financial problem. Both of these countries have to raise an enormous revenue.

In both, two fifths of that revenue is derived from income tax, and the collection of this tax is among the major operations of government. Essentially the two income taxes, with their exemptions, their gradations, and their differentiations, are similar. In principle, they are intended to achieve the same result.

Between them, there is, however, this difference. It is 134 years since Great Britain imposed a levy on income, and for more than 80 years that levy has been continuous. The American tax is still young and, in certain respects, experimental.

At Washington, there has been raised the

question whether anything in British experience is applicable to conditions in the United States, and possibly a few words by one who has paid the tax in both countries may be of interest. What is the British income tax, and how is it administered? In what respects does that administration differ on the two sides of the Atlantic?

It is well, perhaps, to see the income tax in its historic perspective, and first let us note the familiar distinction between indirect and direct taxation. Indirect taxes are levied in the first instance on commodities and only later are passed on to the man who really pays. Direct taxes fall immediately on the individual. He has to pull out his checkbook, write in the amount, and sign on the dotted line.

Taxation thus resembles surgery. If it is indirect, there is an anesthetic, and the patient is unconscious of what he is suffering. But there is no doubt as to the pain which is inflicted by taxation when it is direct.

The taxpayer, being human, has sought to impose on himself those obligations which hurt least. He has resorted to tariffs and excise duties. He has devised a sales tax. He has tried to avoid the cold realities of a tax on incomes.

In the France of the Bourbons, the privileged classes resisted direct taxation, and a country impoverished by war was left without adequate revenue. The currency was inflated. Revolution followed. It was not until our present postwar period that France grasped the nettle and put a stop to evasion of income tax.

No less powerful has been the prejudice against the income tax in Great Britain. It was as a necessity of the Napoleonic wars that an unwelcome levy was tolerated. The younger Pitt imposed it in 1799. At the Peace of Amiens in 1803, the tax was repealed. On the further outbreak of the war in 1805, the tax was re-

newed. After Waterloo, it was again abolished. Only in 1842 did Peel persuade the people to submit to the tax in time of peace, and it was kept as low as possible. In 1874-5, Gladstone left it at 2d. in the pound, or under one per cent.

So in the United States. A federal income tax was advocated in the year of war, 1812, by Secretary Dallas. From 1862 to 1872 it was actually, if unconstitutionally, collected. But it was only in 1913 that, by the Sixteenth Amendment to the Constitution, the tax was legalized, and here also evasion or avoidance has had to be dealt with.

In Great Britain, there has been a surprising change in sentiment about the income tax. The former prejudice has died down, and during the economic crisis of 1931 officials were besieged by taxpayers anxious to remit without delay whatever was due. As the police are supported by the man in the street, so did the nation rally to the collectors of inland revenue.

The development is the more instructive because the British income tax is a serious affair. The so-called standard rate has been as high as 30 per cent, or 36 times what it was under Gladstone. Even to-day it is 22.5 per cent, and such a shoe pinches.

To explain this change of sentiment, let us make comparisons. In the United States, the Secretary of the Treasury is appointed by the President. He has no seat in Congress. When his term of office is over, he vanishes into the background.

The income tax in Great Britain is associated with the names of her greatest men. It was molded by successive Chancellors of the Exchequer — Pitt, Peel, Gladstone, and the rest — in whom the nation has had confidence, not only in finance but as Prime Ministers.

The Chancellor of the Exchequer sits in the House of Commons, and is supported there by a majority of elected members. As Derby Day is the great anniversary of sport, so is Budget Day the festival of finance, nor can the second chamber interfere. The House of Lords is told that peers do not levy taxes. They pay them.

## II

**I**N THE UNITED STATES, there is still the suspicion that politicians get the money. A civil service is developing, but the spoils system has not been wholly obliterated.

Great Britain has developed a powerful and complete civil service, selected by merit, irremovable save for proved demerit, and independent of politics. Within that bureaucracy, the Treasury is regarded as the keystone of the arch, and, when it comes to the nation's financial credit, nothing is left to chance. Of the "Treasury mind," as it is called, the income tax is the admired masterpiece. A Chancellor of the Exchequer may be as socialist as Philip Snowden or as capitalist as Neville Chamberlain. But the chances are that he will support the department.

In this country, there are many states where a local income tax is levied. To the British, that would be a kind of lese majesty. The income tax is reserved strictly for the national budget and gains thereby in prestige.

In the United States, the argument over the respective merits of indirect and direct taxation does not appear greatly to interest the man in the street. There has been no Bright, no Cobden in this country to lead the debate over free trade.

In Great Britain, the battle for the "free breakfast table" has enhanced the popularity of the income tax with the masses of the people. A sugar duty, it is contended, has to be paid by the many for the sake of the few, and it is graduated downward. A family of four pays twice as much on sugar as a family of two. But the income tax is paid by the few for the sake of the many, and the family of four may escape altogether. Since the few are more fortunate than the many, it is held — at any rate by the Labor Party and the Liberals — that they ought to show their gratitude, nor do the Conservatives seriously dissent from this view.

In the United States, the mass of the people whose means are modest have spontaneously paid their income tax with patriotism and promptitude. But there are stories of untaxed or half-taxed millionaires which were heard across the ocean with incredulous amazement.

In Great Britain, it has been recognized that the income tax, being a hard deal, must be a just deal. Somehow the money has to be found, and anybody who has money should thus pay his share. If one person withholds his contribution, other people have to contribute more than their due. There is little sympathy with the man who, on any pretext, manages to escape.

The income tax is not an automatic machine that, once started, will run by its own momentum. It is a game played by the Treasury on one side and the taxpayer on the other. Nor is it by any mere stroke of the pen that billions in money are drawn from the pockets of citizens often advised by able attorneys. Year by year, leakages are discovered, and amendments put a stop to them. An immense mass of legal enactments and executive regulations has thus accumulated, covering innumerable details.

A headmaster who later became Archbishop of Canterbury disciplined an unfortunate with corporal punishment. Said the victim: "Temple is a beast. But he is a just beast." That is the British view of the income tax.

The authorities in Great Britain are thus believed to be acting as trustees in the public interest. An attempt by the citizen to deceive them is condemned as a serious offense against the community, and few are able to get away with it.

In the United States, there is one oft-applied corrective of abuses in administration. It is publicity. Lists of income tax payers are published in the press, with their incomes. It can hardly be said that these lists are any real safeguard against evasion.

In Great Britain, the collection of the tax is so strict that it can be confidential. It is not held to be necessary to publish lists of incomes and taxes in the press. If a taxpayer satisfies

the Treasury, it is assumed that there cannot be much amiss with him.

In the United States, the levy on incomes is spread as a net in which to catch criminals who otherwise would escape justice. It is an ally of the post office in a desperate conflict between society and the underworld. As Al Capone has discovered, it is a very effective ally.

In Great Britain, the machinery of collection is used only — generally speaking — for the purposes of the tax itself. It is the business of Scotland Yard, not the Treasury, to deal with public enemies. The offense of a bandit is not a subsequent failure to include his plunder in a return for income tax.

### III

IN THE UNITED STATES, it is for the Treasury, broadly speaking, to prove that the citizen has received the income on which the tax is levied. The onus of the proof rests with the officials.

At the British Treasury, the success of the income tax is attributed in large measure to a device which, however kindly meant, is diabolical in its ingenuity. The onus of proof is shifted from the state to the citizen, and this makes all the difference.

The taxpayer fills in a form and indicates what he declares to be his income. The abatements which result in graduation are then claimed as deductions.

If a taxpayer delays making a return or makes a return that fails to carry conviction, he receives a demand for the payment of the full standard rate — 22.5 per cent — on what the officials estimate to be his income. He has then to show that his income is less than the appraisal, and, again, it is he who has to make good the claim to deductions.

In the United States, the taxpayer receives his income and pays the tax after receiving it. In Great Britain, the officials save the taxpayer some of that trouble. Two thirds of the tax are collected — to use the technical phrase — "at the source." The income — dividends or salary or whatever it is — does not reach the taxpayer until the tax has been deducted, and at the full rate. Once more it is for him to prove his right to the abatements. It is an open secret that more tax is paid in Great Britain than is strictly due. The Treasury abides by the rules.





But it does not force refunds on the citizen.

In the United States, there are tax-exempt securities which have been much valued by millionaires anxious to reduce their payments on the higher rates in the schedule. No securities in Great Britain are thus exempt. Municipalities deduct the income tax and pay it into the Treasury before distributing interest on their loans.

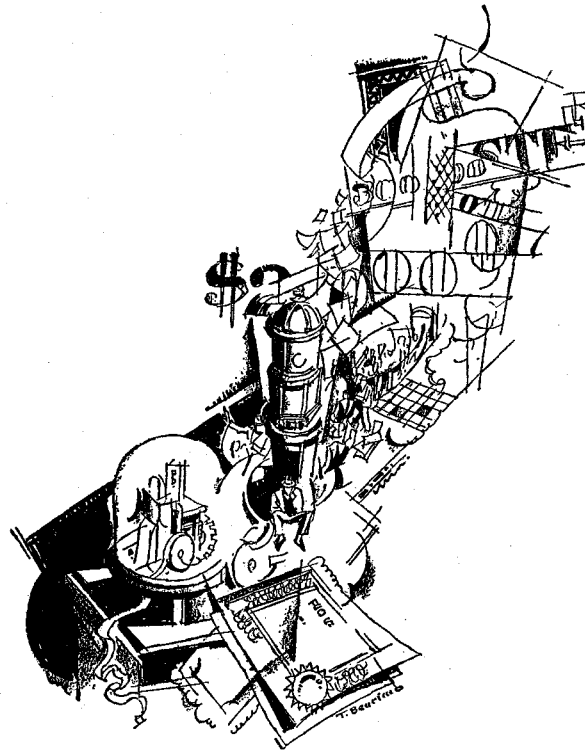
In the United States, no clear distinction was drawn in past years between income and capital. The taxpayer was permitted to deduct losses on capital from his income and, in many cases, to escape taxation altogether.

In Great Britain, the theory is that income, the whole income, and nothing but the income is liable for taxation. The income tax is unaffected by capital values. If a man draws a dividend from a bond or a rent from real estate, he pays on the dividend and the rent. The question whether the value of the bond or the real estate is rising or falling is irrelevant, and Britain has naturally followed with interest the ultimate adoption of this principle by the United States.

The time to tax property, so it is considered, is at the owner's decease. In death duties or inheritance taxes, the state then takes its share, which is graduated up to 50 per cent for an estate of \$10,000,000 or more. The annual yield of death duties is about \$375,000,000, and an accumulation of colossal fortunes, which are held to be antisocial, has been prevented. The curious thing about British millionaires is that, despite the taxation which is forever depleting their fortunes, they do not want to live anywhere else.

To draw a line between capital value and income is not always simple. A man who happens to sell a picture at a profit need not enter that profit as income. Nor can he claim abatement for the loss. But if he makes it his business to buy and sell pictures he must declare his profits in the usual way. So with securities. So with real estate. There also the question is whether the dealings constitute a business.

Where a tax is nominal in amount, inequalities and even evasions may be condoned. But an income tax in these days is no laughing matter and, with the strict collection, care has to be taken to mitigate hardships and remedy any grievances that may arise. In Britain, as in



the United States, there are exemptions of low incomes and numerous other concessions for children, dependents, and so on.

The deductions from taxable income differ in the two countries. In Great Britain, a person is allowed to deduct his premiums on life insurance up to one sixth of his total income. In the United States, he may deduct gifts to charity.

Two deductions involve principles, and here again the countries differ. The United States allows the federal taxpayer to subtract from his income whatever he pays in local taxes. The argument against this allowance in Great Britain is that it would be a special favor to the man who happened to own real estate.

Secondly, the United States allows the taxpayer to deduct interest on loans. Here again the British argument is that — in President Coolidge's phrase — he hired the money, just as he might hire a typewriter or a chauffeur. Two men have the same income and live in similar houses. One has a mortgage on his house; the other has not. Why should they pay different income taxes?

In both countries, a distinction has been drawn between earned and unearned incomes. Great Britain allows earned incomes up to \$15,000 a year to be reckoned as five sixths for

taxation. By an act of 1928, the United States allowed a 25-per-cent deduction on earned income, but this provision was canceled in 1932.

In the United States, an unmarried person is allowed an income of \$1,000 free of taxation, and a married person is allowed a free income of \$2,500. Great Britain is not so generous. According to circumstances, the free income varies from \$500 to \$953.

Out of 8,400,000 persons in Great Britain making returns, about 3,700,000 pay the tax. In the United States, only 3,400,000 persons make returns — this for three times the British population.

#### IV

LET US TAKE a typical case from the white-collar class in each of the two countries — a married man with three children, aged 17, 15, and 13 years. His salary is, let us say, \$5,000 a year.

In Great Britain, he may claim an exemption of \$625 for his wife, \$300 because his second child is under 16, and \$250 for the third child. That is, his exemptions amount to \$1,175, and his taxable income is reduced to \$3,825. This, being earned, is reckoned as five sixths, or \$3,187.50, and it is divided into two parts — \$1,250, on which he pays 10 per cent, and \$1,937, on which he pays 22.5 per cent. The payment works out at \$560.

In the United States, this taxpayer deducts \$2,500 for himself and \$400 for each of the three children, all of them being under 18 years, or \$3,700 in all. Out of an income of \$5,000, he thus pays on \$1,300, and his rate is 4 per cent. His tax thus amounts to \$52, or less than one tenth of the British.

It is thus in the lower rates of income tax that there is so marked a contrast between the two countries. The upper graduation is more or less similar. In Britain, the tax rises from nothing by easy steps to 50 per cent for incomes of \$250,000. For very high incomes, it may approach 60 per cent. Such a graduation tends obviously to anticipate the yield from death duties. The state cannot take away half a man's income when he is alive and expect to tax his fortune — sometimes called his deferred income — when he is dead.

The net result of the exemptions and the

graduation on the British income tax is significant. The standard rate of the levy is 22.5 per cent. But the average tax actually paid works out at only 10 per cent, or thereabouts, of the income returned — this despite all the heavy taxation of the wealthy.

The explanation of the average tax collected is simple. The small taxpayer is more important than the large taxpayer. In 1929-30, there were only 20,000 persons in Great Britain who declared incomes exceeding \$125,000. But the low incomes were numbered by the million. It is thus the regular income tax that produces four fifths of the revenue. Only one fifth is derived from the "supertax."

According to a statement from the United States Chamber of Commerce, at Washington, the whole measure of taxation, federal and local, amounts in this country to 20 per cent of the national income. It is not easy to say how much of this represents income tax, nor can we determine accurately what figure in this country would compare with the 10 per cent for Great Britain. All that can be said is that there appears to be a reserve of taxable capacity still untapped by the Treasury.

In administration of income tax, legal authority is not enough. Authority must be also moral. The acting Prime Minister in Britain is Stanley Baldwin. He may be liked. He may be disliked. Nothing will alter the fact that, voluntarily, he has given a handsome slice of his wealth to the nation.

Doubtless it is the duty of His Majesty's Opposition to oppose His Majesty's Government and, if possible, to "turn the rascals out." There is thus perpetual talk in Great Britain, as elsewhere, about extravagance and inefficiency. But, in their heart of hearts, the people on both sides of the Atlantic believe that, on the whole, the money paid in income tax goes to the country and that the country is worth the money. Britain has found that the public accounts should be not only strictly audited but clearly presented. Any person of reasonable intelligence should be able to follow the figures.

Budgets in these days provide not only for the public service. Much of the revenue furnished by the taxpayer is handed back to the citizens. It is by the budget that economic inequalities are adjusted.

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# I'D RATHER BE A SPINSTER

ANONYMOUS

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AT LAST I have what every unmarried woman is supposed to want more than anything in the world, what sentimental old ladies have always wistfully suggested, what well-meaning friends have urged upon me, what casual acquaintances have hinted that every woman should have, namely, a home of my own. It is a comfortable and pleasant home. My husband is one of the finest and most considerate of men, a member of Phi Beta Kappa, listed in *Who's Who In America*, possessor of an entire scrapbook filled with press clippings and honors he has won. Moreover, our tastes are almost identical. But for real happiness I would prefer my former mode of existence, which was teaching in a public school in an eastern city and living alone in a rented room. This is so contrary to all tradition that it may be well to assure my readers that I am quite as sane as the average person and that my tastes are more feminine than masculine. Frivolous evening clothes and dancing delight me, but so do religious and philosophical discussions.

Married women have long given voice in our prints to their joys and vicissitudes, and recently their unattached sisters have been doing likewise. In most cases these latter appear to be sprightly persons with varied interests and a hopeful outlook on life, rather than the lone, lorn individuals they are supposed to be. Even when reasonably contented, however, they admit that marriage would be more satisfactory. It should be, but is it? My experience covers both sides, as I remained single until well over thirty.

A childhood spent with the frustrations of a woman who craved a musical career and disliked housekeeping and who was always short of money (although her husband had plenty for hunting dogs, expensive fishing tackle, and trips to Florida with his men friends) gave me

the impression that marriage was not a happy life for women. All men are not like my uncle, of course, but, as every psychologist knows, the irrevocable influence of early environment colors for us all situations in life.

This home background led to reading and observation which freed me from the desires and illusions of most young girls. If my aunt was so overworked, with one maid in a family of four, what would it be like if there were no help and a number of children? Consequently, an engaged girl always had my unspoken sympathy, and the sight of a bride walking up a church aisle with all the accouterments of beauty and convention never failed to turn my mind to cookstoves and crying babies. I thought it cruel for society to conceal so much drudgery under the falderal of diamond rings and wedding veils.

Balancing this unfavorable picture of home life was a vision of how it might be if a man and woman of similar tastes could be comrades through the years, the wife with her own career, the housework performed by experts — the social equals of other workers — and with a nursery school where the small child could remain in the company of other children and in the care of specialists, for the few hours that his mother worked. I knew, however, that such an existence was impossible, that one could get specialized workers for everything but home tasks and that nursery schools were only for the rich.

In the back of my mind was the vague intention of marrying some day, but, knowing how much women give up for this exalted state, I found it impossible even in my romantic youth to consider a man who had not made a name for himself in some line. The one thing above all that I demanded of life and still demand is leisure to write and study, and it seemed that an older man would be more likely