

The Case Against a Local Income Tax

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BRITAIN'S antiquated rating system cries out for reform. Since it saw the light of day, just before the Gunpowder Plot, it has been buffeted, abused and subjected to much ill-digested legislation. A point has now been reached when the Englishman pays his taxes in sorrow and his rates in anger. In consequence, the vigorous efforts which are made to check rising expenditure by local authorities threaten to create a situation under which there will be public squalor alongside private affluence.

To counter such a threat, various proposals have been canvassed which have as their objective the raising of new sources of revenue to supplement the income of the local authorities. One such proposal is a local income tax. Alternatively, it has been suggested, certain of the revenues collected locally on behalf of the central administration — and motor taxation affords a case in point — should be retained by our local councils. At this juncture, it would not be practicable to explore all these possibilities: attention will therefore be directed to examining the question of the introduction of a local income tax.

For a start one needs to consider whether a local income tax would possess all the desirable properties of a good local tax. In so doing, it should be borne in mind that the desirable properties of a good local tax are not identical with those of a national tax. It is desirable that a local tax — like any other — should be convenient and certain, fair between persons similarly situated and economical in collection. But a good local tax must have other attributes, arising from the fact that the position of local finance in the economy differs from that of central finance in several respects. For example, a good local tax has its base localised within the jurisdiction of the taxing authority and it should not exaggerate local disparities in wealth.

Before one can say whether a local income tax possesses these attributes of a good local tax various points require clarification. First, one requires to know whether the tax would be used to raise the whole of the income required by the local authorities. Be it noted that this is not likely. The Chancellor would certainly look askance at any proposal which would impinge so strongly upon one of his chief sources of revenue. However, even if it could raise all the income needed by local authorities, the poundage would vary from area to area and this would defeat the aim of "equality of burden" and would perpetuate the problem of the "rich" and "poor" area. Indeed, the inequality of resources among the different authorities might be intensified. One would expect richer areas to benefit most from a local income tax, which

would enable them to keep the rate at a lower level. This would then attract further resources into the district at the expense of the less well-to-do, who would find themselves caught in a vicious circle. Furthermore, their difficulties would be most acutely felt during a period when some slack began to appear in the economy, for to ensure the necessary revenue from the tax, because of a loss in income from those unemployed and a fall in company profits, assuming the latter were subject to tax, the tax rate would have to be raised.

A second point which requires to be settled is whether the tax would be confined to individuals or would also be levied on companies. Almost certainly it would have to be applied to companies. Otherwise it would be open to the small businessman to contract out by turning his firm into a company.

In practice, presumably, employers would deduct the tax from the wage-earners and pay it over to the local authority in which his place of work is situated. But what would happen with special groups of employees, such as those in the armed forces? Moreover, self-employed people and recipients of investment income, other than interest and dividends paid out by U.K. companies, would have to be assessed by the local authority direct. The administrative burden of raising the tax would then be quite formidable, particularly for the smaller local authority unable to employ sufficient specialist staff. Furthermore, this difficulty would have to be faced even if help was given by the local Inspector of Taxes, for a tax on income provides more loop-holes for evasion than a tax on property or land.

Assuming company profits are assessed, then presumably the distributed part would be allocated to the local authority in which the company is situated. What would happen to the tax on the undistributed profits? On grounds of equity, they should be subject to the same treatment as distributed profits. A number of local income tax advocates have agreed that the money should be handed over to some central municipal fund which would be responsible for dividing it between the local authorities, but agreement would need to be secured on the basis on which this was done. Many other difficulties would arise about the division of the tax collected.

For example, many business firms operating in more than one local authority, such as banks and insurance companies, and producing one consolidated set of accounts, may not have any means of allocating their profits to the

area of origin. Similarly, what happens with dual-nationality companies? And even if some method were found to distribute the tax proceeds to county councils and county boroughs, the former would then have to devise a formula for dividing the proceeds amongst the local authorities within their jurisdiction.

To suggest that these difficulties are spurious, on the grounds that Sweden successfully operates a local income tax, does not bear close examination. By reason of the differences in geography and of the greater localisation of industry, the problem of how to divide up the profit of the many business concerns which operate in more than one local authority are not as acute in Sweden as in the United Kingdom.

BOOK REVIEW

PALLIATIVES AND PRIVILEGE

By R. J. RENNIE, B.Sc.

"Land and Labour in India" by Daniel and Alice Thorner

Asia Publishing House, London.

THE book consists of a series of articles and papers written in Delhi between 1952 and 1960, which were first published in certain Indian journals. Five primarily historical articles are grouped under "Trends" and these are followed by detailed studies of four statistical reports: Population Census 1951, Census of Landholding, Agricultural Labour Survey and Rural Credit Survey.

The authors emphasise that the structure of society in rural India is essentially the same today as it was a century or so ago in that it is still based on family labour exerted to raise produce from the soil, mainly to meet the family's own food requirements. Agricultural labourers are divided broadly into two distinct divisions — free and bond. While the free labourer is able to reject or accept the terms offered by a prospective employer, the bond labourer is by custom, or compulsion generally incurred through debt, bound by specific obligation to serve the needs of his master, and is unable, if dissatisfied with the bargain, to seek employment elsewhere. Such bond contracts sometimes embrace two or three generations of labourers in one family, who are thus fettered in hopeless bondage, often through a debt which they can never earn enough to repay. The employers, in such cases, still common in many of the States in India, are generally considerable landowners. Various enactments embodying measures of land reform have to some extent broken up the estates of some of the largest absentee landlords, but the provision allowing retention of ownership of land under cultivation by the owner has enabled many, whose incomes are derived from rents and "share-cropping", to

It is not suggested that this list of criticisms directed against a local income tax is a comprehensive one, although it is pretty formidable. Sufficient has been written to show that a local income tax does not have all the attributes required for a good local tax. But the proposal to introduce such a tax stands condemned for a further and more important reason. This type of tax, if operated, would be a further levy on the initiative and enterprise of labour and it would come at a time when this factor of production is already heavily penalised. Far better that the revenue required by the local authorities should be raised by means of a tax on land. Apart from this being warranted on grounds of equity, it would have the additional merit of inducing landholders to put the land to its best use. Among other things, this would provide more land for housing.



retain possession. Throughout the chapter on employer-labourer relationships the stark fact that those who own the land virtually own the lives of the dispossessed is apparent time and time again.

Referring to the century or so between 1750 and 1850, prior to the advent of the British to India, the authors state "So long as the peasants turned over to the local potentate his customary tribute, their right to till the soil and reap the fruits was taken for granted. Local rulers who abused this right were considered oppressive; if they persisted, the peasantry fled to areas where the custom of the land was better respected. As land was still available for settlement and labour was not too cheap, local chiefs had to be careful lest they alienate the villagers." Probably being unaware of the Law of Wages, the authors fail to make the point that labour is never cheap when land is available for settlement.

It was the British who introduced into India the concept of land as a marketable commodity and all the legal paraphernalia common to such transactions in real estate. The opportunity thus presented to acquire ownership of land in satisfaction of debt greatly increased the power of the money-lenders, enabling them to join the ranks of those deriving incomes from the rent of land. The British occupation of India produced another result which worsened the lot of the labourer. Public health measures reduced mortality and increased population to such an extent that the rural population could no longer gain a living for their numbers by working on the land available to them; these unfortunates drifted to the towns, where