

UNIVERSAL
LIBRARY

OU_152228

UNIVERSAL
LIBRARY

OSMANIA UNIVERSITY LIBRARY

Call No. 336.24/F94J Accession No. 30340

Author Fryer, E.D.

Title Introduction to econometrics

This book should be returned on or before the date last marked below.

AN authoritative and useful book giving a detailed summary of the leading points of the subject. It provides an excellent textbook for students and a helpful guide to taxpayers in disposing of the many perplexities which arise from imperfect understanding of first principles.

"A simple and concise explanation of income tax for taxpayers generally and for students."
—INVESTORS' CHRONICLE.

"Taxpayers in general will find here useful information for the determination of questions affecting their returns of income for income-tax purposes. Mr. Fryer's book is an excellent one."
—SCOTTISH LAW REVIEW.

"Extremely useful."—INVESTORS' REVIEW.

"A cheap and handy book. . . . Many of our readers will find it useful, for it is both accurate and clear."—THE INSURANCE MAIL.

INTRODUCTION TO INCOME TAX

BY
E. D. FRYER, A.L.A.A.

EIGHTH EDITION



LONDON
SIR ISAAC PITMAN & SONS, LTD.

1947

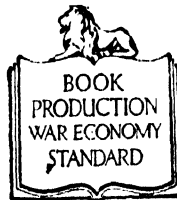
<i>First Edition</i>	.	1930
<i>Second</i>	„	1931
<i>Third</i>	„	1933
<i>Fourth</i>	„	1936
<i>Fifth</i>	„	1938
<i>Sixth</i>	„	1940
<i>Seventh</i>	„	1943
<i>Eighth</i>	„	1947

SIR ISAAC PITMAN & SONS, LTD.
PITMAN HOUSE, PARKER STREET, KINGSWAY, LONDON, W.C.2
 THE PITMAN PRESS, BATH
 PITMAN HOUSE, LITTLE COLLINS STREET, MELBOURNE
 UNITEERS BUILDING, RIVER VALLEY ROAD, SINGAPORE
 ECKETTS BUILDINGS, PRESIDENT STREET, JOHANNESBURG

ASSOCIATED COMPANIES

PITMAN PUBLISHING CORPORATION
 2 WEST 45TH STREET, NEW YORK
 205 WEST MONROE STREET, CHICAGO

SIR ISAAC PITMAN & SONS (CANADA), LTD.
 (INCORPORATING THE COMMERCIAL TEXT BOOK COMPANY)
 PITMAN HOUSE, 381-383 CHURCH STREET, TORONTO



THE PAPER AND BINDING OF
 THIS BOOK CONFORM TO THE
 AUTHORIZED ECONOMY STANDARDS

PREFACE TO EIGHTH EDITION

THIS Eighth Edition includes changes in Income Tax law up to the Finance Act, 1946, and in the text the examples relate to the provisions for the year of assessment 1946-47.

PREFACE

THESE pages contain a statement of the law as it now stands after the far-reaching amendments of recent years, but, as its dimensions indicate, this book does not pretend to offer a complete exposition of the Law and Practice relating to Income Tax. It aims at indicating the leading features of the subject, and deals with matters about which there is no sort of doubt. No one can hope to understand the implications of any particular practical problem until he has acquired a grasp of the nature of the framework upon which our income tax system has been built up. With this in mind, the author hopes that treatment of the subject in the manner now presented will meet a real need among students approaching the subject for the first time (for whom this book is intended as a first course of reading) and among tax-payers generally. It is thought that the latter will find it sufficient for the disposal of that large class of income tax perplexities that arise from imperfect understanding of first principles.

As to scope, the book adequately covers the requirements, as regards income tax, of the advanced stages of the Book-keeping and Accounting examinations of the Royal Society of Arts, the London Chamber of Commerce, and kindred bodies; and also the Intermediate examinations of the various Professional Accountancy and Secretarial bodies.

E. D. F.

CONTENTS

CHAP.	PAGE
PREFACE	iii
I. GENERAL CONSIDERATIONS	I
Taxation at the Source—"Ability to Pay"—Allowances— What is "Income"?—Scope of Tax—Year of Assessment	
II. RELIEFS AND ALLOWANCES TO INDIVIDUALS	8
Exemption—Earned Income Allowance—Personal Allowance— Children—Relatives Taking Charge of Children— Allowance for Widowed Mother, etc—Allowance for Dependent Relatives—Allowance of Tax at Reduced Rate—Exemption— Taxable Income—Relief in Respect of Life Assurance Premiums—Marginal Relief: Persons Over 65—Post-War Credits—General Notes on Allowances dealt with in this Chapter	
III. ADMINISTRATION	25
The Commissioners of Inland Revenue—General Commissioners— Additional Commissioners—Assessors—Collectors— Special Commissioners—Inspectors of Taxes	
IV. ASSESSMENTS UNDER SCHEDULES A, B, AND C	27
Annual Value—Special Reliefs and Allowances—Collection— Lands Occupied for Husbandry—Woodlands—Nurseries and Market Gardens—Other Lands—Cattle and Milk Dealers	
V. ASSESSMENTS UNDER SCHEDULE D, CASES I AND II. TRADES, PROFESSIONS AND VOCATIONS	37
Normal Assessment—New Businesses—Business Discontinued —Apportionment of Accounts—Assessments—Wear and Tear Allowance—Obsolescence—Depreciation of Buildings— Losses	
VI. ASSESSMENTS UNDER SCHEDULE D, CASES I AND II CONTD. PARTNERSHIPS AND COMPANIES	54
Partnerships—New Partnerships—Companies	
VII. ASSESSMENTS UNDER SCHEDULE D, CASES III, IV, V AND VI. INVESTMENT INCOME AND CASUAL PROFITS	59
Rules of Assessment Applicable to Cases III, IV and V— New Sources—Cessation	

CHAP.	PAGE
VIII. ASSESSMENTS UNDER SCHEDULE E—EMPLOYMENTS	63
“Pay as you Earn”—Coding	
IX. MISCELLANEOUS PROVISIONS	67
Husband and Wife—Separate Assessments—Charges on In- come—Deduction of Tax—Persons Receiving Income Tax at Source—Residence —Payment of Tax by Instalments—Tax- free Payments	
X. CLAIMS AND APPEALS	76
Repayment Claims	
XI. SPECIAL CASES OF RELIEF	79
Mistake—Bank Interest—Contingency Claims—Dominion Income Tax Relief	
XII. SUR-TAX—GENERAL NOTES	84
APPENDIX I. EXEMPTION	86
Individuals—Classes of Income Exempted from Tax— Bodies and Classes of Persons Entitled to Claim Exemption— Earned Income—Definition—Rates of Income Tax, 1920-21 to 1946-47	
APPENDIX II. EXERCISES AND ANSWERS	88
INDEX	95

INTRODUCTION TO INCOME TAX

CHAPTER I

GENERAL CONSIDERATIONS

IN order to get a view of the British income tax system as a whole it will be convenient, in the first place, to review some of the ideas underlying taxation generally, and to see how these fundamental principles find expression in the case of the particular tax now under consideration.

Every year a careful estimate is made of the expenditure to be incurred on national services during the ensuing twelve months, and the Chancellor of the Exchequer in his Budget speech in the spring, places before Parliament proposals for raising sufficient revenue to meet this expenditure. National revenue is derived from various sources, the most important of which is taxation of one kind and another. Now, in imposing taxation, several important points (e.g. yield, collection, ability to pay) must be kept in mind.

The yield of any tax will depend upon the rate of tax multiplied by the number of times it is successfully imposed. The expenses of collection must be kept proportionately low, and evasion made as difficult and dangerous as possible. Heavy penalties are provided for evading the Acts relating to income tax, while an exceptionally efficient administrative machine has been developed to ensure that the provisions of the law are vigorously applied. Much ingenuity has been devoted to the discovery of loop-holes in the legislation which offer a means of escape from liability. This is not the same thing as evasion, which means evading payment of tax for which liability has been legally incurred. Taxing Acts must be

construed literally on the printed word, and it might quite well happen that, although our legislators intended to impose tax in certain circumstances, they did not succeed in getting that intention within the meaning of the words set down in the Acts. On the other hand, items that were never intended to attract liability find themselves the subject of taxation. The precise interpretation of various sections of the Acts is constantly the subject of litigation. Hence it is to the decisions of the Courts that we must look for guidance as to the practical effect of the Income Tax Acts. It is, of course, always open to the Government to pass amending legislation to remedy the law, as laid down by his Majesty's judges, where the decisions show that flaws in the system exist.

Taxation at the Source.

The difficulty of collecting taxes is as ancient as taxation itself. Both to secure economy of administration and to prevent evasion, income is largely subject to taxation at its source; that is to say, a person paying interest on loans, dividends on stocks and shares, rents of property, etc., to another person, is required to pay the income tax thereon to the Revenue authorities, and in return he is given a statutory right to deduct the amount of the tax so paid from the payments he has to make to that other person. The argument appears to be that it is a matter of indifference to, say, a tenant, to pay a part of his rent to the tax collector; while it is a matter of varying difficulty, human nature being what it is, to extract tax from a person after he has received his income in full, and has had time to spend it.

This principle of deduction of tax at source is of fundamental importance in income tax practice. It frequently leads to over-taxation of individuals who are not liable to tax at all, or who are liable only to tax of an amount lower than the sum deducted. The mere fact that a person has suffered tax by deduction made from his income does not necessarily mean that he is legally liable to bear such tax. If too much tax has been paid, the remedy is to lodge a claim for repayment.

Hence, it is important to know just how much tax is payable, by reference to the total amount of income, and to any concessions that may be available in any particular case, irrespective of any questions as to the source from which the income is derived. On the other hand, a person may find himself compelled to pay tax in excess of the amount appropriate to his own income. He has, in fact, to pay tax for someone else. In that case the remedy is to deduct the amount of the tax from the payments he has to make to that other person.

“Ability to Pay.”

That taxation should be placed upon those shoulders best able to bear it, is a proposition about which there is general agreement, on grounds of simple justice as well as on grounds of the fruitfulness of the tax. More tax will be collected from people who can well afford to pay heavily than from those who can ill afford to pay a little. There is, however, likely to be some disagreement as to the identity of the persons best able to pay, but with that argument we are not concerned here. It is interesting to see how the principle of “ability to pay” has been worked out in the income tax system.

Income tax is a levy of so much (at present nine shillings) on every pound sterling of persons' incomes. Now, although this does imply that the larger incomes will bear more tax than the smaller, it is not sufficient to conclude that no further adjustment requires to be made. It is necessary to look beyond the purely arithmetical calculation involved in that conclusion.

Let us contrast the case of A, whose income is £10,000 a year, with that of B whose weekly wage is £2 10s. Assuming a uniform rate of 9s. in the pound, without any sort of compensation or adjustment, A will pay £4,500 and B will pay £58 10s. a year. One feels instinctively that B is going to find it harder to pay his tax than A. The reason is, of course, that it is more difficult to live on £1 7s 6d. a week than it is on £5,500 a year, the respective amounts left after payment of the tax. Similarly, if A's income increased by £13 a year, his

circumstances would not be improved in the same proportion as B's would be, if he got a rise of 5s. a week; further, the tax (£5 17s.) on the additional income would probably deprive B of things he would be all the better for having, while A would have to keep accurate accounts to be aware of any change in the rate of his personal expenditure.

Consequently, we find in practice that the smallest incomes are not taxed at all, which is quite in accord with the line of thought indicated above. There is also another practical point to be borne in mind, namely, that the costs of administration are proportionally higher for small amounts of tax. While the smallest incomes do not attract tax, the largest incomes are subjected to an additional tax (Sur-tax), the amount of which is graduated according to the excess of income over a certain specified figure.

Having looked at the extreme cases, let us now consider the intermediate. As income increases, so the "utility," that is the economic satisfactions that can be purchased with equal additional increments, tends to fall. A further £10 a year at £200 a year can purchase more human satisfaction than a further £10 a year at £500. That is not to say that the £10 in the second case is not useful at all. It might be that owing to his particular temperament the £500 a year man was in greater actual need of the £10 than the £200 a year man. But generally speaking, it is safe to say that the poorer person will have more need of money, and therefore, his wants being greater, the utility of the money is greater in his hands. Throughout the whole range of incomes, one may note a series of stages, which one associates with the ideas "bare subsistence," "comfortable," "well-to-do," and "wealthy," each stage shading off into the next without well-defined limits of demarcation. From a theoretical point of view it is not necessary to do much more than to indicate these features in a general way, but when it comes to so practical a matter as taxation, it is vitally necessary to be precise, to translate these ideas into terms of pounds, shillings and pence, and to fix definite points at which any proposed variations in the rate

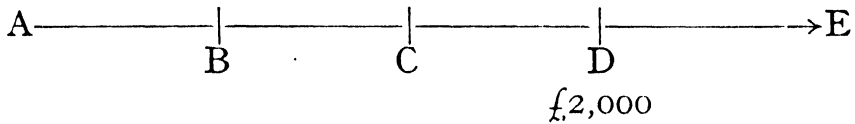
of taxation shall operate. If there were no complications these points could be fixed for universal application. We could say, "Everybody whose income is less than £120 shall be exempt; if the income exceeds £120 but does not exceed £170 the tax shall be 3s. in the £; on the next £75 the tax shall be 6s. in the £, and on the excess over £245 there shall be a tax of 9s. in the £," and so on up the scale. But there are complications, concerned with the personal circumstances of the individual taxpayers, and affecting their capacity to pay.

Allowances.

Some incomes have to maintain more than one individual. A married man is required in law to maintain his wife and children. One frequently finds a member of a family supporting one or more relatives. A person whose income is earned by his own exertions is under greater necessity to save out of that income, in order to make provision for his old age or for his dependants, than is a person whose income is derived from the investment of capital, since the source of income in the latter case remains undisturbed by the age, health, or death of the owner of it. One cannot ignore these considerations in gauging capacity to pay. They have the effect of shifting the "subsistence" point on the income scale. A single man might get along on £120 a year, but a man with a wife and six children will not normally be able to save £30 from an income of £150. In order to meet difficulties of this character, a system of allowances has been worked out, designed to bring all taxpayers to some common footing. It is a kind of handicapping scheme. Shortly stated, the scheme is to relieve the individual of the tax on the amount of the allowances to which his circumstances entitle him. The allowances are fully dealt with in the next chapter, but the diagram at the top of the next page may, perhaps, assist the reader to understand the general principle.

The line A-E represents the direction in which income increases from zero. A-B represents an amount of income equal to the allowances on which the individual is entitled to

relief at the full standard rate of tax. The position of the point B will, of course, vary according to circumstances. If the individual's income is less than A-B, then no tax is payable. B-C represents the range of income which is taxed at



reduced rate only; C-E is the range of income which is taxed at the full standard rate; while D represents the point beyond which additional tax (Sur-tax) is imposed. The point D is at present fixed at £2000.

What is "Income" ?

"Income" is a word peculiarly difficult to define. Everyone has a notion of its meaning, and in a large number of transactions there is not likely to be any doubt as to whether particular items received are "income" or "capital" receipts. A salary is "income" and a legacy is "capital." There are, however, many border-line cases not so easy of classification. For income tax purposes we are not called upon to define, in any absolute sense, the word "income." The method of the Income Tax Acts is to charge tax upon "property, profits, and gains," to classify different types of "property, profits, and gains," and to prescribe rules for assessing them according to their nature. Section 1 of the Income Tax Act, 1918, reads as follows—

1. Where any Act enacts that income tax shall be charged for any year at any rate, the tax at that rate shall be charged for that year in respect of all property, profits, or gains respectively described or comprised in the Schedules marked A, B, C, D, and E, contained in the First Schedule to this Act and in accordance with the Rules respectively applicable to those Schedules.

For practical purposes, we do not inquire whether any item is actually a profit or gain; it is rather to the question, "Is this included in any of the Schedules as income assessable to tax?" that we must address ourselves. Interpretation of the Acts is, therefore, a very important matter, and there have

been a great many decisions in the Courts bearing on this difficult problem of what is to be charged under the Schedules. The possibilities of further litigation on the subject have by no means been exhausted, but at this stage we are concerned only to indicate the attitude to be taken in regard to the ascertainment of income for tax purposes; viz. Do the Acts as interpreted by the Courts require this item of receipt to be charged under any of the Schedules? If so, under which Schedule, and what are the relevant rules?

Scope of Tax.

Income tax extends to all income arising within the United Kingdom, whether the recipient of the income is resident in the United Kingdom or not. In the case of residents in the United Kingdom, the tax also extends to all income derived from abroad, whether received in the United Kingdom or not.¹

Year of Assessment.

For the purpose of taxation, income is computed by reference to the income of one year. Section 2 of the 1918 Act (as amended) states that—

“Every assessment and charge to tax shall be made for a year commencing on the sixth day of April and ending on the following fifth of April.”

The period 6th April to 5th April following is known as the year of assessment. It is the statutory income for this period which is taxed. The statutory income is not necessarily the actual income received during the period. Tax is charged, and has to be paid in whole, or in part, before a full year's income has been received, that is, before the 5th of April. For some classes of income the profits of the preceding year are taken as the statutory income of the year of assessment, but see the later discussion of the various methods of assessment under the five Schedules.

¹ See, however, Schedule D, Cases IV and V, for exceptions to this general statement.

CHAPTER II

RELIEFS AND ALLOWANCES TO INDIVIDUALS

THE reliefs and allowances to which *individual* taxpayers, resident in the United Kingdom, are entitled are dealt with in this chapter. The word "individual" should be noted. It has the same meaning as in familiar speech, and does not include bodies corporate, e.g. limited companies, which are in the legal sense "persons." To secure the reliefs the individual must—

(a) render a return of his total income from all sources
and

(b) make a claim for the allowances,

on the form provided for the purpose. It cannot be too clearly stated that the source from which income is derived does not affect in the slightest the right of the individual to claim the allowances appropriate to his case. Neither does it matter whether the income has been taxed at source or not. If these allowances have not been claimed a claim for repayment of excessive tax paid can be made at any time within six years after the end of the year of assessment to which it relates. Thus a claim can be made in the year 1946-47 for any year not earlier than 1940-41. In the examples which follow the reader should understand that the income upon which the various computations have been based is the statutory income in every case. The method of arriving at the statutory income is dealt with later (see Chapters IV-VIII). It should be noted that the allowances are given by way of deduction from the amount of tax which would otherwise be payable. For example, if A's income is £400 and he does not make any claim for relief, he will be liable for £180, being tax on the whole of it. If he does claim he will be relieved of tax to the amount indicated below, on the allowances due to him. If the whole of the income is subject to deduction of tax at the source, the reliefs can be given only by way of repayment.

Exemption.

Before 1935, there was no statutory exemption from income tax of individuals whose incomes were below a specified limit. But the operation of the reliefs and allowances detailed in the succeeding paragraphs of this chapter ensured that where the total income was below the limits reached by those allowances, there was no charge to income tax; and consequently individuals with very small incomes did, for all practical purposes, enjoy exemption in accordance with the circumstances of their own case.

The Finance Act, 1935, provides for exemption in specific terms as follows—

Section 19.—(1) An individual who proves that his total income does not exceed one hundred and twenty-five¹ pounds shall be entitled to exemption from income tax.

There is a further provision which limits the amount of tax payable in cases where the income exceeds this limit but is less than £135. The amount of tax is not to exceed one quarter of the difference between the income and £120. An example illustrating this provision will be found on page 16.

Earned Income Allowance.

This is an allowance of tax at the full standard rate on one-eighth of all earned income, but not exceeding in the case of any one individual tax on £150.

EXAMPLE 1. Total income £360 of which £40 is unearned and £320 earned.

	<i>£</i>	<i>s.</i>	<i>d.</i>
Tax at standard rate (9s.) on £360	162	-	-
Deduct tax at standard rate on allowances—			
Earned income relief (one-eighth of £320 = £40)	18	-	-
Tax payable (subject to any other reliefs)	<u>£144</u>	-	-

See also page 16 as to further relief at reduced rate.

EXAMPLE 2. Total income £3,500, of which £500 is unearned and £3,000 earned.

¹ Now reduced to £120 by the Finance (No 2) Act, 1945, Sect. 17 (3).

	£	s.	d.
Tax at 9s. on £3,500	1,575	-	-
Deduct tax at 9s. on allowances—			
Earned income allowance (£150 maximum)	67	10	-
Tax payable (subject to any other reliefs)	<u>£1,507</u>	<u>10</u>	<u>-</u>

See also page 16 as to further relief at reduced rate.

The expression “earned income” has, broadly speaking, the same meaning as in ordinary speech. For the statutory definition see Appendix I.

There is, however, one special case in which unearned income, e.g. income from investments or property, may be treated as earned for the purpose of this relief. If an individual proves (1) that either he, or his wife (living with him) if he is a married man, is of the age of 65 years upwards at the commencement of the year of assessment; and (2) that his total income for the year of assessment does not exceed £500, he will be entitled to treat his unearned income as earned for the purpose of the one-eighth relief.

EXAMPLE 3. B is 66 years of age. His total income is £480, £200 of which is earned, and £280 derived from investments. B can treat the whole of his income as earned and can claim an allowance of tax at the standard rate on £60, i.e. one-eighth of £480.

Notice that a man who is under 65 years of age can establish a claim under this section if his wife is over 65.

Special provision is made for those individuals who would be entitled to this relief but for the fact that their total income exceeds £500 by a small margin. The necessity for some provision will be readily apparent. C, over 65, derives an income of £496 entirely from property. He is entitled to relief under the rule on £62. The following year the assessments on the property are increased so that his total statutory income is, say, £510. His income has increased by £14. If he were given no benefit under the rule he would have to pay tax on £76 more than in the previous year. Where the income exceeds £500 the tax on the total income may be reduced to the sum of the following amounts—

(1) The tax which would have been payable if the income had not exceeded £500; and

(2) three-quarters of the amount by which the total income exceeds £500.

An example illustrating the operation of this marginal relief will be found on page 21. It is postponed until the other reliefs have been dealt with, since they have to be taken into account in ascertaining the amount under (1) above.

Personal Allowance.

If the claimant proves that he has his wife living with him, or that his wife is wholly maintained by him, during the year of assessment, he is entitled to an allowance of tax at the standard rate on £180. In any other case the claimant is entitled to an allowance of tax at the standard rate on £110.

For income tax purposes, a wife's income is deemed to be the income of the husband, and he is liable to pay the tax thereon, but there are special provisions for separate assessment where either of the married persons claims it. If the total income includes any earned income of the wife the personal allowance is increased by seven-eighths of the amount of the wife's earned income, but not exceeding in any case an increase of £110. If, therefore, in addition to the husband's income a wife earns up to £126 a year, none of her earnings will attract tax, for there will be a deduction of one-eighth for Earned Income Allowance, and a deduction of the balance for Personal Allowance.

But earned income of the wife arising from pension or other payment made in respect of the husband's past employment is deemed not to be earned income for the purposes of an increased personal allowance.

EXAMPLE 4. Married man, wife living with, or maintained by, him.

Man's earned income	.	.	.	.	.	£480
Man's unearned income	.	.	.	.	.	220
Wife's unearned income	.	.	.	.	.	40
						<hr/>
Total income	.	.	.	.	.	<u>£740</u>

	£	s.	d.
Tax at 9s. on £740	333	-	-
Deduct tax at standard rate (9s.) on—			
Earned income allowance	£ 60		
Personal allowance	180		
	<hr/>		
	£240 @ 9s.	108	-
		<hr/>	
Tax payable (subject to any other reliefs) will be	<u>£225</u>	-	-

Less the allowance at reduced rate (see page 16).

If the wife's income were earned instead of unearned the position would be—

	£	s.	d.
Tax at 9s. on £740	333	-	-
Deduct tax at standard rate (9s.) on—			
Earned income allowance	£ 65		
Personal allowance	215		
	<hr/>		
	£280 @ 9s.	126	-
		<hr/>	
Tax payable (subject to any other reliefs) will be	<u>£207</u>	-	-

Less allowance at reduced rate (see page 16).

The tax payable in this latter case is the same as it would be if there were no wife's income.

	£	s.	d.
Tax at 9s. on £700 (£480 + £220)	315	-	-
Allowance of tax on £240 (£60 + £180)	108	-	-
		<hr/>	
		<u>£207</u>	-
		<hr/>	
Less allowance at reduced rate (see page 16).			

EXAMPLE 5. Single person.

Unearned income	£ 620		
Earned income	480		
	<hr/>		
Total income	<u>£1,100</u>		
		<hr/>	
Tax at 9s. on £1,100	495	-	-
Deduct tax at standard rate on—			
Earned income allowance	£ 60		
Personal allowance	110		
	<hr/>		
	£170 @ 9s.	76	10
		<hr/>	
Tax payable (subject to any other reliefs) will be	<u>£418</u>	10	-
Less allowance at reduced rate (see page 16).			

Children.

The allowance in respect of each child is tax at the standard rate on £50.

CLAIMANT'S OWN CHILD. The claimant must show that the child was living during the year of assessment, and either (1) that the child was under the age of 16 years at the commencement of the year of assessment; or (2) that if over 16, the child was receiving full-time instruction at any university, college, school, or other educational establishment; or is being trained for a trade, profession or vocation, and is required to give full time to the training for not less than two years, and that he does not earn more than £13 a year.

Step-children, and illegitimate children if the parents have married each other after the birth of the child, are treated as the claimant's own children.

OTHER CHILDREN. If the child in respect of whom a claim is made is not the claimant's own child he must also prove—

(1) that he has the custody of the child and maintains the child at his own expense; and

(2) that no other individual is entitled to claim an allowance in respect of the child; or if any other individual is so entitled, then that individual has relinquished his claim thereto.

This provision covers every case where the child in question is not the claimant's own child, and enables a claim to be made for adopted children, and for brothers and sisters of the claimant.

No allowance will be made in any case where the child is entitled in his own right to income exceeding £50 a year. In calculating the income of the child, no account is to be taken of any income to which the child is entitled as the holder of a scholarship, bursary, or other similar educational endowment.

Relatives Taking Charge of Children.

If the claimant is a widower and has resident with him a female relative (or, if no female relative is able and willing to act, then some other female person) for the purpose of having

the charge and care of any child of his or in the capacity of a housekeeper, he is entitled to an allowance of tax at the standard rate on £50. A widow may in similar circumstances claim the allowance. A relative includes a relative of either the deceased or the surviving spouse. A child means a child in respect of whom an allowance of tax is made. The claimant will have to show that no other individual is entitled to claim any allowance in respect of the "housekeeper," or if any other individual is so entitled, then that individual has relinquished his claim thereto. No deduction will be made if the housekeeper is a married woman, and her husband has claimed and has been allowed the £180 personal allowance.

EXAMPLE 6. Widower. Income £560 earned. Entitled under the conditions set out above to allowances for two children and housekeeper.

	<i>£</i>	<i>s.</i>	<i>d.</i>
Tax at 9s. on £560	252	-	-
Deduct tax at standard rate (9s.) on—			
Earned income allowance	£	70	
Personal allowance		110	
Children (£50 + £50)		100	
Housekeeper		50	
	£330	@	9s.
		148	10 -
Tax payable (subject to any other reliefs) will be	£103	10	-
Less allowance at reduced rate (see page 16).			

Allowance for Widowed Mother, etc.

An allowance of tax on £50 may be claimed by an unmarried person who has living with him (or her) his (or her) widowed mother, or some other female relative, for the purpose of having the charge and care of any brother or sister of the claimant. The claimant must show that the brother or sister is a child for whom an allowance has been made; that he (she) maintains the mother or other relative at his (her) own expense; and that neither he (she) nor any other individual is otherwise entitled to any allowance in respect of the same person; or if any other individual is so entitled, then that other individual has relinquished his claim thereto. An

allowance under this section may also be claimed where the mother, although not a widow, is living apart from her husband.

Allowance for Dependent Relatives.

Where the claimant maintains at his own expense any relative of his, or of his wife's, who is incapacitated by old age or infirmity from maintaining himself, or his or his wife's widowed mother whether incapacitated or not, he is entitled to an allowance of tax at the standard rate on £50 for every such person. If the total income from all sources of the dependant exceeds £30 a year, the allowance will be reduced by the amount of the excess over £30. Thus if the dependent relative's income is £42, the allowance will be £38, i.e. £50-£12. A woman may claim in like circumstances for relatives of her own or of her husband.

A similar allowance may be claimed where an individual is by reason of old age or infirmity compelled to depend upon the services of a daughter. The daughter must be resident with, and maintained by, the claimant.

If two or more persons maintain the dependant, the allowance will be apportioned according to the respective contributions made by the claimants.

EXAMPLE 7. A, whose salary is £480, maintains his brother aged 10 and his sister aged 6. He has living with him for the purpose of having the care and charge of the children, his aunt. There is also an invalid brother aged 20, whom A supports; he has an income of £40 per annum. Assuming that all the

	£	s.	d.
Tax at standard rate (9s.) on £480	210	-	-
Deduct tax at standard rate on—			
Earned income allowance	£ 60		
Personal allowance	110		
Children	100		
Allowance in respect of aunt	50		
Allowance for dependent relative	40		
	£360	@ 9s.	-
	162	-	-
Tax payable (subject to any other reliefs) will be	£54	-	-
Less allowance at reduced rate (£25 10s.)	£28	10	-
	£26		

requirements are complied with, the tax payable by A will be as shown on page 15.

Allowance of Tax at Reduced Rate.

The income tax system is so designed that the first part of income which is actually taxed is not taxed at the full standard rate. This is effected by allowing a further deduction from the tax payable after deducting the "full standard rate allowances." For 1940-41 the standard rate was 8s. 6d., but the first £165 of taxable income was taxed at 5s. only, i.e. 10/17 of standard rate. For 1941-42 to 1945-46 inclusive the standard rate was 10s. in the pound, and the first £165 of taxable income was charged at 6s. 6d. in the pound, so that the allowance of tax was at the rate of 3s. 6d. in the pound, or 7/20. For 1946-47 the first £50 of taxable income is *charged* at 3s. in the pound and the next £75 is *charged* at 6s. in the pound; thus there is *relief* of tax at 6s. in the pound on the first £50 of taxable income, and *relief* of tax at 3s. in the pound on the next £75. Taxable income in excess of £125 is charged at the full rate. In Example 7 above, a deduction of £25 10s. will be made, leaving £28 10s. tax payable. In Example 5 the deduction will be £26 5s., the maximum, leaving £392 5s. tax payable.

Exemption.

The following example illustrates the operation of Section 19 of the Finance Act, 1935,¹ referred to on page 9.

EXAMPLE 8. Widow. Unearned income £130.

	£	s.	d.
Tax at 9s. on £130	58	10	-
Deduct tax at 9s. on—			
Personal allowance, £110	49	10	-
		9	-
Deduct allowance at reduced rate ($\frac{2}{3}$)	6	-	-
Tax payable, subject to Section 19 (2), Finance Act, 1935	£3	-	-

The amount by which total income exceeds £120 = £10 - -
 One-quarter thereof = £2 10 -

The tax chargeable will, therefore, be reduced from £3 to £2 10s. showing a saving of 10s.

¹ As now amended.

Taxable Income.

The method adopted in the foregoing examples follows the statutory provisions under which relief is given by way of deductions of tax on the amount of the allowances. Alternatively, and this is the method usually met with in practice, the amount of the allowances may be deducted from the total income, and tax computed on the balance. The balance on which tax is actually paid (that is, the total income less the amount on which tax is allowed at the full standard rate) is called the Taxable Income. Thus in Example 7 the taxable income is £480 less £360, viz. £120, of which £50 is charged at 3s. and £70 at 6s., the total tax payable being £28 10s. Example 5, worked by this alternative method would appear as follows—

	<i>£</i>	<i>s.</i>	<i>d.</i>
Total Income	1,100	-	-
Deduct—			
Earned income allowance	£ 60		
Personal allowance	110		
	170	-	-
Taxable income	£930	-	-
		<i>£</i>	<i>s.</i>
Tax on £50 @ 3s.		7	10 -
Tax on £75 @ 6s.		22	10 -
Tax on £805 @ 9s.		362	5 -
		£392	5 -

Relief in Respect of Life Assurance Premiums.

It is generally known that some relief is available for premiums paid on policies of life assurance. The precise conditions are, however, not so widely appreciated. A considerable difference exists between the treatment of policies effected up to the 22nd of June, 1916, and insurances effected after that date. The conditions to be complied with are set out under three headings, showing the conditions common to all insurances, and the special conditions for the separate classes of insurance above-mentioned.

GENERAL

(1) The insurance must be on the life of the claimant or of his wife.

(2) Premiums paid by a wife out of her separate income, in respect of an insurance on her, or her husband's, life, rank for an allowance of tax in the same way as premiums paid under (1) above.

(3) The insurance company with whom the insurance is effected must be legally established in the United Kingdom, or in any British possession, or lawfully carrying on business in the United Kingdom.

(4) Relief is given in respect of policies effected with a Registered Friendly Society.

(5) No allowance will be made on any premiums or payments exceeding one-sixth of the total income from all sources, or one-sixth of the total income for 1938-39 if the total income for that year was higher. The total income means the total income as estimated in accordance with the provisions of the Income Tax Acts.

(6) On policies insuring a capital sum at death (whether in conjunction with any other benefit or not), the amount of the premium on each policy will for the purpose of calculating relief, be restricted to 7 per cent of the capital sum assured (excluding bonuses, etc.).

(7) Where no capital sum is assured at death the maximum allowance is tax at the appropriate rate on £100.

The total amount on which allowance is given will not exceed the amount of the "taxable income" (see page 17).

The motives underlying the limitation of the amount of the payments ranking for relief will be evident. The relief is intended to encourage prudence and thrift, and not as a means of enabling wealthy persons to escape liability by making disproportionately large payments out of their incomes.

INSURANCES EFFECTED BEFORE THE 23RD JUNE, 1916

(1) Premiums paid on contracts for a deferred annuity on the life of the claimant or his wife are admissible.

(2) Payments under a contract for a deferred annuity made with the National Debt Commissioners are admissible

(3) *Rate of Allowance.* If the total income of the claimant—

Exceeds £2,000	7/- in £
Exceeds £1,000 but does not exceed £2,000	5/3 in £
Does not exceed £1,000	3/6 in £

(4) *Marginal Relief.* Since the rate of relief changes at £1,000 and £2,000, an individual whose income is just under £1,000 (or £2,000) might have to pay more tax than if his income had just exceeded £1,000 (or £2,000), as the following illustration shows—

EXAMPLE 9.

	£	s.	d.	£	s.	d.
A's total income (earned)	1,995	-	-	2,005	-	-
Tax at 9s.	897	15	-	902	5	-
Deduct tax at standard rate on—						
Earned income allowance, £150 (max.)						
Personal allowance, say, 180						
£330 @ 9s.	148	10	-	148	10	-
	749	5	-	753	15	-
Deduct for tax at reduced rate (max.)	26	5	-	26	5	-
	723	-	-	727	10	-
Deduct allowance of tax for life assurance premiums £100—						
(1) Tax at 5s. 3d.	26	5	-			
(2) Tax at 7s.				35	-	-
Tax payable	£696	15	-	£692	10	-

So that, under the general rule, if A's income were £2,005 he would pay £4 5s. less than if his income were £1,995. (There is the question of Sur-tax, where income exceeds £2,000, but this is not material to the present discussion.)

In order to get over this anomaly a further relief is provided, calculated in the following way—

(1) Ascertain the amount at $\frac{1}{4}$ maximum allowance rate

on the amount of the premiums. In the case stated this will be $\frac{1}{4}$ of 7s. = 1s. 9d. on £100 = £8 15s.

(2) Ascertain the sum at the maximum allowance rate on the amount by which the income falls short of £2,000 (or £1,000 as the case may be). In the present example the income falls short of £2,000 by £5; 7s. in the £ on £5 = £1 15s.

(3) Deduct (2) from (1). This gives the additional relief granted. Therefore in the case given, where the total income is £1,995, we have—

	£	s.	d.
Tax payable	723	-	-
Deduct—			
5s. 3d. on £100	£26	5	-
Marginal relief as above	7	-	-
(£8 15 - - £1 15 -)	33	5	-
Net tax payable	£689	15	-

INSURANCES EFFECTED AFTER THE 22ND JUNE, 1916.

(1) The allowance of tax will be at $\frac{3}{6}$ in the £ in all cases, irrespective of the amount of the total income.

(2) The insurance must secure a capital sum at death, whether in conjunction with any other benefit or not. (But see exception under (4) below.)

(3) No allowance will be given in respect of premiums payable during the period of deferment in respect of policies for deferred assurances. (See, however, (4) below.)

(4) Notwithstanding (2) and (3) above, contributions to an employees' superannuation or pensions scheme are admissible.

EXAMPLE 10. A's total income is £1,200 earned. He has a wife and two children, eligible. He pays £20 a year for a deferred annuity for his wife under a contract dated January, 1916, and £10 under a similar contract dated January, 1917. He also pays £25 on a life policy for £1,500, dated 1915, and £26 on a £250 ten year with profits endowment policy maturing in 1947.

	£	s.	d.	£	s.	d.
Tax at 9s. on £1,200				540	-	-
Deduct tax at standard rate on—						
Earned income allowance .£120						
Personal allowance . . . 180						
Children's allowances . . . 100						
	£400	@	9s.	180	-	-
Deduct allowance at reduced rate				26	5	-
				206	5	-
				£333	15	-
Allowance for life assurance premiums, etc.—						
At 5/3 in £						
On deferred annuity	£20					
On £1,500 policy	25					
	£45	@	5s. 3d.	11	16	3
At 3/6 in £						
On £250 policy: relief limited						
to 7% of £250	£17/10/-	@	3s. 6d.	3	1	3
					14	17
				£318	17	6
Net tax payable						

(5) Relief is given on payments made by a person who is liable under any Act of Parliament or under the terms of his employment, to make such payments (whether by deduction from his salary or otherwise) for the purpose of securing a deferred annuity to his widow, or provision for his children after his death.

Allowance in respect of such payment is given at the following rates—

Total income not exceeding £1,000	at one-half standard rate
" " exceeding £1,000 but not exceeding £2,000	at three-fourths standard rate.
" " exceeding £2,000	at standard rate.

Marginal Relief—Persons Over 65.

EXAMPLE II. We have now dealt with the allowances available and are in a position to deal with the case of marginal relief for elderly taxpayers. The figures given in the example

should be read in conjunction with the paragraph under Earned Income Allowance.

Total unearned income £505

TAX PAYABLE IF NO MARGINAL RELIEF.

	A (Single)		B (Married)	
	£	s. d.	£	s. d.
Tax at 9s. on £505 . . . . .	. 227	5 -	227	5 -
Deduct tax at 9s. on personal allowance	. 49	10 -	81	- -
	177	15 -	146	5 -
Allowance at reduced rate (maximum) .	. 26	5 -	26	5 -
Tax payable	<u>£151</u>	<u>10 -</u>	<u>£120</u>	<u>- -</u>

MARGINAL RELIEF.

Calculation of tax payable if income had not exceeded £500—

	A (Single)		B (Married)	
	£	s. d.	£	s. d.
Tax at 9s. on £500 . . . . .	. 225	- -	225	- -
Deduct tax at standard rate on—				
Earned income allowance (£62 10s.) . . . . .	. 28	2 6	28	2 6
	196	17 6	196	17 6
Personal allowance (A £110 and B £180) . . . . .	. 49	10 -	81	- -
	147	7 6	115	17 6
Deduct allowance at reduced rate . . . . .	. 26	5 -	26	5 -
	<u>£121</u>	<u>2 6</u>	<u>£89</u>	<u>12 6</u>

In respect of a total income of £505 the tax payable will be limited to £121 2s. 6d. (or £89 12s. 6d.) plus three-quarters of the amount by which the total income exceeds £500, i.e. £3 15s. The liability, therefore, becomes £124 17s. 6d. and £93 7s. 6d. respectively.

Post-war Credits.

When in 1941 the Earned Income Allowance was reduced from one-sixth to one-tenth, and the Personal Allowances, were

reduced from £170 and £100 to £140 and £80, it was arranged that the extra amount of tax which the taxpayer would be called upon to pay by reason of these reductions would be credited to him for payment after the termination of hostilities. The Finance (No. 2) Act, 1945, increased the Personal Allowances to £180 and £110, and the Finance Act, 1946 increases the Earned Income Allowance to one-eighth. But Post-war Credits will not apply for 1946-47 or later. The example which follows is based on provisions applicable from 1941-42 to 1945-46 inclusive.

EXAMPLE 12. Earned Income for 1945-46 £480. Married man with two children.

	<u>£</u>	s.	d.
Total Income	480	-	-
Earned Income Allowance ($\frac{1}{8}$)	£ 48		
Personal Allowance	140		
Children's Allowance	100		
	288	-	-
Taxable Income	192	-	-
Taxable at reduced rate (6s. 6d.)	165	-	-
Taxable at standard rate (10s.)	27	-	-

The Earned Income Allowance and Personal Allowance on the former scale were—

	<u>£</u>	s.	d.
Earned income allowance $\frac{1}{8}$ of £480	80	-	-
Personal allowance	170	-	-
	£250	-	-

The allowances given were £48 + £140 = £188, a decrease of £62, and the taxable income is £62 higher than it would have been if the allowances had not been reduced. The post-war credit in respect of the year 1945-46 will be—

	<u>£</u>	s.	d.
£27 at 10s.	13	10	-
£35 at 6s. 6d.	11	7	6
	£24	17	6

General Notes on Allowances dealt with in this Chapter.

The individuals must be resident in the United Kingdom but see note on residence in Chapter IX.

The allowances are not apportionable on a time basis. They must be claimed and allowed for a whole year. The following cases should be noted—

(a) Marriage during the year of assessment. The man claims £180 Personal Allowance for the whole year, and the woman £110 Personal Allowance against her own income up to the time of the marriage.

(b) Child born during the year of assessment. Allowance may be claimed for the whole year.

(c) Similarly, if the child attains the age of 16 years, or dies, during the year of assessment, allowance is for the whole year.

(d) Husband dies during the year of assessment. Personal allowance against his income up to the time of death £180. Widow claims £110 against liability on her income for the remainder of the year.

The total income from all sources means the statutory income as computed in accordance with the provisions of the Income Tax Acts.

CHAPTER III

ADMINISTRATION

IN the previous chapter we saw how the amount of the tax payable on a given income is calculated in individual cases. The succeeding chapters (IV to VIII) will be devoted to showing how the amount of the income upon which tax is charged, is determined. There is a definite routine to be followed, and in the first place, a few notes on the general scheme of administration, and the various classes of officials concerned will, perhaps, be useful.

The general principle underlying assessment is that the tax is assessed on the basis of a return made by the person to be assessed and charged with tax. Where tax is deducted at the source, the tax is assessed and charged upon the payer, and he is the person called upon to make the return. In other cases, as for example income from business, the return is made by the taxpayer himself. There are serious penalties for failure to make a return when called upon to do so, even if no tax is chargeable; and still more drastic penalties for making false returns.

All duties of income tax are under the care and management of the **Commissioners of Inland Revenue**. They are responsible for raising, collecting, receiving, and accounting for the tax.

The **General Commissioners** are persons of standing appointed for each district. They are responsible for settling the assessments under Schedules A, B, D, and E. Schedules of assessments are submitted to them, and if satisfied, they sign and allow them. For the purpose of making assessments under Schedule D, there are **Additional Commissioners** appointed by the General Commissioners.

Assessors are persons appointed to serve notices and forms, and to make assessments under Schedules A and E.

After the assessments have been made, the **Collectors** are charged with the duty of getting in the tax from the taxpayers.

These officials are not concerned with the fixing of the assessment; their duty is to enforce payment.

The **Special Commissioners** are a body paid by the Crown. They make assessments under Schedule D where the taxpayer elects to be assessed by them instead of by the General Commissioners. Business people may legitimately object to having to disclose their affairs to local commissioners, who may possibly be trade rivals. The Special Commissioners also make certain assessments under Schedule C, and they have important duties in connection with repayment claims and Sur-tax.

Inspectors of Taxes are appointed by the Treasury, and work under the direction of the Commissioners of Inland Revenue. They have power to review all assessments made. They represent the Crown in all local matters, and have great powers in enforcing the provisions of the law.

After an assessment is made, notice thereof is served upon the person chargeable. There is a right of appeal before the General or Special Commissioners as the case may be. Schedule D assessments can in most cases be settled with the Inspector, and it is a good plan to agree accounts with him before completing the return. On appeal the findings of the Commissioners on points of fact are final; but there is a right of appeal from the findings of the Commissioners on points of law, to the High Court. The High Court may also reverse the decision of the Commissioners on a point of fact, if there is no evidence to support such finding. An appeal may be made by either the taxpayer or the Revenue Authorities.

There are, in addition to the foregoing, Commissioners appointed for certain limited purposes. Thus the Governor and Directors of the Bank of England and of the Bank of Ireland, and the National Debt Commissioners act as Commissioners for the making of assessments under Schedule C in respect of interest and dividends entrusted to them for payment.

CHAPTER IV

ASSESSMENTS UNDER SCHEDULES A, B, AND C

SCHEDULE A

THE nature of the income assessed to income tax under the provisions of Schedule A is an interest in property, land, and buildings; hence its popular description as the "landlord's tax." The main difficulty in understanding Schedule A seems to be that the assessments are very frequently at considerable variance with the actual income received in cash; and sometimes no rent at all is receivable, as in the case of the owner-occupier, where no money payment passes. Now the fundamental principle is that Schedule A assessments are fixed periodically, and are only reviewed as a whole when a general reassessment is determined upon by Act of Parliament, that is, every five or seven years.¹ The basis of the assessment is the Annual Value of the property. There are, in the main, several distinctive features about income derived from property as compared with, say, income from a business or employment, and it may assist in making the matter a little clearer, if we touch upon them briefly.

A business is subject to influences liable to cause considerable fluctuations in the amount of the income derived from it from one year to the next. The composition of the profit is highly complex; it is necessary to set off a great variety of expenses against fluctuating items of receipt, in order to strike a balance which may be regarded as the profit (or loss) for a given period. In the case of an employment, the emoluments depend upon the personal services of the recipient, and the income is likely, therefore, to vary as frequently and to the same extent as the vicissitudes of life itself. On the other hand, there is something tangible, certain, and constant in

¹ Under the Finance Act, 1940, reassessment due in 1941-42 has been postponed until such date as Parliament may determine. See page 62 for assessment of "excess" rents.

the conception of property Normally, the income from it will not vary violently from year to year; the composition of the net income figure is not complex; on the one side there is rent, and on the other side of the account there is the upkeep expense which does not normally comprise a number of items of a widely differing nature. Of course, the "value" of property from the point of view of the income which can be derived from it, is not fixed once and for all; but the variations are more likely to be of a "long-period" order; from one year to the next the difference is not greatly marked.

Now the method of the income tax system may be expressed something after the following manner. We can say to the property owner that his property is worth so much a year to him, and we can fix this figure for several years at a time. He can get that figure from letting his property, because it is the market price. If he lets his property to a tenant for less than the property is worth, the tenant is gaining, and we shall not reduce our idea of the annual value merely on that account. The property is worth so much, and if the landlord is not getting it, then we must regard the tenant as a sort of owner-occupier for the difference. If the landlord subsequently lets his property for more than the annual value we have assigned to it, we shall have to see in due course what bearing this has on our original estimate. If the property is unoccupied for any period, we can make some special allowance to the landlord on proof of the facts. So much for the gross income derivable from property.

On the other side of the account there will be the expenses of maintenance, repairs, insurance, and management. These expenses will probably vary in proportion to the value of the property, and we can allow a lump sum deduction to cover these items. If the landlord has to spend more than we have allowed over a period of years, we will allow him some relief. If he spends less the gain is his; but we shall have gained something in reduced costs of administration, since the considerable expense and labour of reviewing year by year the detail of expenditure in every case will have been avoided.

In order to ensure economical collection of the tax, we will make the occupier liable for payment in the first instance, and give him the right to deduct the tax from his rent.

The main features of tax under Schedule A will, then, be found to be concerned with—

- (1) The method of determining the annual value of property.
- (2) Special reliefs in particular cases.
- (3) Provisions for collection of the tax.

Annual Value.

When a general re-valuation is to be made assessors are appointed for the purpose of assessing the tax under Schedule A. Forms are served upon the occupiers of every property, and a return is required setting out the terms under which the property is occupied. The assessor can call for the production of leases and agreements to confirm the particulars disclosed. As regards property, the annual value of which is under £10, the assessor can make his own estimate, without calling for a return. If the rent actually payable has been fixed on the footing that the tenant pays the rates and other expenses properly chargeable upon the occupier, while the landlord executes repairs and pays all expenses properly chargeable upon the landlord, the actual rent will be taken as the starting-point for further investigation. If, however, the lease or agreement provides for one party undertaking to discharge the liabilities of the other party, the rent will be adjusted by reference to those facts. Thus, if the landlord pays the rates, the amount of the rates will be *deducted* from the actual rent paid; and where the tenant is liable to execute repairs the estimated amount of such repairs will be *added* to the actual money paid as rent. This is done in order to bring all cases to some common level.

Annual value for the purposes of assessment is then determined as follows—

Two questions have to be answered: (a) Does the rent (as adjusted if necessary) represent the full rent of the property in question? (b) Has the agreement for that rent been

fixed within a period of seven years prior to the commencement of the year of assessment in which the valuation is made? If the answer to both these questions is in the affirmative, then the annual value of the property for the purposes of income tax will be the actual rent (as adjusted).

If the answer to *either* of the above questions is in the negative, then the annual value will be taken to be the rack-rent at which the property is *worth to be let by the year*. This rule covers, of course, the owner occupier, and cases of beneficial ownership.

It will be seen that at the time the assessment is made, the actual rent payable is an important factor. But once the assessment has been fixed it cannot be altered until the next general re-valuation. There are, however, two exceptions to this—

(1) If during the period between two valuations, property is altered and improved, an increase in the assessment may be made.

(2) If the owner can show that the annual value has decreased, he can appeal against the assessment for the current year.

The annual value determined according to the foregoing scheme constitutes the gross Schedule A assessment. From this an allowance is made for repairs, etc., according to the following table—

(a) Assessments on lands, inclusive of the farmhouse and farm buildings—a deduction of one-eighth.

(b) In the case of any house or building (except a farmhouse or building included with lands in an assessment) the deductions are on the following scale—,

<i>Gross Assessment</i>	<i>Deduction</i>
Not exceeding £40	One-quarter of the assessment
Exceeding £40, but not exceeding £50	£10
Exceeding £50, but not exceeding £100	One-fifth of the assessment
Exceeding £100	£20 plus one-sixth of the excess over £100

EXAMPLE 13. A house is let at £52 a year, the landlord paying rates £12.

Rent	.	.	.	.	.	.	.	£
								52
Deduct rates	.	.	.	.	.	.	.	12
								—
								Annual value
								40
Repairs allowance	.	.	.	.	.	.	.	10
								—
								Net assessment
								30
								—

In making assessments deductions from the annual value are allowed in respect of certain ecclesiastical dues, public local rates or tithe rent charge, drainage rates, etc., payable by the landlord.

When the assessment has been made, a notice stating the amount thereof is served upon the person assessed. There is a right of appeal to the District Commissioners against any assessment, by any person interested.

Special Reliefs and Allowances.

Since tax under Schedule A is dealt with on broad lines, in terms of annual value, and lump sum deductions, great hardship might be caused if provision were not made for relief in special circumstances. The following are the principal types met with—

(1) If any house is unoccupied for the year or part of the year, the tax in respect of the period during which the house is unoccupied may be remitted upon appeal.

(2) 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 will be proportionately reduced.

(3) Where the cost of maintenance, repairs, insurance, and management according to the average of the five preceding years has exceeded the deduction allowed for the purpose, a claim may be made for repayment of tax on the excess.

Collection.

Tax under Schedule A is (except in the cases mentioned below) payable by the occupier. He is given power to deduct the amount of tax actually paid from the next payment on account of rent, but the landlord can require production of the collector's receipt for the tax. The right of deduction under the Income Tax Acts only extends to the *first* payment of rent after payment of tax. If a tenant omits to make a deduction from the next payment, the matter is one for agreement between the parties, or for the exercise of any other powers the tenant may possess.

Where the rent is less than the assessment the tenant can only deduct so much tax as is appropriate to the actual rent. The remainder of the tax he must bear himself as "beneficial owner."

In the case of property of annual value under £10 or let for a period less than a year, the assessment is on the landlord, and not on the occupier. And the landlord is also charged with tax in cases where a house or building is let out in apartments or tenements.

Schedule A tax is payable in one instalment on or before the 1st January in each year. Where, however, the amount of tax to be collected from a tenant is greater than a quarter's rent, payment of the difference may be postponed until the next payment of rent falls to be made.

Income under this Schedule is generally "unearned," but where the property is attached to, or forms part of, the emoluments of any office or employment (as in the case of clergymen, etc.), the income falls to be treated as earned, and the tax is payable in two instalments, on the 1st of January and the 1st July.

SCHEDULE B

Tax is charged under Schedule B in respect of the income arising from the *occupation* of lands; that is, income derived from the use of lands as distinct from the income derived from ownership. In the latter case income reaches the owner in

the form of rent—actual money payments if the property is let, or constructive rent if the owner is also occupier. Land may be occupied (1) for husbandry, (2) for woodland, (3) for nurseries or market gardens, and (4) for pleasure, as in the case of land attached to a residence, parklands, etc. The types of occupation have been numbered distinctively because the rules of assessment under Schedule B provide for special treatment of each class. Income from the occupation of land reaches the recipient in the form of the profits arising from agriculture, afforestation, horticulture, or as constructive income in the form of “amenity.”

No tax is payable under this Schedule in respect of dwelling-houses (other than such as are included in a farm) or buildings occupied for the purpose of carrying on a trade or profession.

Lands Occupied for Husbandry.

Where the annual value of farm lands exceeds £100 the profits are assessable under Schedule D. For land not exceeding £100 annual value the assessment is under Schedule B. The statutory income for the purposes of Schedule B is taken to be the annual value, that is, the gross Schedule A assessment, without any deduction for repairs, etc. It is only varied when reassessments are made for Schedule A purposes. There are important provisions for cases where the normal assessment under this rule bears hardly upon the taxpayer. Where the farmer is also owner of the lands he will be assessed under Schedule A too.

If the actual profits are in excess of the normal assessment no additional assessment can be made. But the taxpayer has a number of valuable reliefs open to him should the normal assessment prove excessive—

(1) If a person occupying lands for the purposes of husbandry shows to the satisfaction of the General Commissioners that the profits or gains fall short of the assessable value, the assessment will be reduced accordingly, and his income will be taken to be the amount of the actual profits. The claim

must be made within one year after the end of the year of assessment to which it relates.

(2) If he considers that he will benefit thereby, he can apply to be assessed according to the rules applicable to Schedule D as though he were carrying on a trade. Notice to exercise this option must be given within two months after the commencement of the year of assessment. In this way power to carry forward losses from year to year for six years may be obtained. (See page 52 for further information as to the operation of this relief.)

(3) If a loss is sustained application may be made to have the amount of the loss set off against the statutory income for the year. Thus: Loss £80; annual value of lands £95. The normal assessment under Schedule B will be £95, and assuming other income of £200, the aggregate statutory income for the year will be £295. The loss of £80 may be applied to reduce the assessment to £215, and if the tax has been paid on the normal assessment, repayment may be obtained of the excess tax paid. Notice of claim under this section must be given within one year after the end of the year of assessment to which it relates.

(4) Relief in respect of losses caused by flood or tempest may also be claimed in circumstances similar to those in which relief is given under Schedule A. The amount of the reduction in the rent governs the reduction in the assessment.

Woodlands.

The normal assessment is annual value. But where any person proves that he is managing the woodlands on a commercial basis with a view to the realization of profits, he may elect to be assessed under the rules of Schedule D as though he were carrying on a trade. It takes several years to realize the profits from woodlands, and if this provision were not made, the occupier would be called upon to pay tax on the annual value every year even though there were no realized profit. On the other hand, when the profits are realized, the normal assessment for that year could not be increased on

the grounds of the excess of profit over and above the normal assessment. Whether the occupier of woodlands should exercise the option to be assessed according to the rules of Schedule D is a matter of judgment, depending upon the facts of the case, and the estimated position from year to year. But once made, the election remains operative for all future years so long as the woodlands remain in the same occupation.

Nurseries and Market Gardens.

These are not assessed on annual value, but according to the rules of Schedule D without any option. The Tax is, however, charged under Schedule B.

Other Lands.

Lands other than those occupied for the purposes of husbandry, woodlands, or nurseries and market gardens are assessed at one-third of the annual value.

Cattle and Milk Dealers.

Cattle dealers and milk dealers occupying lands are assessed under Schedule B on annual value, but if the Commissioners find that the lands so occupied are insufficient for the keep of the cattle brought on to the lands, and that the assessable value affords no just estimate of the profits, they may require a statement of profits to be delivered. In these circumstances a further sum may be charged which, together with the charge under Schedule B, makes up the sum that would be charged if the profits were assessed according to the rules of Case III of Schedule D (see Chapter VII).

SCHEDULE C

This schedule is concerned solely with dividends, interest, and annuities payable out of any public revenue. It is a special case of deduction at source. The persons or bodies of persons entrusted with the payment of the dividends, etc., are required to deliver to the appropriate Commissioners a true

account of the payments to be made. The tax is then assessed upon those agents, and has to be paid (out of the moneys coming into their hands) into the Bank of England for the credit of the Commissioners of Inland Revenue.

The dividends, etc., consequently reach the recipient after deduction of tax. There are, however, exceptions. Where the half-yearly amount of the dividend payable to any person does not exceed fifty shillings, no tax is charged under this Schedule. Dividends on certain securities issued in connection with the war are also paid in full. These provisions are made in the interest of small investors who may not be liable to tax at the full rate, and who would consequently be forced to claim repayment, in order to secure individual allowances. But the dividends so paid in full do not escape taxation if the person receiving them is liable to tax. Such sums must be returned for assessment under Case III of Schedule D.

CHAPTER V

ASSESSMENTS UNDER SCHEDULE D, CASES I AND II TRADES, PROFESSIONS, AND VOCATIONS

SCHEDULE D is very wide, covering a variety of forms of income. It is subdivided into six cases, the first two of which only will be dealt with in this chapter and Chapter VI.

CASE I. Tax under Case I of Schedule D is charged in respect of trades carried on in the United Kingdom by any person whether resident or non-resident in the United Kingdom.

CASE II. Tax under Case II is charged in respect of professions and vocations. The rules are substantially the same as in the case of trades, and the references to trades in the following pages may be construed as including professions and vocations unless attention is drawn to specific exceptions.

A little reflection will show that in arriving at the amount of the profits of a business there is considerable scope for variation of opinion. A cautious man will make every conceivable reservation against his profits before he arrives at what he considers to be his true income. A less cautious man may take the view that some of the charges so made can properly be ignored. Again, a profit and loss account prepared with a view to the sale of the business itself, may be open to criticism on the ground that charges have been omitted which ought to have been included, or income may have been included which is not income arising from carrying on the business, as, for example, profits on the sale of investments. On the other hand, a person, quite without any fraudulent intent, may contend for the purpose of taxation, that his real profits are considerably less than those shown in an account prepared with a different purpose in view. Even professional accountants are not unanimous on every point. Hence, if taxation of trades is to be at all effective, it is essential that the profits should be estimated in accordance with some specified standard. The standard laid down by the Acts may, or may not,

be too severe. We are only concerned here to ascertain what that standard is, since the tax is charged on profits as estimated in accordance with the Acts.

Normal Assessment.

The normal assessment under Cases I and II of Schedule D is on the profits for the year preceding the year of assessment. For 1946-47 the assessment will be on the profits of the year 1945-46. The income tax year ends on the 5th April, and as scarcely anybody makes up annual accounts to that date the profits of the accounting period ending within the preceding year are taken as the profits of the preceding income tax year. Thus, if the annual accounts are made up to the 30th April, 1945, or the 31st December, 1945, or the 31st March, 1946, in fact, to any date between the 6th of April, 1945, and the 5th of April, 1946, the profits for the period covered by the accounts will be taken to be the profits for the preceding income tax year, and will form the basis of the assessment for 1946-47. In the case of a continuing business in the same proprietorship the "preceding year" rule will always apply, and the assessment will not be reduced merely because the profits of the year of assessment are less than the profits of the preceding year. On the other hand, the assessment cannot be increased on the grounds that the profits for the year of assessment are greater than the profits of the preceding year. If the business is a continuing one it follows that the whole of the profits will come into charge to tax over a period of years. Special provisions are made for the first years of a new business, and for the last years of a discontinued business.

New Businesses.

For the year of assessment during which the business was set up, the assessment will be on the actual profits for the year of assessment.

EXAMPLE 14. A business is set up on the 6th of July, 1944, and the profits for the year ended 5th July, 1945, are £1,200. The actual profit for the year 1944-45 (that is, the year of

assessment in which the business was first set up) may be taken to be £900, that is the profits for the first nine months of the business at an average rate of £100 per month. The assessment for 1944-45 will be on £900.

For the year of assessment following that in which the business was first set up, the assessment will be on the profits for one year from the date of commencement. In the example given above, the assessment for 1945-46 will be on £1,200, namely, the amount of the profits for the first twelve months of the business.

For the next and subsequent years the normal assessment will apply. In the above example, the assessment for 1946-47 will be on the profits for the preceding year, i.e. £1,200.

EXAMPLE 15. Business commenced 1st January, 1943.

Profit for year to 31st December, 1943	.	.	.	£800
" " 31st December, 1944	.	.	.	600
" " 31st December, 1945	.	.	.	2,000

Assessments in the ordinary way will be—

1942-43	.	.	£200	($\frac{1}{4}$ of £800)
1943-44	.	.	800	Profits for first year of business
1944-45	.	.	800	Profits of preceding year
1945-46	.	.	600	" "
1946-47	.	.	2,000	" "

The foregoing example illustrates the working of the rule, and it will be seen that the first annual accounts determine the assessments for three years.

There are, however, important provisions enabling the taxpayer to secure relief if his actual profits for the second and third years of assessment fall short of the amount on which he would be assessed under the above rules, and he can claim to have the assessments reduced to the "actual profits" basis. The option must be exercised in respect of both the second and third years of assessment, and not for either of them separately. Let us analyse the figures given above, and see how the matter will be resolved.

The first year of assessment is 1942-43, and the assessment

will be on the actual profits for that year in any event, viz. £200.

The second year of assessment is 1943-44. The actual profits for this year of assessment may be reckoned as follows—

Nine months, April to December, 1943 ($\frac{3}{4}$ of £800)	. £600
Three months, January to March, 1944 ($\frac{1}{4}$ of £600)	. £150
	<hr/>
Actual profits 1943-44	<u>£750</u>

On ascertainment of the position the taxpayer may give notice to have the assessment for this year reduced from £800 to £750. He must give such notice within twelve months of the end of the second year of assessment, i.e. before the 6th April, 1945.

The third year of assessment is 1944-45. Actual profits are—

Nine months, April to December, 1944 ($\frac{3}{4}$ of £600)	. £450
Three months, January to March, 1945 ($\frac{1}{4}$ of £2,000)	. £500
	<hr/>
Actual profits 1944-45	<u>£950</u>

If the taxpayer now takes no further steps the assessment for 1944-45 will become £950. The total assessments for the three years on the actual profits basis amount to £1,900, as against assessments amounting to £1,800 in all under the normal method of assessment for new businesses. In these circumstances the taxpayer may revoke the notice previously given by writing to the Inspector within twelve months after the end of the third year of assessment, i.e. before 6th April, 1946, whereupon the assessments for each year will be amended to conform to the normal method.

Now let us take a case where the actual profits for the second year of assessment are such that the trader would not wish to have the normal assessment for that year disturbed; but when the accounts covering the third year are available it appears that, after all, the "actual profits" basis would prove more advantageous. This position would arise if the accounts showed profits as follows.

Year to 31st December, 1943	.	.	.	£800
„ 31st December, 1944	.	.	.	£900
„ 31st December, 1945	.	.	.	Nil

The normal assessments would be—

1942-43 ($\frac{1}{4}$ of £800)	.	.	.	£200
1943-44 (profits of first twelve months)	.	.	.	800
1944-45 (profits of preceding year)	.	.	.	800
				Total . . . £1,800

The actual profits are—

1942-43 ($\frac{1}{4}$ of £800)	.	.	.	£200
1943-44 ($\frac{3}{4}$ of £800) + ($\frac{1}{4}$ of £900)	.	.	.	825
1944-45 ($\frac{3}{4}$ of £900)	.	.	.	675
				Total . . . £1,700

The taxpayer has now the right at any time prior to the expiration of twelve months from the end of the third year of assessment (i.e. before the 6th April, 1946), to give notice to the Inspector requiring the assessments to be reduced to the actual profits.

A word of warning is necessary here. In considering the course to be taken, the whole of the circumstances attending the case must be carefully looked into. We should require to know how any adjustments in the assessments will affect ultimate liability; that is to say, regard must be had to such matters as rates of tax in force for each year of assessment, total income of claimant, allowances available, and liability to sur-tax.

Business Discontinued.

When a business is discontinued the normal assessment for the year in which it is discontinued is again departed from, and the profits assessed to tax will be the actual profits for the period from the 6th of April to the date of discontinuance. The Revenue Authorities have also the right to review the assessment for the preceding year, and if the actual profits for that year are greater than the assessment, they can raise an additional assessment for that year. The taxpayer has no corresponding option if the actual profits are less than the assessment.

EXAMPLE 16. Business discontinued on 30th June, 1946.

Profits for year to 31st December, 1943	£1,800
" " 31st December, 1944	2,000
" " 31st December, 1945	2,400
Profits for period (6 months) to 30th June, 1946	800

In view of the discontinuance the assessment for 1946-47 must be adjusted to the actual profits, which may be taken in this case to be £400, i.e. one half of £800; and £400 will be substituted for the normal assessment of £2,400, which was the profit of the preceding year. The taxpayer cannot reopen the assessment for 1945-46, but the Revenue Authorities may do so. Apportioning the profits, we have for the nine months to 31/12/45 £1,800 (i.e. $\frac{3}{4}$ of £2,400), and for the three months to the end of the year one half of £800, or £400; total £2,200. The normal assessment for 1945-46 will have been £2,000, so that an additional assessment in respect of the sum of £200 may be expected.

The question of treatment of a business on the basis of commencement and discontinuance also arises when a business changes hands; see later, page 56.

Apportionment of Accounts.

Where it is necessary to apportion accounts the apportionment is on a time basis, by reference to months or fractions of a month. In the foregoing examples the fraction of the month of April has been ignored, and in practice this is often sufficient; but if the amounts involved are considerable, the odd days should be taken into account.

Assessments.

We now come to the important matter of estimating profits according to the provisions of the Income Tax Acts.

A trader cannot be compelled to produce his accounts to the Inspector, but he can be required to furnish such particulars as the Commissioners may call for in connection with appeal proceedings. The Inspector has access to any statements so furnished, so that there is not usually much to be

gained by withholding the accounts from the Inspector. If the trader has not kept proper accounts it is clear that his prospects of success on appeal made by him will not be good. If proper accounts are kept, as they should be, for other purposes as well as for income tax assessments, it is a wise proceeding to agree them with the Inspector before completing the return form; in the case of businesses of any size this is almost invariably done.

Accounts kept on normal lines for ordinary business purposes will require careful scrutiny, and adjustment, before the statutory profit is ascertained. Particulars of the deductions which are allowed and those which are inadmissible, are set out below, together with an example of a Trading and Profit and Loss Account prepared in the ordinary way, and the adjustments necessary to bring out the statutory profit.

DEDUCTIONS NOT ALLOWED.

(1) Disbursements and expenses not being money wholly and exclusively laid out for the purpose of the trade.

This test should be applied to all items not specifically mentioned in the following pages. There are many arguable cases, and many decisions have been given on particular cases by the Courts. It is necessary to examine the facts. For example, subscriptions to hospitals are not allowed in the usual way; but where the hospital is one at which the employees in the trade receive medical and surgical treatment it is settled practice to allow the employers' contributions. A professional accountant's fees for annual audit will be allowed; but if charges are incurred in getting out accounts for past periods for income tax purposes, such charges are not usually allowed as deductions in the accounts.

(2) Disbursements for maintenance of the persons assessable, their families, and establishments. Such items are regarded as income spent, and not as expenses incurred in earning the profits.

(3) Sums expended for domestic or private purposes distinct from the purposes of the trade. E.g. the gas account for

lighting a house and shop is rendered in one sum. An equitable apportionment must be made so as to exclude that portion of the expense attributable to domestic purposes.

(4) Losses not connected with the trade, e.g. losses on speculations apart from the business.

(5) Capital withdrawn from, or sums employed or intended to be employed as capital in, the business.

(6) Capital employed in improvement of business premises.

(7) Interest on capital which might have been earned if the capital had been laid out at interest.

(8) Annual interest, annuities, patent royalties, or other annual payments paid out of the profits or gains. The trader should pay these sums less tax.

(9) Depreciation of capital assets, but an allowance is made for (a) wear and tear of plant and machinery (see page 47), and (b), depreciation of factories, mills and similar premises (see page 49). The Income Tax Act, 1945, makes special provisions for Depreciation in respect of Buildings, Plant, and Machinery for certain industries. The arrangements which came into force on 6th April, 1946, are too intricate for discussion here.

(10) Sums recoverable under an insurance or contract of indemnity, e.g. a loss by embezzlement is allowed, but not if the loss is recoverable under a fidelity bond or guarantee.

(11) Sums paid as income tax. These payments are regarded as appropriations of profit, and not as expenses incurred in earning the profit.

DEDUCTIONS ALLOWED.

(1) Expenses and disbursements wholly laid out or expended for the purpose of the trade.

(2) The rent or net Schedule A assessment of the premises occupied for the purposes of trade. In respect of mills, factories, and similar premises the deduction is the *gross* Schedule A assessment.

(3) A proportion of the rent or net Schedule A assessment, in the case of buildings partly used as dwelling-houses. The

maximum deduction is normally $\frac{2}{3}$ rds, but this may be increased if the Commissioners are of opinion that a greater sum ought to be allowed in any particular case.

(4) Repairs to business premises, and sums expended for the supply, repairs, and alterations to any implements, utensils, or other articles employed for the purpose of the trade.

(5) Bad debts actually incurred, and doubtful debts in so far as they are estimated to be bad. Where there is good reason to anticipate loss on specific debts, as in bankruptcy cases, the amount expected to be recovered from the debtor will be

EXAMPLE 17—

TRADING AND PROFIT AND LOSS ACCOUNT		for Year ended 30th October, 1943	
Dr.			Cr.
To Stock in hand (1/11/42)	£ 1,800	By Sales	£ 17,220
„ Purchases	12,200	„ Stock in hand (31/10/43)	1,500
„ Wages	400		
„ Patent Royalties	120		
„ Gross Profit c/d	4,200		
	<u>£18,720</u>		<u>£18,720</u>
To Cash Discounts allowed	50	By Gross Profit b/d	4,200
„ Salaries	1,500	„ Dividends on Investments	90
„ Office Expenses	320		
„ Advertising	190		
„ Rates	100		
„ Income Tax	84		
„ Commission	96		
„ Lighting and Heating	116		
„ Repairs to Premises	46		
„ Bad Debts	124		
„ Reserve for Bad and Doubtful Debts	196		
„ Depreciation—			
Buildings £50			
Plant and Machinery	126		
	<u>176</u>		
„ Bank Charges	15		
„ Interest on Loan	60		
„ „ Capital	250		
„ Balance—Net Profit.	967		
	<u>£4,290</u>		<u>£4,290</u>

taken to be the value of the debt, and the balance may be treated as bad. A percentage of book debts reserved for possible losses through bad debts is not admissible save in very exceptional circumstances.

The Finance Act, 1944, makes special provision for the deduction of expenditure on Scientific Research.

A specimen Trading and Profit and Loss Account appears on page 45. It is necessary to examine every item in the accounts to see whether it may be allowed to stand for income tax purposes. The items calling for comment are—

Patent Royalties. These are not allowed as a deduction, the trader having the right to deduct tax on making the payments.

Advertising. Normal expenditure on advertising may be deducted; but abnormal expenditure, as in the case of a new business, or expenditure on permanent forms of advertisement, e.g. a hoarding, will be treated as capital expenditure.

Repairs to Premises. If these are *bona fide* repairs they will be allowed; if the item includes anything in the nature of *improvement* such part will be disallowed.

Bad Debts. If proved to be bad, and actually written off, this item may pass.

Doubtful Debts. If this reserve does not include specific debts estimated to be bad, the amount should be added back.

Depreciation is not allowed, unless the buildings are mills or factories or similar premises. An allowance may be claimed for wear and tear of plant. (See page 47.)

Interest on Loan. The trader is entitled to deduct tax on paying the interest; this must be added back.

Interest on Capital. Not allowed. The object of making a charge of this nature in the profit and loss account is to bring out the amount of the profits after taking into consideration the amount which might reasonably be expected to be earned by the capital if invested elsewhere.

On the other side of the account there are dividends taxed at source. These should be excluded, since, if left in, they would be subject to double taxation.

Having scrutinized the accounts, we should inquire whether there are any deductions admissible but not included in the accounts. In the present case we will assume that the trader owns the business premises, and is, therefore, entitled to deduct the net Schedule A assessment, say £230. The following statement shows the adjustments necessary—

ADJUSTMENT OF ACCOUNTS		£
Net profit as per accounts		967
<i>Add</i> items not allowed—		
Patent royalties	£120	
Income tax	84	
Bad debts reserve	196	
Depreciation	176	
Interest on loan	60	
„ on capital	250	
	886	
		1,853
<i>Deduct</i> —		
Dividends taxed at source	90	
Schedule A assessment—net	230	
	320	
Profits as adjusted		£1,533

Wear and Tear Allowance.

It has been stated that depreciation as such is not allowed, but that an allowance for wear and tear of any plant and machinery used in the business may be claimed. The amount of the allowance is in the discretion of the Additional Commissioners, there being no specific amount fixed by statute. In making a claim for an allowance the amount to be claimed is the amount for the current income tax year, and not for the period covered by the accounts. The total of the deductions for wear and tear over a period of years must not exceed the first cost of the plant and machinery. For most types of plant, rates of allowance have been agreed with the authorities by the trade associations and industries concerned, and the form of the allowance is usually a percentage of the value as written down by successive allowances. Additions to plant

made during the year are usually ignored in calculating the allowance, it being argued that diminished value by reason of wear and tear cannot be said to have set in until the plant has been running a full year.

In the example worked out above, assume that the allowance for wear and tear claimed for the year 1944-45 is £70. In completing his return, the taxpayer will show the amount of the profits as adjusted, viz. £1,533, and enter the amount claimed for wear and tear separately. If the claim for wear and tear is allowed tax will be charged upon £1,533 less £70, i.e. £1,463.

If a loss is sustained, or if the statutory profits are less than the amount of the wear and tear allowance, the whole of the allowance, or balance as the case may be, may be carried forward and added to the deduction for subsequent years until it is absorbed.

EXAMPLE 18. Wear and tear allowance for three years 1944-45, 1945-46, and 1946-47 agreed at £1,200, £1,100, and £1,400 respectively. The accounts as adjusted show—

Year to 31st December, 1943—Profit	.	.	.	£800
„ 31st December, 1944—Loss	.	.	.	1,300
„ 31st December, 1945—Profit	.	.	.	5,000

The assessments will be—

Year to 31st December, 1943—Profit	.	£800
Wear and tear	.	1,200

Assessment 1944-45	.	.	.	<u>NIL</u>
--------------------	---	---	---	------------

Carry forward £400 to next year.

Year to 31st December, 1944—Loss	.	£1,300
----------------------------------	---	--------

Assessment 1945-46	.	<u>NIL</u>
--------------------	---	------------

Carry forward £1,500 to next year.

Year to 31st December, 1945—Profit	.	£5,000
Less loss brought forward	.	1,300

Less wear and tear	.	£3,700
	.	<u>2,900</u>

Assessment 1946-47	.	<u>£800</u>
--------------------	---	-------------

(See page 50
as to treat-
ment of
losses)

Obsolescence.

If it is necessary to replace any plant or machinery which has become obsolete, the cost of the original plant, less (a) the total deductions for wear and tear allowed in respect of it; and (b) any amount realized by the sale of the old plant, will be allowed as a charge in the profit and loss account, as a deduction in arriving at the amount of the profits.

EXAMPLE 19. A machine, costing originally £1,000, is replaced after some years by a new machine costing £1,500. The total allowances for wear and tear amount to £250, and the old machine is sold as second-hand for £200.

Original cost		£
		1,000
<i>Deduct—</i>		
Wear and tear allowances		£250
Sum realized by sale		200
		450
Cost of replacement allowed as a deduction		£550

It is important to note that—

(1) The charge for obsolescence can only be admitted if the plant and machinery is actually replaced; and

(2) The allowance will not exceed the cost of replacement. Thus, if the new machine in the example had cost £500 only, the allowance would be limited to that figure.

Depreciation of Buildings.

Section 15 of the Finance Act, 1937, provided that, in computing the profits of any trade under Case I of Schedule D, a deduction may be made in respect of the depreciation of any premises being mills, factories, or similar premises, but this provision is superseded by the Income Tax Act, 1945, except where certain transitional arrangements apply. Except in the case of brickworks and electricity works, where the premises are assessable on Annual Value under Schedule A, the depreciation allowance for Schedule D purposes is an amount equal to either (i) the Repairs Allowance under Schedule A,

or (ii) one-fifth of the rateable value (in London and Scotland, one-sixth of the rateable value) whichever is the less.

Losses.

The normal assessment is made as for the income tax year, and is based upon the results of one complete year. So long as those results show a profit, fluctuations in the amount thereof do not affect assessments already made. If a trader makes £100 only this year as against an assessment of £1,000 determined in relation to the profits of the preceding year, he has no remedy at hand to reduce his present liability. He will only get relief next year, when his assessment will be in the sum of £100, whatever his profits for that year may be.

Now the transactions of business are in the ordinary way continuous, and their effects are not confined to specific periods. Although an accounting system is the only available instrument for taking measurements it reveals no more than it professes to reveal. It is perfectly possible for a Profit and Loss Account to show a profit, and yet for the firm to be heading straight for bankruptcy at the date to which the accounts are made up. Abnormal profits during the first few months obscure the losses of the latter part of the period. Moreover, commitments may have been entered into which are not yet capable of reduction to entries in the books of account, and whose full effects for good or ill will not be felt for some considerable time. Influences outside the accounts are at work making for success or otherwise. In due time these factors will be reflected in the accounts, of course; meanwhile we are justified in treating each separate year as a unit for the purposes of taxation, although relief in respect of reduced profits is postponed, and is not available at the time when perhaps it is most welcome. After all, it is profits which are sought to be taxed, and the income-tax system merely takes the trader's own accounts (after adjustment) as an index of those profits. And so long as profits continue to be made, unevenness in the tax charge from year to year will, in a rough and ready way, be smoothed out over a sufficiently long period.

And yet the system does take into consideration the fact that profit and loss is not merely a matter of accounting periods; that the transactions of business yield both profits and losses; and that by reason of the incidence of those losses, a net loss may be revealed in an annual account. It would indeed be a harsh system which raised assessments of, say, £1,000, nil, and £700 following on years in which the trading results as shown by the accounts were profit £1,000, loss £2,000, profit £700 respectively, claiming that profits alone are its concern, that each individual year must be treated on its merits, and that losses allocated to particular periods have no effect upon liability to tax beyond the period in which they are incurred.

There are several alternatives open to the trader who makes a *loss* during the year of assessment.

I. RELIEF UNDER SECTION 34 OF THE INCOME TAX ACT, 1918. If a trader shows that he has made a loss during the year of assessment (usually taken to mean a loss during the accounting period ending within the year of assessment), he may claim to have the loss set against his statutory income for that year, and to have repaid to him tax on so much of that income as is represented by the loss. The claim must be made within one year after the end of the year of assessment to which it relates.

EXAMPLE 20. A trader's accounts as adjusted show—

For year to 31st December, 1944—Profit	.	.	£1,500
„ 31st December, 1945—Loss	.	.	400

The assessment for 1945-46 will be £1,500, and he will have to pay tax in respect of that assessment in two instalments, on the 1st January, 1946, and 1st July, 1946. He will have time up to the 5th April, 1947, in which to claim to have the loss of £400 adjusted by reference to his statutory income for 1945-46, viz. £1,500 (assuming that he has no other income). If he has already paid tax at the date of making his claim he will be entitled to repayment of tax on £400.

The assessment for 1946-47 will be nil.

RELIEF UNDER NO. 13 OF THE RULES APPLICABLE TO CASES 1 AND 2, SCHEDULE D. A person who carries on two or more distinct *trades* may set off a loss in one of them against the profits of another trade.

Business 1—Profit.	.	.	.	£600
„ 2—Loss .	.	.	.	200

If no claim is made under this Rule the assessments for the following year would be—

Business 1	£600
„ 2	<i>nil</i>

If advantage is taken of this provision the assessment for the year in question would be reduced to £400.

This relief applies only to trades.

RELIEF UNDER SECTION 33 OF FINANCE ACT, 1926. This is a provision enabling a loss to be carried forward against the profits on which assessments are made for the six following years of assessment.

EXAMPLE 21.

Year 1942—Loss	£400
„ 1943— „	100
„ 1944—Profit.	300
„ 1945— „	1,000

The losses in 1942 and 1943 may be carried forward to 1944, reducing the profits to nil, and leaving a balance of £200 to carry over to 1945, thus reducing the assessment for 1946-47 to £800.

The losses must be applied to each succeeding year in turn, the taxpayer having no option as to which year he shall select for utilizing the loss. In the above example, by reason of the operation of individual allowances it would obviously suit the taxpayer to carry the £500 loss over to 1945, but this he cannot do.

There is another point to be noticed. In view of the fact that the assessments are on the profits of the preceding year, there are only *five* effective years in which to utilize the loss. In the example the sixth year of assessment following the loss

in 1942 is 1948-49, and the assessment for that year will be on the profits of 1947.

The Finance (No. 2) Act, 1945, extends the period of six years in cases where any of the "war" years 1939-40 to 1945-46 inclusive fall within the six-year period; the period is extended by one year for every one of those of "war" years as is subsequent to the year in which the loss was sustained.

These reliefs for losses are *alternative*; but any balance of loss on which relief has not been given under Section 34 of the Income Tax Act, 1918, or under Rule 13, may be carried forward to subsequent years under Section 33 of the Finance Act, 1926.

CHAPTER VI

ASSESSMENTS UNDER SCHEDULE D, CASES I AND II (CONTINUED) PARTNERSHIPS AND COMPANIES

CONTINUING our consideration of Schedule D, we must now deal with the important matters concerned with income tax in the cases of partnerships and companies.

Partnerships.

The adjustment of accounts for the purpose of assessment follows the same lines in the case of a partnership, as in the case of a single trader. But the law requires the assessment to be made on the *firm*, and this requirement raises special problems.

The return of profits is to be made by the precedent partner. Individual partners may claim the reliefs and allowances to which they are entitled in respect of their share of the partnership profits. The tax payable is calculated on the basis of the liability of the individual partners, and is payable by the firm.

The result of this provision is that the Crown stands in a more favourable position to recover the tax in case of default and on winding-up of the partnership.

The following example of a simple straightforward case will illustrate the principle—

EXAMPLE 22. A B and C D are partners in a trade sharing profits as to $\frac{2}{3}$ rds and $\frac{1}{3}$ rd respectively. The profits as adjusted for the year ended 31/12/1945 amount to £990. A B is married; C D is single. Neither is entitled to any other allowances; there is no other income.

The assessment for 1946-47 will be £990, and the amount of tax payable by the firm will be calculated, as shown on page 55.

A B's liability is £152 12s. 6d and C D's £54 3s. 9d.

	Tax on £990 at 9s.		£445 10s.
	<i>A B's Share</i>		<i>C D's Share</i>
Tax on share of assessment	£660 @ 9s.	£ 297 - -	£330 @ 9s.
<i>Deduct tax at 9s. on allowances—</i>			
Earned income allowance	£82 10		£41 5
Personal allowance	£180 -		£110 -
	<hr/>		<hr/>
	£262 10 @ 9s.	118 2 6	£151 5 @ 9s.
			68 1 3
Deduct relief at reduced rate	Maximum	£178 17 6 26 5 -	Maximum
			£80 8 9 26 5 -
		<hr/>	<hr/>
		£152 12 6	£54 3 9
		<hr/> <hr/>	<hr/> <hr/>

The tax amounting to £206 16s. 3d. is charged upon, and is payable by, the firm.

If either or both of the partners had other income, it would be necessary to restrict the amount of the allowances to the amount not utilized against assessments made on income from other sources. Thus, if C D had other earned income amounting to £960 from the tax on which an allowance for earned income of tax on £120 had been made, the relief in respect of the partnership income must be restricted to £30, and the calculation proceed accordingly. So also for any other allowances made in other assessments outside the partnership.

Interest on capital, and salaries to partners, are items frequently met with in partnership accounts. They should be regarded as devices for compensating the partners for disproportionate services before arriving at the amount which is to be shared in the agreed proportion. If of two persons in active partnership, one does most of the work while the other provides most of the capital, it is convenient to adjust these matters by allowing one partner a salary, and the other interest on capital. But it must not be forgotten that the salary and interest are really part of the scheme for the equitable division of the profits, and that, therefore, the individual partners' shares will include sums so charged to the profit and loss account.

EXAMPLE 23. Assuming that in the previous example the £990 statutory profit were made up as follows—

Net profit per Profit and Loss Account	:		£450
<i>Add</i> back items not allowed—			
Interest on capital—A B	.	.	£240
" " —C D	.	.	60
		—	300
Salary—C D	.	.	240
		—	£990
			<u>£990</u>

the shares of the partners must be taken to be—

	A B	£		C D	£
Two-thirds of £450	.	.	.	One-third of £450	.
Interest	.	.	.	Interest	.
		.	.	Salary	.
		—	.		.
		£540	.		£450
		<u>£540</u>			<u>£450</u>

These figures, £540 and £450, represent the shares of the statutory income for the purpose of calculating net liability.

Notwithstanding its name, interest on capital is "earned" income in the case of partners actively engaged in the business. Where one of the partners is a sleeping partner the whole of his share falls to be treated as "unearned."

The profits of the preceding year form the statutory income of the year of assessment, and it is this statutory income which has to be shared among the partners. The basis of division is, however, the shares to which the partners are entitled during the year of assessment. Thus, in the example on page 54, after 31/12/1945 Messrs. A B and C D decided to share equally, the liability to tax for 1946-47 would be calculated on the footing that each partner's income for that year was £495.

New Partnerships.

If a person who was engaged in a trade, profession, or vocation on his own account, enters into partnership with one or more persons, the change in proprietorship does not affect the basis of assessment, and the "preceding year" rule will continue to apply. But if all the partners desire it, the business may be treated as being newly set up at the date of the change,

in which case the provisions for the assessment of new businesses will apply. The person originally carrying on the business on his own account will be treated as having discontinued the business at the date of the change, and will be assessed under the provisions relating to discontinued businesses. Notice to be assessed on the basis of commencement and discontinuance must be given within twelve months of the date of the change, and must be signed by all the parties interested.

The same option to treat the business as newly set up exists in the case of a change in a partnership (one or more of the original partners remaining) by reason of the retirement, death, or dissolution as regards one or more partners, or by reason of the admission of a new partner. If the option is not exercised, the assessments are based on the preceding year's profits throughout.

Where there is a succession to a business in such circumstances that none of the persons originally engaged in carrying on the trade continues in it, the assessments will always be fixed on the footing of discontinuance of an old business, and the commencement of a new one at the date of change.

Companies.

The accounts of a limited company require adjustment in the same way as those of a sole trader, the items allowed and not allowed being the same in either case.

There are, however, one or two special points in connection with companies arising out of their nature. A body corporate is taxed at the full standard rate on the whole of its profits whether distributed to the shareholders or not. In paying dividends, a company is required to furnish a statement with the dividend warrant showing—

- (1) the gross amount which, after deduction of tax appropriate thereto, corresponds to the net amount actually paid; and
- (2) the rate and amount of income tax appropriate to such gross amount; and
- (3) the net amount actually paid.

The income thus reaches the shareholder already taxed at the full standard rate, and it does not matter whether the dividend is declared in the form of "less tax" or "free of tax." A 10 per cent dividend "less tax" is the same thing as a $5\frac{1}{2}$ per cent dividend "free of tax" (taking income tax at 9s. in the pound). The shareholder should, therefore, regard his income from dividends taxed at source as the gross amount shown in the dividend warrant advice. As in other cases of taxation at source, claims for repayment of tax often arise.

EXAMPLE 24. Earned income £280. Allowances for wife and one child. Dividends received $5\frac{1}{2}$ per cent "tax free" on 200 £1 shares.

The dividend warrant will be for £11, and this sum must be regarded as already taxed at the same rate as the company has been taxed (normally the full standard rate). The gross dividend must be taken to be £20, of which £9 has been deducted for tax.

Earned income	£280			
Dividends	20			
	<hr/>			
Total	£300			
				<hr/>
				£ s. d.
Tax at 9s. on £300			135	- -
Deduct tax at 9s. on—				
Earned income allowance	£ 35			
Personal allowance	180			
Child's allowance	50			
	<hr/>			
	£265 @ 9s.		119	5 -
				<hr/>
			£15	15 -
Deduct 6s. on £35			10	10 -
				<hr/>
Net tax payable			£5	5 -
				<hr/>

Since £9 has been paid by deduction from the dividends repayment £3 15s. should be claimed.

The rate of deduction from dividends is not invariably the standard rate, since the company may be entitled to Dominion Income Tax Relief on part of its income. (See Chapter XI.)

CHAPTER VII

ASSESSMENTS UNDER SCHEDULE D, CASES III, IV, V, AND VI INVESTMENT INCOME AND CASUAL PROFITS

WE have seen that under Schedule A income arising from property is normally taxed at source, and that a large and important class of investments falls within the purview of Schedule C. Also that dividends of companies are taxed before receipt by the shareholder, and that tax on annual interest, etc., is charged upon the payer. Nevertheless there remain certain classes of investment income which are not taxed before payment. There are three main reasons for this—

(a) That there are specific exceptions to the assessment of tax under Schedule C.

(b) That it is the practice of banks and co-operative societies to credit interest to their customers and depositors in full, and that this practice has secured recognition by the authorities.

(c) That certain income from securities and possessions abroad cannot be taxed in the hands of the payer of the income under other provisions of the Income Tax Acts.

Case III of Schedule D covers the income included under headings (a) and (b) above. The types of such income mentioned below are taken from the notes issued by the authorities in connection with the completion of returns—

(i) Interest on bank accounts or deposits, including savings bank interest.

(ii) Interest from co-operative societies on loans, deposits, or share capital (but not dividends on purchases).

(iii) Dividends or interest of any amount on $3\frac{1}{2}$ per cent War Loan Stock, registered or inscribed at the Bank of England or the Bank of Ireland—except where application has been made to the Bank to deduct tax.

(iv) Dividends or interest of any amount derived from

British Government securities held on the Post Office Register.

(v) Dividends not exceeding £5 per annum from Government or Corporation securities inscribed at the Bank of England or the Bank of Ireland; interest on registered Local (Housing) Bonds, where the aggregate holding does not exceed £100. Interest on 4 per cent National Savings Bonds.

(vi) All dividends from stocks purchased and held through any Savings Bank.

Case IV of Schedule D covers the assessment of income arising from *securities* out of the United Kingdom, e.g. foreign mortgages, debentures and loans. The whole of the income arising from Dominion and Foreign securities is assessed, whether received in the United Kingdom or not.

Case V of Schedule D deals with the assessment of income arising from *possessions* out of the United Kingdom. Possessions are distinguished for the purpose of assessment, thus—

(a) Income other than income which (i) is immediately derived by a person from the carrying on by him of any trade, profession or vocation; or (ii) arises from any office, employment or pension. The whole of the income arising from these possessions abroad is assessable, whether received in the United Kingdom or not; and

(b) Other possessions (e.g. income from business controlled abroad). The assessment is in respect of the income received in the United Kingdom.

Rules of Assessment Applicable to Cases III, IV, and V.

The normal assessment is on the actual income of the preceding year.

Expenses of collection of the income from abroad, including foreign taxes (except where Dominion income tax relief is appropriate) are allowed as deductions; interest or other annual sums paid to a person non-resident in the United Kingdom out of income not received in this country, are also allowed as deductions.

Persons who prove that they are not domiciled in the United Kingdom are assessable under Case IV on the sums receivable in this country during the year of assessment, and under Case V on the sums receivable in this country on the preceding year basis. Similar provisions apply to British subjects not ordinarily resident in the United Kingdom.

New Sources.

(1) For the year in which the income first arises, the assessment is on the actual income of that year.

(2) (a) If the income first arose on the 6th April in the first year the assessment for the second year will be on the income of the preceding year.

(b) If the income arose after the 6th April in the first year the assessment for the second year will be on the actual income of the second year.

(3) For the third and subsequent years, the assessment is on the income of the preceding year.

For the first year in which the "preceding year" rule applies under the above provisions, the taxpayer has the option to have the assessment reduced to actual income of the year of assessment.

An addition to an existing source falls to be treated on the same lines as a new source.

Cessation.

When a person ceases to possess any particular source of income (or any part of such source) the discontinuance (or partial discontinuance) is treated in the same way as the discontinuance of a trade; i.e. the actual income of the year of assessment from the 6th April to the date of cessation is the basis of the assessment for that year, with an option on the part of the authorities to raise the assessment for the preceding year.

So long as the *source* of the income is retained tax is charged in respect of an assessment under the "preceding year" rule,

whether or not there is any income from the securities or possessions during the year of assessment.

CASUAL PROFITS (CASE VI OF SCHEDULE D)

This is often referred to as the "sweeping clause," since it provides for the assessment of any annual profits or gains not falling under the other Schedules or Cases.

A recent legal decision interpreted "annual profits or gains" as meaning "profits or gains relating to the year," and not as being something necessarily of a recurring nature. It is impossible to give any general formula for determining whether a casual profit is assessable under this Case. But it may be difficult to resist an assessment if the profit is a result of a transaction entered into with a view of profit. Underwriting profits are included, but not such profits as arise from appreciation of capital, e.g. sale of a house not bought with a view to resale, and profits on the sale of investments where the buying and selling of investments does not constitute a trade.

An eminent Judge of the High Court once expressed the view that if it is sought to tax the difference between selling and cost price, the proper place to do so is under Case I of Schedule D and not under Case VI, and in order that such profits or gains may be assessable under Case I it would be necessary to find as a fact that a trade was being carried on.

The assessment is on the amount of the profits or gains arising in the year of assessment or as the case may require, e.g. if an account has to be taken the profits may be apportionable to more than one year.

If a transaction is one which comes within the scope of Case VI, but a loss is incurred instead of a profit, the taxpayer may (1) set the loss against other profits assessable under Case VI, and so far as this does not give relief (2) carry forward the loss for six years against future Case VI assessments.

The Finance Act, 1940, made provision for charging under Case VI certain "excess" rents which were not assessed under Schedule A; the effect is to bring under taxation the excess of actual rents over Schedule A assessments.

CHAPTER VIII

ASSESSMENTS UNDER SCHEDULE E—EMPLOYMENTS

SCHEDULE E covers "all employments of profits," that is to say, the income of employees as such.

Before April, 1944, the normal assessment under Schedule E was on the basis of the income of the preceding year; as with Schedule D, there was provision for adjustments at the beginning and end of employment. The amount of the tax was payable in two equal instalments; the first instalment was payable on the 1st January in the year of assessment, and the second on the 1st July following the end of the year of assessment. This system worked tolerably well with people in regular employment, at regular rates of pay or salaries, and when the half-yearly instalments of tax to be found, were not disproportionately large.

For manual workers who became liable to tax, there was a special system of half-yearly assessments based upon actual earnings; the object was to collect tax as soon as possible after the income to which it related had been earned; the field here was relatively small.

"Pay as You Earn."

During the 1939-45 War the rate of Income Tax rose to unprecedented levels, and "individual allowances" were severely curtailed. Both of these factors operated to increase

Total Income	£200
Earned Income Allowance $\frac{1}{5}$ of £200	£40
Personal Allowance	100
	— 140
	<u>£60</u>
Taxable Income	<u>£60</u>
Tax on $\frac{2}{4}$ in £ on £60	<u>£7 - -</u>

Payable—£3 10s. on 1st January, 1940; and
£3 10s. on 1st July, 1940.

the proportion of income which had to be paid over to the collector. By way of illustration, consider the case of a clerk (single) at a salary of £200 a year. For the year 1939-40 he would have been charged, at the rates then in force, as shown on page 63.

This represents somewhat less than a week's pay on two occasions during the year. But at the rates in force for 1945-46 the computation would have been—

Total Income			£200
Earned Income Allowance $\frac{1}{10}$ of £200			£20
Personal Allowance '			80
		—	100
	Taxable Income		<u>£100</u>
			—
Tax at 6s. 6d. on £100			<u>£32 10 -</u>
Payable—£16 5s. on 1st January, 1946; and £16 5s. on 1st July, 1946.			

This represents approximately a month's pay on two occasions during the year.

There was a further factor in that large numbers of men and women were working long hours, and earning more money than in pre-war days. So that not only was a large proportion of incomes claimed by the Revenue, but many people were being brought into the field who were not accustomed to pay before, and who might in the future, when the burden could be eased, and when high earnings on war work disappeared, be outside the range of taxable persons.

It was obviously undesirable to allow arrears to accumulate, with the prospect of increasing difficulty in collection, and so the Government applied to earned income under Schedule E, the principle which had for long applied to large classes of unearned incomes, namely, 'deduction at source. A "Pay as You Earn" scheme was therefore introduced and came into operation on the 6th April, 1944.

The main points of the system are—

- (1) The assessment for tax is based upon the actual income of the year of assessment.
- (2) Tax is deducted by the employer from the wages and

salaries due to the employees, and paid over to the Revenue Authorities.

(3) Special Tables are prepared for use in ascertaining the appropriate deductions to be made.

(4) Any adjustments necessary as a result of the approximations involved by the use of the Tables is to be made at the end of the taxation year, by reference to the actual income of the year.

Pay as You Earn does not apply to pay of the Armed Forces.

Coding.

For each employee, a Code number is allotted according to the following schedule—

LIST OF CODES (1945-46)

Code	Total Allowances to be set against pay	Code	Total Allowances to be set against pay	Code	Total Allowances to be set against pay	Code	Total Allowances to be set against pay
1	£ 0	26	151—155	51	301—310	76	551—560
2	1— 10	27	156—160	52	311—320	77	561—570
3	11— 20	28	161—165	53	321—330	78	571—580
4	21— 30	29	166—170	54	331—340	79	581—590
5	31— 40	30	171—175	55	341—350	80	591—600
6	41— 50	31	176—180	56	351—360	81	601—610
7	51— 60	32	181—185	57	361—370	82	611—620
8	61— 65	33	186—190	58	371—380	83	621—630
9	66— 70	34	191—195	59	381—390	84	631—640
10	71— 75	35	196—200	60	391—400	85	641—650
11	76— 80	36	201—205	61	401—410	86	651—660
12	81— 85	37	206—210	62	411—420	87	661—670
13	86— 90	38	211—215	63	421—430	88	671—680
14	91— 95	39	216—220	64	431—440	89	681—690
15	96—100	40	221—225	65	441—450	90	691—700
16	101—105	41	226—230	66	451—460	91	701—710
17	106—110	42	231—235	67	461—470	92	711—720
18	111—115	43	236—240	68	471—480	93	721—730
19	116—120	44	241—245	69	481—490	94	731—740
20	121—125	45	246—250	70	491—500	95	741—750
21	126—130	46	251—260	71	501—510	96	751—760
22	131—135	47	261—270	72	511—520	97	761—770
23	136—140	48	271—280	73	521—530	98	771—780
24	141—145	49	281—290	74	531—540	99	781—790
25	146—150	50	291—300	75	541—550	100	791—800

The column "Total Allowances" does not include the Earned Income Relief or the Reduced Rate Allowances, both of which vary, within limits, with the amount of total income for the year.

For each Code number, a Code Table has been prepared to enable the employer to ascertain the amount to deduct at any time. These tables are constructed with a view to showing the amount of tax due in respect of the wages or salaries paid at any time during the year.

Section 2 (2) of the Income Tax (Employments) Act, 1943, provides—

(2) The said tax tables shall be constructed with a view to securing that, so far as possible—

(a) the total tax payable in respect of any emoluments for any year of assessment is deducted from the emoluments paid during that year; and

(b) the tax deductible or repayable on the occasion of any payment of, or on account of, emoluments is such that the total net tax deducted since the beginning of the year of assessment bears to the total tax payable for the year the same proportion that the part of the year which ends with the date of the payment bears to the whole year.

CHAPTER IX

MISCELLANEOUS PROVISIONS

SEVERAL miscellaneous matters must have our attention in this chapter.

Husband and Wife—Separate Assessments.

The income of the wife is deemed to be the income of the husband, and he is the person assessable. But either the husband or the wife may make application for separate assessment. Notice must be given within six months prior to the 6th July in the year of assessment for which the claim is made; e.g. application for separate assessment for 1946-47 must be made between the 6th January, 1946 and the 6th July, 1946. The effect of the application is that the incomes of the husband and of the wife will be respectively assessed in their own names, and the tax payable apportioned between them. The total tax payable remains the same as though no application were made. Moreover, the husband cannot escape altogether the liability to pay tax in respect of his wife's income. If she refuses to pay, he can be called upon to do so, and if he refuses his goods can be distrained upon.

The apportionment of reliefs and allowances is made according to the following rules—

EARNED INCOME ALLOWANCE. In proportion to the amount of the respective earned incomes.

OTHER ALLOWANCES. In proportion to the tax which would be payable if the only relief or allowance were the earned income allowance.

DEPENDENT RELATIVES AND/OR CHILDREN. To that one of the married persons who maintains the relative or child.

LIFE ASSURANCE PREMIUMS. To the husband or wife as the case may be, by whom the payments are made.

EXAMPLE 25

Husband's earned income . . .	£480
Wife's earned income . . .	96
Husband's unearned income . . .	420
Wife's unearned income . . .	126

There is one child (maintained jointly). The husband supports a dependent relative, and pays £60 premiums. The wife pays £20 premiums. (All policies are dated after June, 1916.)

	<i>Husband</i>		<i>Wife</i>	
	£	s. d.	£	s. d.
Earned income . . .	480	--	96	--
Unearned income . . .	420	--	126	--
	<u>£900 --</u>		<u>222 --</u>	
Tax at standard rate on total income . . .	405	--	99	18 --
Deduct tax at standard rate on earned income allowance . . .	£60 @ 9s.	27 --	£12 @ 9s.	5 8 --
	378 --		94 10 --	
[Allowances common to both are apportioned in the ratio £378 : £94 10s. or 4 : 1]				
Personal allowance [£264, i.e. £180 + £84] . . .	£211		£53	
Child . . .	40		10	
Dependent relative (husband only) . . .	50			
	<u>£301 @ 9s.</u>		<u>£63 @ 9s.</u>	
Relief at reduced rate (max.) . . .	242	11 --	66	3 --
	21	--	5	5 --
	221 11 --		60 18 --	
Allowance for life assurance premiums . . .	£60 @ 3s. 6d.	10 10 --	£20 @ 3s. 6d.	3 10 --
Tax payable . . .	By husband	<u>£211 1 --</u>	By wife	<u>£57 8 --</u>

If no application for separate assessment were made the tax payable would be the same.

	<i>£</i>	<i>s.</i>	<i>d.</i>
Tax at 9s. on total income, £1,122	504	18	—
Deduct tax at 9s. on allowances (£436 @ 9s.)	196	4	—
	£308 14 —		
Relief at reduced rate	<i>£</i> 26	<i>s.</i> 5	<i>d.</i> —
Relief for premiums (£80 @ 3s. 6d.)	14	—	—
	40 5 —		
Total	£268 9 —		

Charges on Income.

The correct treatment of charges on income is very frequently a source of difficulty and confusion. The fundamental rule in this connection is that where a person has to make any annual payment (e.g. interest on loan, ground-rent) out of "profits or gains brought into charge to tax," or in other words out of assessable income, he is not allowed any relief or allowance on so much of his income as is represented by the annual payment.

It follows that tax at the full standard rate will be charged upon that person in respect of the payment. It also follows that if the payment is made out of earned income, the amount of the payment must be deducted from the total earned income, and the one-eighth allowance calculated on the balance remaining. Tax at the full standard rate may be deducted when the payment is made, and this tax is recovered by the Revenue Authorities from the payer of the interest, etc. The rule stated above enables this to be done.

In order to preserve the earned income allowance as far as possible, charges on income should be set against unearned income in the first place. The following example may make the matter clearer—

EXAMPLE 26. A B owns a house annual value £36 (net assessment £27). He pays £4 a year ground-rent, and £30 mortgage interest. His assessment under Schedule E for the current year is £247.

		<i>Tax payable</i>
		£ s. d.
<i>Schedule A Assessment</i> —£27 at 9s.		12 3 -
<i>Schedule E Assessment</i>	£247	
Balance of interest	7 charged @ 9s.	3 3 -
	<u>£240</u>	
Tax at 9s. on £240	£108 - -	
Deduct tax at 9s. on—		
Earned income allow-		
ance ($\frac{1}{8}$ of £240)	£ 30	
Personal allowance	110	
	<u>£140 @ 9s.</u>	£63 - -
		<u>£45 - -</u>
Deduct £50 @ 6s.	£15 - -	
£50 @ 3s.	7 10 -	
	<u>22 10 -</u>	<u>22 10 -</u>
	Tax payable under Schedule E	<u>£25 13 -</u>

In the result A B bears himself tax on the amount of his net income after deducting the charges; he is entitled to deduct tax on the charges when making his periodical payments, and he will have this amount in hand. He pays the £25 13s. out of his income and the £12 3s. and £3 3s. out of the interest and ground-rent withheld.

Deduction of Tax.

Persons making annual payments out of "profits or gains brought into charge to tax" (that is, out of taxed income) are required to deduct tax at the standard rate in force at the time the payment is due. This rule applies to the following classes of payments—

Ground-rents.

Mortgage, or other interest, annuities, patent royalties, mineral rents, and similar payments.

Dividends paid out of profits or gains of companies.

[Deductions in respect of tax paid under Schedule A are not

affected—the actual tax paid (so far as the assessment does not exceed the rent) being the amount to deduct from rent.]

The precise effect of these provisions will not, perhaps, be apparent so long as the rate of tax remains unaltered. The rate of tax for 1945–46 was 10s. in the £, and for 1946–47 the rate is 9s. in the £; a person who paid yearly interest on the 31st December, 1946, would be required to deduct tax at the rate of 9s. on that date, although for three months of the period during which the interest was accruing the standard rate was 10s.

When a person makes an annual payment otherwise than out of profits or gains brought into charge to tax (e.g. out of capital), he is required to deduct tax at the rate in force at the time of payment. He must account for the tax to the Commissioners of Inland Revenue and pay it over.

Every agreement for payment of interest, rent, or other annual payment in full without deduction of tax is void. But an agreement may be made to pay such rate of interest as will amount to $\text{£}x$ per cent after deduction of tax at the standard rate for the time being in force.

The periodical payments to a Building Society include both principal and interest. Some societies arrange for the borrower to deduct tax in the ordinary way. Under an alternative arrangement a society may undertake to account for tax on interest paid to it, in which case the borrower pays the interest gross, treating the whole of the interest as a charge upon his income.

Interest paid by a Building Society to its shareholders is usually paid “free of tax.” There is, however, no provision enabling the recipient of such interest to claim repayment of tax in respect thereof.

Persons Receiving Income Taxed at Source.

We have discussed the cases in which income received without deduction of tax is assessed in the hands of the recipient, and we have seen how the amount of that kind of income for any given year of assessment is to be determined. For the

purposes of making a return of total income the amount to be entered is the amount arrived at according to the rules of assessment appropriate to the class of income.

A further question now arises. To which year of assessment does income taxed at source relate in the hands of the recipient? The answer is that such income relates to the year for which tax has been deducted, notwithstanding that it has accrued or will accrue partly before or after that year. For example, in the case instanced above the recipient of the yearly interest on the 31st December, 1946, will treat it as the income of 1946-47, that being the year for which tax is deducted.

In completing the return of total income the gross amount before deduction of tax will, of course, be entered.

Residence.

Residence or non-residence in the United Kingdom is a very important factor in determining liability to income tax. The subject bristles with difficulties, but the following summary of the position will perhaps prove useful—

PERSONS RESIDENT IN THE UNITED KINGDOM. Tax extends to *all* income whether arising within the United Kingdom or not, with the sole exception that income from foreign possessions other than stocks, shares, and rents assessable under Case V of Schedule D is assessed only so far as such income is receivable in this country.

PERSONS NON-RESIDENT IN THE UNITED KINGDOM. Tax extends to all income arising within the United Kingdom (except from Government securities issued under a condition that income tax shall not be chargeable where the holder is non-resident); and to so much of the income arising from foreign securities and possessions abroad (Cases IV and V of Schedule D) as is remitted to this country.

PERSONS TEMPORARILY RESIDENT IN THE UNITED KINGDOM. Tax under Cases IV and V of Schedule D will not be charged upon a person as a resident if—

- (1) He is in this country for some temporary purpose only.

(2) He does not intend to establish his residence in this country.

(3) He has not actually resided in this country for a period of six months, whether consecutive or not in any year of assessment.

All three conditions must be satisfied at the same time, otherwise the person will be assessed as though he were a resident.

NON-RESIDENTS AND INDIVIDUAL ALLOWANCES. The allowances to individuals dealt with in Chapter II are only granted to individuals resident in the United Kingdom, but a measure of relief is granted in the case of—

(a) a British subject; (b) a person who is, or has been, in the service of the Crown or who is employed in the service of any missionary society or in the service of any native state under the protection of His Majesty; (c) an individual resident in the Isle of Man or the Channel Islands; (d) an individual who has previously resided within the United Kingdom and is resident abroad for the sake of his health or the health of a member of his family resident with him; (e) a widow whose late husband was in the service of the Crown.

The calculation of the limit of relief will perhaps be better explained by direct reference to an example—

EXAMPLE 27. A British subject resident in New York has a total income of £1,000 including £200 arising within the United Kingdom and chargeable with tax.

(1) First calculate the amount of tax that would be payable if the whole of the income were subject to tax, and if the taxpayer were resident in the United Kingdom.

	£	s.	d.
Tax on £1,000 at 9s.	450	—	—
<i>Less tax at standard rate on—</i>			
Allowances, say, £200 at 9s.	90	—	—
<i>Less allowance of tax at reduced rate (maximum)</i>	360	—	—
	26	5	—
	£333	15	—

(2) Ascertain the proportion of United Kingdom income to total income. $\frac{\pounds 200}{\pounds 1000} = \text{one-fifth.}$

(3) The tax payable in respect of United Kingdom income $\pounds 200$ is one-fifth of $\pounds 333$ 15s. or $\pounds 66$ 15s.

If the individual were not a British subject or included in any of the above-mentioned categories, he would be liable to tax at the full standard rate on $\pounds 200$, i.e. $\pounds 90$.

Payment of Tax by Instalments.

The general rule is that income tax is payable in one sum on the 1st January in the year of assessment, except where the assessment is in respect of the earned income of individuals or partners in firms, in which case tax is payable in two instalments as follows—

One half on 1st January in year of assessment.

One half on 1st July following.

See, however, page 63 for method of payment of Schedule E tax.

Tax-free Payments.

Owing to the heavy increases in the standard rate since the beginning of the war it was found necessary to afford some relief to those persons who, prior to 3rd September, 1939, had contracted or were under obligation to pay periodical or other stated amounts "free of tax." With a Standard rate of 5s. 6d. in the \pounds the payer who had contracted to pay 14s. 6d. "free of tax" would have had to pay 5s. 6d. to the Inland Revenue, the grossed-up income being 20s. With a standard rate of 10s. in the \pounds the grossed-up income would have been 29s. It was felt that the increased burden of a 10s. rate of tax should not fall solely on the payer and it was provided that the payment "free of tax" should be taken to be $\frac{2}{9}$ ths of the stated amount in any year in which the standard rate was 10s.; so that 14s. 6d. "free of tax" became $\frac{2}{9}$ of 14s. 6d. or 10s.; the grossed-up income was 20s. and the payee got 10s. and the Inland Revenue 10s.

The effect was to make the payee bear the increase of standard rate from 5s. 6d. in the £ to 10s. in the £. For the year 1946-47 with the standard rate at 9s. the fraction $\frac{2}{9}$ is adjusted to $\frac{2}{9}$; so that a "tax free" payment of 14s. 6d. becomes 11s., the grossed-up income is 20s., the payee gets 11s. and the Inland Revenue 9s.

CHAPTER X

CLAIMS AND APPEALS

WHEN a notice of assessment is received it is important that any objection to it on the part of the person assessed should be notified within twenty-one days from the date of the notice. If this is not done the taxpayer loses his right of appeal, the assessment will be confirmed, and he cannot have it amended thereafter except upon grounds of error or mistake (see Chapter XI). The General Commissioners may, however, on proof of the facts proceed with an appeal where the appellant has been precluded from appealing in due time by reason of absence, sickness, or other reasonable cause.

Notice of any appeal to the General Commissioners should be given in writing to the Inspector. In the case of an appeal against an assessment made under Schedule D or according to the rules applicable to Schedule D (e.g. nurseries and market gardens), the notice of appeal must state the grounds on which the appeal is made. But this will not preclude the appellant from going into other grounds at the hearing if the Commissioners are of opinion that the omission was not wilful or unreasonable.

The General Commissioners fix a date for hearing the appeal and give notice thereof to the appellant, who may either conduct his case himself or employ a barrister or solicitor to plead it for him. The Commissioners must also hear any accountant (being a person who has been admitted a member of an incorporated body of accountants).

If the majority of Commissioners present are satisfied on the evidence of the appellant or other witnesses that the appellant is overcharged, the assessment will be reduced or discharged. Otherwise the assessment stands good. In disputes as to the annual value under Schedules A and B the appellant may request that the lands be valued by a person

of skill, the costs of such valuation abiding the decision and being in the discretion of the Commissioners.

Appeals against assessments under Schedules D and E may be made either to the General or Special Commissioners.

Appeal from the decision of the Commissioners is by way of case stated for the opinion of the High Court. A declaration of dissatisfaction must be made immediately after the decision is given, and the dissatisfied party has then twenty-one days in which to give notice (in writing) requiring the Commissioners to state a case. While these proceedings are pending the assessment as determined by the Commissioners is effective and tax is payable in accordance with it, subject to adjustment when the matter is finally disposed of.

There is a right of appeal from the High Court to the Court of Appeal, and thence to the House of Lords.

Repayment Claims.

Tax paid under an assessment which has not been appealed against or which has been unsuccessfully appealed against cannot be recovered on the ground that the *assessment* was excessive (but see Mistake in next chapter).

Repayment of excessive tax paid may, however, be claimed in a number of cases of which the following are the most usual types—

(1) Where individual allowances and reliefs (Chapter II) have not been given.

(2) As a relief for loss.

(3) Special cases of relief dealt with in the next chapter.

Where it is desired to secure relief in respect of a loss by way of repayment of tax, notice must be given within the period indicated in the sections of this book dealing with this relief.

In other cases the general rule is that claims for repayment may be made at any time within six years after the end of the year of assessment to which the claim relates. When occasion arises, notice should be given to the Inspector indicating the nature of the claim, and he will supply a form appropriate to

the case. A statement of total income from all sources will be called for if this has not already been provided. Receipts for tax paid and other documentary evidence necessary in support of the claim will be required (e.g. certificates of deduction of tax, dividend warrant counterfoils, receipts for life assurance premiums, etc.).

CHAPTER XI

SPECIAL CASES OF RELIEF

RELIEF is given in such special cases as mistake, bank interest, contingency claims, and Dominion income tax.

Mistake.

If a person who has paid tax under Schedule D or Schedule E discovers that the assessment was excessive by reason of some error or mistake in the return or statement made by him for the purpose of assessment, he may apply for repayment of the excessive tax paid. Any application under this section must be in writing and sent to the Commissioners of Inland Revenue within six years after the end of the year of assessment in question. The Commissioners of Inland Revenue have power to determine the matter, but there is a right of appeal from their decision to the Special Commissioners.

In practice, this relief has been found to be of strictly limited application. It does not apply to the *basis* on which the return was made if that basis was in accordance with the practice prevailing at the time. It relates only to errors made by the applicant himself; for example, if an assessment under Schedule E is made on a return furnished by an employer, any consequent error might be held to be the employer's and not the claimant's.

It does, however, offer a means of reopening cases of genuine blundering.

Bank Interest.

Banks very frequently collect annual interest on loans made by them, by the simple means of debiting the customer's current account with the interest due in full. Hence, the borrower has no opportunity of deducting the appropriate tax and retaining it as a set-off against tax deducted from his

own income. Section 36 of the Income Tax Act, 1918, enables a claim to be made for repayment of tax on the amount of the interest so paid.

Since students and others frequently find this provision obscure a simple illustration of the principle involved is given.

A B owns property assessed Schedule A net £800. He pays in 1946-47 £120 interest to the Bank without deduction. The occupiers will pay tax at the standard rate on the Schedule A assessments, so that A B's cash position is, assuming the actual rents to be £1,000—

Rents.	£ 1,000
Less tax at 9s. on £800	360
	640
Less interest paid in full	120
	£ 520

If he had been in a position to deduct tax at source the figures would be—

Rents.	£ 1,000
Less tax at 9s. on £800	360
	640
Less interest—net	66
	£ 574

A B should make a claim for repayment in respect of the difference of £54, which is the tax on £120. The Inspector will provide a special form for completion. A certificate must be obtained from the Bankers that so much interest has been paid in full, and vouchers for tax paid on £120 must accompany the claim.

Contingency Claims.

This is a special provision enabling repayment of tax to be claimed in cases where a fund has been established under a will or other settlement, and directions have been given to accumulate the income of the fund for the benefit of a person contingently on his attaining some specified age, or marrying.

If the income of the fund vested absolutely in the beneficiary he would be in a position to claim allowances and reliefs year by year as the income accrued. But since the benefit is only *contingent* on the happening of a specified event the income is not the beneficiary's unless and until that event occurs. Thus if the beneficiary dies before attaining the specified age or before marrying the income cannot be treated as his. But when the contingency does happen the Income Tax Acts make provision for reviewing the position, treating the income of each year as the income (or part of the income) of the beneficiary under the will or settlement. Taking into account any allowances to which the individual is entitled, a recalculation of tax is made for each of the years during which the income was accumulating. Tax found to have been overpaid can be reclaimed. The claim must be made within six years after the end of the year of assessment in which the contingency occurred.

Dominion Income Tax Relief.

The subject of double taxation of income is apt to prove highly technical, and any detailed discussion of the working of this relief would be out of place in this book. But the underlying principle will be outlined.

Supposing that a person is assessable under Case IV or Case V in respect of income amounting to, say, £1,000 arising abroad, and that he has to pay foreign income tax thereon at, say, 1s. in the £, he will be entitled to treat the £50 so paid as an expense, and the balance £950 will be assessed to United Kingdom income tax. That is, he will pay 9s. in the £ on £950, or £427 10s. So that on income amounting to £1,000 he will pay tax totalling £457 10s.

The object of the Dominion Income Tax Relief is to give a relief in the *rate* of tax payable. Thus, if he could set the rate of foreign tax against the rate of United Kingdom income tax, and pay 8s. in the £ on the whole of the foreign income, the amount of tax payable would be £450 (*viz.*, £50 foreign and £400 United Kingdom), representing a saving of £57 10s.

to the taxpayer. The legislation on the subject embodies this principle of giving relief in the rate of tax, and is concerned with fixing limits within which the relief is to operate.

The relief given will not exceed one-half of what is called the "appropriate rate" of United Kingdom income tax. An example will illustrate how the appropriate rate is determined—

Total income £800 (including £200 Dominion income)		
Tax at 9s. on £800	£	s. d.
	300	- -
<i>Deduct</i> tax at standard rate on—		
Allowances, say, £275 @ 9s.	123	15 -
	£236	5 -
<i>Deduct</i> allowance of tax at reduced rate (max.)	26	5 -
	£210	- -
Tax payable	£210	- -

This sum, £210, is regarded as tax payable in respect of £525 (i.e. £800 less £275, the amount of income which does not attract tax by reason of allowance of tax at the full standard rate). The appropriate rate of tax is £210 divided by £525, equal to 8s. in the £.

In calculating the appropriate rate relief in respect of Life Assurance Premiums is ignored.

The relief available in the example will be on £200 at the Dominion rate of tax, or 4s. in the £, whichever is the less.

Supposing the Dominion rate were 2s. 6d., the tax payable would be—

As calculated	£	s. d.
	210	- -
<i>Less</i> relief at 2s. 6d. on £200	25	- -
	£185	- -
United Kingdom tax payable	£185	- -

The relief will be given by way of a reduction of the tax chargeable in the first instance if the claimant establishes his claim before the 1st January in the year of assessment: otherwise by way of repayment of tax.

If a company secures Dominion income tax relief it must

pass this on to the shareholders. The appropriate rate for the company may not be the same as that for the shareholder, and the relief may be too much or too little for the case of the individual. When this occurs an adjustment up or down is necessary so far as the individual is concerned.

Where the individual is liable to sur-tax the appropriate rate is the rate calculated as above in relation to tax at the standard rate, added to the rate ascertained by dividing the amount of sur-tax by the total income. The following formula expresses this more clearly—

$$\left(\frac{\text{Income Tax payable}}{\text{Total income less allowances at standard rate}} \right) + \left(\frac{\text{Sur-tax payable}}{\text{Total income}} \right)$$

CHAPTER XII

SUR-TAX—GENERAL NOTES

SUR-TAX is additional income tax chargeable upon income in excess of £2,000. The statutory income of the year of assessment for ordinary income tax purposes is the income for sur-tax purposes. Annual payments (except interest on loans raised for the purpose of making "single premium" life assurances) may, however, be deducted from total income, since the payer is only entitled to deduct tax at the standard rate of income tax to cover so much of his income as is equal to the charges.

Sur-tax is assessed and charged by the Special Commissioners in one sum. It is regarded as an instalment of income tax due and payable on the 1st January following the end of the year of assessment to which it relates. The amount of sur-tax payable is calculated according to the scale in force for the year in which it is payable.

The rates of sur-tax for 1946-47 onwards are—

Tax payable on income exceeding £2,000—	<i>Rate per £</i> <i>s. d.</i>
On first £500 (to £2,500) 	2 —
On next £500 (to £3,000) 	2 6
„ £1,000 (to £4,000) 	3 6
„ £1,000 (to £5,000) 	4 6
„ £1,000 (to £6,000) 	5 6
„ £2,000 (to £8,000) 	6 6
„ £2,000 (to £10,000) 	7 6
„ £2,000 (to £12,000) 	8 6
„ £3,000 (to £15,000) 	9 6
„ £5,000 (to £20,000) 	10 —
On remainder (over £20,000) 	10 6

EXAMPLE 28. Total statutory income for 1946-47, £5,500.

Sur-tax payable—

First	£2,000				<i>nil</i>
					£ s. d.
		£500 at 2s.			50 - -
		£500 at 2s. 6d.			62 10 -
		£1,000 at 3s. 6d.			175 - -
		£1,000 at 4s. 6d.			225 - -
		£500 at 5s. 6d.			137 10 -
Total income	£5,500	Sur-tax			£650 - -

(payable on or before 1st January, 1948)

Notice that the tax is calculated on each successive block of income at the rate appropriate thereto.

If a husband or wife has claimed separate assessment, sur-tax is apportioned on the basis of their respective total incomes. If in the foregoing example the husband's income were £3,300 and the wife's £2,200, the sur-tax payable would be—

				£ s. d.
By the husband	$\frac{3300}{5500} \times £650$			390 - -
By the wife	$\frac{2200}{5500} \times £650$			260 - -
				£650 - -

Sur-tax is payable only in respect of individuals. In view, however, of the possibilities of evasion by means of the formation of private companies and allowing large profits to remain undistributed, elaborate provisions have been laid down for assessing sur-tax and charging companies where these conditions obtain. There are also provisions for bringing within the scope of sur-tax profits on the purchase and sale of securities cum dividend in certain cases.

APPENDIX I

EXEMPTION

Individuals.

Where the total income does not exceed £120 exemption may be claimed—see page 9.

Classes of Income Exempted from Tax.

Wounds and disability pensions.

Accumulated interest on National Savings Certificates.

Income from scholarships.

These are totally exempted and are not required to be included in any return of total income.

Bodies and Classes of Persons Entitled to Claim Exemption.

The bodies and classes of persons included in the following list are entitled to total or partial exemption in respect of their incomes. It is impossible to go into any detail in a book of this character.

Approved societies and insurance committees under the National Health Insurance Acts.

British Museum.

Charitable institutions.

Colleges and public schools.

Co-operative societies.

Foreign Ministers of State, High Commissioners, Agents-General and their staffs.

Hospitals.

Industrial and provident societies.

Public libraries.

Registered friendly societies.

Savings banks.

Scientific institutions.

Trade unions.

Earned Income—Definition.

Income Tax Act, 1918, Section 14 (3) provides—

“ 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.

Rates of Income Tax.

<i>Year of Assessment</i>	<i>Standard Rate</i>	<i>Year of Assessment</i>	<i>Standard Rate</i>
1920-21 } . . .	6s.	1931-32 } . . .	5s.
1921-22 } . . .	5s.	1932-33 } . . .	5s.
1922-23 } . . .	5s.	1933-34 } . . .	5s.
1923-24 } . . .	4s. 6d.	1934-35 } . . .	4s. 6d.
1924-25 } . . .	4s. 6d.	1935-36 } . . .	4s. 6d.
1925-26 } . . .	4s.	1936-37 } . . .	4s. 9d.
1926-27 } . . .	4s.	1937-38 } . . .	5s.
1927-28 } . . .	4s.	1938-39 } . . .	5s. 6d.
1928-29 } . . .	4s.	1939-40 } . . .	7s.
1929-30 } . . .	4s.	1940-41 } . . .	8s. 6d.
1930-31 } . . .	4s. 6d.	1941-42 } . . .	8s. 6d.
		1942-43 } . . .	10s.
		1943-44 } . . .	10s.
		1944-45 } . . .	10s.
		1945-46 } . . .	10s.
		1946-47 } . . .	9s.

APPENDIX II

EXERCISES

1. A. Com's income is £502, including £320 earned. Show the tax payable in each of the following cases—

(a) If he is single.

(b) If he is married.

(c) If he is married and has one child.

(d) If he is a widower with two children and is entitled to the "housekeeper's" allowance.

(e) If his wife is over 65.

(f) If included in the £320 is £64 income earned by his wife.

2. Calculate the income tax payable in each of the cases (a) to (d) above if the total income were £2,000 including £1,800 earned.

3. P. Dodd, a single man, pays life assurance premiums as follows—

(i) £30 on a £500 policy dated February, 1916.

(ii) £30 on a £750 policy dated July, 1917.

(iii) £25 on a 10-year endowment policy for £250 dated 1935.

What is the amount of the relief allowed if Dodd's total income, all unearned, is

(a) £312.

(b) £1,500.

(c) £2,200.

4. In each of the following cases assess the Annual Value of the property concerned and state the net assessment under Schedule A—

(a) Rent of house £55. Landlord executes repairs; tenant pays rates.

(b) Rent of house £52. Tenant executes repairs (£13) and pays rates.

(c) Rent of house £52. Landlord executes repairs and pays rates (£12).

(d) Rent of farm lands £240.

5. A married man over 65 owns twelve houses, eight of which are let at £60 a year and the remaining four at £40 a year. The landlord executes repairs and the tenant pays rates. Give the assessments under Schedule A, and state how much tax is payable for the current year (assuming no other income).

6. A farmer owns lands, excluding farm-house, assessed under Schedule A at £84 net. State the assessment under Schedule B.

7. If a farmer makes a loss what remedies has he?

8. A business is commenced on 1st October, 1940, and the adjusted profits for each year to the 30th September are as follows—

Year 1	.	.	.	.	.	£600
" 2	.	.	.	.	.	£480
" 3	.	.	.	.	.	£900
" 4	.	.	.	.	.	£1,200
" 5	.	.	.	.	.	£810
" 6	.	.	.	.	.	£2,100
" 7	.	.	.	.	.	£1,600

What are the assessments for each year based on these figures?

9. If the business in Question 8 were owned by a single trader, and he disposed of it entirely on the 31st December, 1944, what would be the assessments—

(a) on the original trader,

(b) on his successor?

10. Machinery costing £5,000 is replaced after five years by new machinery costing £6,000. The old machinery realized £1,000. Wear and tear claims totalling £204 have been admitted. What deduction is allowed in these circumstances?

11. Adjust the following account for income tax purposes.

PROFIT AND LOSS ACCOUNT

To Office Salaries	£ 600	By Gross Profit	£ 3,000
„ Bad Debts	120	„ Rents Received	500
„ Interest on Loan	200	„ Profit on Sale of In-	
„ Bank Charges	15	vestments	50
„ Carriage	56		
„ Rent of Business Pre-			
mises	300		
„ Repairs to Business Pre-			
mises	50		
„ Depreciation of Plant	120		
„ Income Tax	84		
„ Interest on Capital	250		
„ Balance—Net Profit	1,755		
	<u>£3,550</u>		<u>£3,550</u>

12. A company's accounts as adjusted show—

Year to 31st December, 19.. . . .	Profit	£5,100
„ „ 19.. . . .	Loss	£1,000
„ „ 19.. . . .	Profit	£3,040

State the amount of tax (at 9s. in £) for each year if

(a) the company elects to carry forward the loss under Section 33 of the Finance Act, 1926,

(b) the company claims repayment in respect of the loss.

13. In circumstances similar to that set out in Question 12, but assuming that the business is owned by an individual with other income from investments amounting to £2,200 a year, state the total income tax payable for each year if

(a) he elects to carry forward the loss,

(b) he claims repayment.

(Personal allowance may be taken as £180.)

14. Marshall, Swan, and Hobbs are in partnership sharing profits and losses one-half, three-eighths, and one-eighth respectively. The firm's final accounts for the year ended 31st August, 1942, are as follows—

TRADING AND PROFIT AND LOSS ACCOUNTS

To Stock at 1/9/44	£ 420	By Sales	£ 2,660
„ Purchases	1,632	„ Stock at 31/8/45	586
„ Wages	610		
„ Gross Profit c/d	584		
	<u>£3,246</u>		<u>£3,246</u>
To Trade Expenses	126	By Gross Profit b/d	584
„ Partners' Salaries—		„ Net Loss transferred to	
Marshall 260		Capital Accounts—	
Swan 210		Marshall 104	
Hobbs 104		Swan 78	
	574	Hobbs 26	
„ Interest on Capital—			208
Marshall 44			
Swan 28			
Hobbs 20			
	92		
	<u>£792</u>		<u>£792</u>

Compute the tax payable by the firm, assuming that each of the partners is entitled to Personal Allowance of £110, and that there is no other income.

15. A. Black receives interest on a Bank Deposit Account as follows—

For nine months to 31st March, 1943	£45
„ year to „ 1944	£60
„ „ „ 1945	£30

Under what provisions of the Income Tax Acts will this interest be assessed, and state the assessments for as many years as possible?

16. B. Brown has foreign possessions yielding £200 a year. State what further information you would require before you could ascertain the assessment for each year.

17. J. Smith disposes of his foreign shares. The income, therefrom, has been—

(a) Year of cessation	£150
(b) „ preceding year of cessation	nil
(c) Previous year	£130

What will be the assessments for the two years (a) and (b)?

18. Explain the main points of the Pay As You Earn system.

19. R. Stokes is a manager receiving an annual salary of £600 together with a commission amounting to £240 for year to 31st December, 1946, and £300 for year to 31st December, 1947. What do you consider the assessment for 1946-47 should be?

20. Compute the separate assessments of husband and wife for 1946-47 in the following circumstances—

The husband has been in employment up to the 31st August, 1946, at a salary of £23 a month. On the 1st September, 1946, he commenced business on his own account, and his profits for the year to 31st August, 1947, amount to £420. The wife owns property assessed at £210 net.

21. R. Chack pays interest on a loan of £600 at 5 per cent per annum. The property mortgaged (a house) is assessed at £80 gross. R. Chack's assessment under Schedule D for the current year is £614. Show the liability to tax, assuming he is married and has three children.

22. A. Twist has left Birmingham and has gone to reside in U.S.A. on account of his wife's health. He is now a sleeping partner in his Birmingham business, his share of the assessment for the current year being £1,500. He has also foreign securities yielding £500 a year. What is his tax liability in the circumstances?

23. An American on a visit to London cables to New York to remit a thousand dollars. Do you think he is liable to tax on this remittance? Give reasons.

24. A London doctor has a total income of £1,680, of which £1,200 is derived from his practice and £480 from investments taxed at 1s. 3d. in the £ in a British Dominion. Assuming

that he is married, and has one child, what is his liability to tax?

25. S. Banks has a total income of £8,500 for 1946-47. When will sur-tax be payable and how much will it amount to?

ANSWERS

- (1) (a) £132 3s.; (c) £78 3s.; (e) £91 2s. 6d.;
 (b) £100 13s.; (d) £64 13s.; (f) £75 9s.
- (2) (a) £756 15s.; (b) £725 5s.; (c) £702 15s.; (d) £689 5s.
- (3) (a) £9 2s.; (b) £16 3s. 9d.; (c) £18 16s. 3d.
- (4) Annual value—(a) £52; (b) £65; (c) £40; (d) £240.
 Net assessment—(a) £44; (b) £52; (c) £30; (d) £210.
- (5) Schedule A: net—8 at £48; 4 at £30. Statutory income, £504. Tax payable, £98 5s.
- (6) £96.
- (8) £300; £600; £600; £480; £900; £1,200; £810; £2,100; £1,600.
- (9) (a) £300; £600; £600; £1,050; £802 10s.
 (b) £202 10s.; £1,132 10s.; £810; £2,100; £1,600.
- (10) £3,796.
- (11) Adjusted profit, £1,859; subject to claims for wear and tear.
- (12) (a) £2,295; *nil*; £918.
 (b) £1,845; *nil*; £1,368.
- (13) (a) £3,110 5s.; £882 15s.; £1,733 5s.
 (b) £2,660 5s.; £882 15s.; £2,183 5s.
- (14) Total liability £16 10s. (Marshall £12; Swan £4 10s.; Hobbs *nil*.)
- (15) 1942-43, £45; 1943-44, £60; 1944-45, £30; 1945-46, £30
- (17) Year of cessation—Actual, £150.
 Preceding year assessment (unaltered), £130.

(19) $\pounds 600 + (\frac{3}{4} \text{ of } \pounds 240) + (\frac{1}{4} \text{ of } \pounds 300) = \pounds 855.$

(20) Tax payable by husband, $\pounds 77$ 8s.; by wife, $\pounds 51$ 12s.

(21) $\pounds 80$ 8s. + $\pounds 13$ 10s. deducted from Interest.

(22) $\pounds 594$ 11s. 3d.

(24) $\pounds 528$ 15s.

(25) $\pounds 1,624$ on 1st Jan., 1948.

INDEX

- ABILITY to pay, 3
Additional Assessment, discontinued business,
 41
 — — — investments, 61
Additional Commissioners, 25
Administration, 25
Adopted children, 13
Advertising, 46
Age 65, persons over, 10, 21
Allowances generally, 5
 —, individual, 8
 — — —, residents abroad, 73
Amenity lands, 33, 35
Annual payments, 44, 69
 — value, 29
Annuities, deferred, 18, 20
 — payable out of profits, 44
 — — — of public revenue, 35
Appeals, 76
Apportionment of accounts, 42
Appropriate rate, 82
Assessors, 25
Assurance, allowance for, 17
- BAD debts, 45
Bank interest, 59, 79
British subjects resident abroad,
 73
Building society interest, 71
Business premises, repairs to, 46
- CAPITAL expenditure, 44
Casual profits and losses, 62
Cattle dealers, 34
Cessation of business, 41
Change of proprietor, 56
Channel Islands, 73
Charges on income, 69
Children, allowance for, 13, 24
Claims generally, 76
 — for allowances, 8
 — for repayment, 77
Collectors, 25
- Commissioners, bodies of, 25, 26
Companies, 57, 82
Contingency claims, 80
- DEDUCTION from rent, 32
 — of tax, 70
Deductions, foreign income, 60
 — — — profits, 43
Deferred annuities, 18, 20
Dependent relatives, 15
Depreciation, 44, 49
Disability pensions, 86
Discontinued business, 41
 — investments, 61
Dividends paid by companies, 57,
 70
 — — — out of public revenue,
 35
- EARNED income allowance, 9
 — — —, definition, 87
Employees, assessment of, 63
Exemption from tax, 9, 16, 86
Expenses allowed, Sched. D, 44
- FARMERS, 32
Female relatives, 13
Firms, 54
Foreign income, 60
- GENERAL Commissioners, 25
Government service abroad, 63, 73
Ground rent, 70
- HOUSEKEEPER, allowance for, 13
Husband and wife, separate assessments, 67, 85
 —, death of, 24
- INCOME, charges on, 69
 — generally, 6
 — tax, rates of, 87
 — taxed before receipt, 71
Individual allowances, 8
 — — — non-residents, 73

- Inspector of Taxes, 26
 Insurance, losses covered by, 44
 ——— premiums, 17
 Interest, bank deposit, 59
 ———, building society, 71
 ———, co-operative society, 59
 ——— on capital, 44
 ——— on loans, 44, 69
 ——— payable out of foreign income, 60
 ——— ——— ——— of public revenue, 35, 59
 Investment income relief, 10
 Investments, assessment of income from, 59
 Isle of Man, 73

 LIFE assurance relief, 17
 Loss by flood or tempest, 31, 34
 ——— covered by insurance, 44
 ——— in business, 50
 ——— in farming, 34
 ——— not connected with trade, 44
 ——— on casual transactions, 62

 MACHINERY, depreciation of, 44
 ———, replacement of, 49
 Maintenance claim, 31
 Marginal relief, assurance premiums, 19
 ——— ———, persons over 65, 10, 21
 Market gardeners, 35
 Marriage in year of assessment, 24
 Milk dealers, 35
 Mineral rents, 70
 Missionaries, 73
 Mistake, relief for, 79
 Mortgage interest, 70

 NATIONAL Savings Certificates, 86
 New business, 38
 ——— partnership, 56
 ——— source of income, 61
 Non-resident, 73
 Nurseries, 35

 OBSOLESCENCE, 49
 Occupier chargeable, 32
 Ordinary residence, 61

 PARTNERSHIP, assessment of, 54
 Patent royalties, 70
 Payment of tax, 32, 74
 Pensions, 86, 87
 Personal allowance, 11
 Possessions abroad, 60
 Post-war Credits, 22
 Private expenses, 43
 Professions, 37
 Profit, adjustment of, 45
 Proprietor, change of, 56

 RATES of sur-tax, 84
 ——— of income tax, 87
 Relatives allowances for, 13, 15
 Relief, bank interest, 79
 ———, contingency claims, 80
 ———, Dominion income tax, 81
 ——— for mistake, 79
 ——— where profits fall short of assessment, Sched. B, 33
 Renewals, 45
 Rent of business premises, 44
 Repairs, allowance for, 30
 ——— in excess of allowance, 31
 ——— to business premises, 45
 Repayment claims for, 77, 79
 Residence, 8, 24, 61, 72, 73
 Return of total income, 8

 SALARIES, assessment of, 63
 Schedule A, 27
 ——— B, 32
 ——— C, 35
 ——— D, 37
 ——— E, 63
 Scholarships, 13, 86
 Scope of tax, 7
 Securities, foreign, 60
 Separate assessments, husband and wife, 67, 85
 Shares, foreign, 60
 Special Commissioners, 26
 Statutory income, 7
 Subscriptions to hospitals, 43
 Succession to business, 56
 Superannuation contributions, 19, 20
 Sur-tax, 84

 TAX-FREE payments, 74

Taxable income, 17
Taxation at source, 2
Taxed dividends, 57
Trades, assessment of, 37

UNDERWRITING profits, 62
Unoccupied property, 31

VOCATIONS, 37

WEAR and tear allowance, 47
Widow, 24, 73
Widowed mother, 15
Woodlands, 34
Wounds pensions, 86

