

INTRODUCTION

THE KING'S REMEMBRANCER'S DOCUMENTS

“Of all the burdens that one after another had been heaped upon the shoulders of the British taxpayer during the progress of the Great War, by far the most grievous was the income tax at 10 per cent.”¹ In 1802, on the conclusion of the Peace of Amiens, the first War Income Tax, introduced by Pitt in 1799, was repealed. The public outcry against the levies had been so great that, by order of Parliament, all documents and records referring to the tax were to be destroyed. It was universally felt that too much information had been given to the representatives of Government by the private citizens of the country, particularly as the total income of each contributor had been revealed. The documents held by the Commissioners for the Affairs of the Taxes were, it was ordered, to be cut into small pieces and conveyed to a paper manufactory where, under the eyes of one of the Commissioners, they were to be committed to the mash tub. The Commissioner was to stay in the paper mill until the contents of the tub were reduced to pulp. It has been generally believed that all the more detailed records of the income tax of 1799 to 1802 were so destroyed. The tax was renewed after the breakdown of the Peace of Amiens; but in 1815, in spite of the fact that under the schedule system it was not necessary to declare income as a whole, there was a similar movement to have all documentary evidence of the tax removed. It must be made difficult, or impossible, for a Government to introduce an income tax in the future. Liverpool’s administration was suspect because his Chancellor of the Exchequer, Vansittart, had attempted to continue it in a modified form after the conclusion of hostilities. As the *Annual Register* recorded, “one of the most remarkable features of the Parliamentary Year was a defeat for the Minister of Finance in his motion for a renewal of the Property Tax. . . The whole was

¹ Dowell, Stephen, *History of Taxation and Taxes in England*, 1884, Vol. II, Bk III, Chap. II, p. 252.

brought to a close by a petition presented by Sir William Curtis, bearing the signatures of 22,000 merchants, bankers and traders of the City of London". An ill-timed observation by Castle-reagh, referring to "ignorant impatience of taxation", only irritated the opposition more and increased suspicion of the Government's intentions.

The total repeal of the tax formed the subject of innumerable petitions to the House of Commons. Brougham, with his "bare, bold, bullion talent", led the opposition in Parliament; agitators, great and petty, brought it to a head in the country. The records dealing with the tax must be destroyed. Vansittart carried a compromise through. The Parliamentary reports were to be preserved; but though he agreed to "erase the names of individuals from all income tax returns... the documents themselves would not be entirely destroyed as it was necessary to preserve an account of the sums contributed by the different classes".¹ Brougham, having gained a decisive victory, "expressed satisfaction, but complete burning would be better, and a certain public officer, not in very great estimation, might be advantageously called in".² The bare statistical outline of the War Income Tax, of 1799 to 1816, was saved; but Brougham and his supporters were sure that everything else had been destroyed.

Duplicates of the parish returns for the Land Tax, and the Assessed Taxes, used by the bodies of local Commissioners for those taxes, had long been sent to the King's Remembrancer in the Court of the Exchequer. The War Income Tax was under the control of the Commissioners for the Affairs of the Taxes and at first was managed by them almost as an addition to the Assessed Taxes. Duplicates of the completed parish assessments returned to the General Commissioners of the Income Tax in each division, and of the Receiver General's statement in each county were, as a matter of ordinary routine, deposited with the King's Remembrancer. In legislation, virtually completing the organization of the War Income Tax, it is definitely stated that

¹ Stamp, Lord, *British Incomes and Property* (1916), Appendix IV. Summary Tables compiled from the original Parliamentary returns.

² Hansard. 30 May 1816: see debate on fate of records.

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duplicates must be sent to the King's Remembrancer in the Court of the Exchequer.¹

The documents deposited with the King's Remembrancer have been preserved almost in their entirety from 1799 to 1816 and are at present in the Public Record Office. They include three classes and miscellaneous papers. The first, largest and most detailed class consists of the returns of assessments and the receipts, by parishes, for every division in England and Wales. Names, full details of every surcharge made and schedules of all defaulters are given. The amounts paid under each schedule are given in each parish, and an account of all administrative expenses, covered by the necessary warrants, is rendered. So far as has been ascertained these returns are complete. The second class consists of the returns of the Receivers General for the counties and half-counties, as sent to the Commissioners for the Affairs of the Taxes and to the Auditor General's Office. They give the total "charge", or gross assessment, for the Income Tax by schedule for each division in the counties for which the Receivers General were severally responsible. Then all administrative expenses are detailed and deducted from the charge; all allowances under the different schedules; all amounts paid direct to the Bank of England; allowances paid to parents for children, and any other contingent expenses, are deducted from the Receiver's charge and the amount actually paid by him is shown. The Auditor General checked the Receiver's accounts with the parish duplicates deposited by the General Commissioners for each division with the King's Remembrancer. The third class consists of the Receiver General's "declared accounts", that is, the statements, as declared before a Baron in the Court of the Exchequer, before the accounts for any one year were closed.

The returns in the second class are complete for nearly every English county from 1799 to 1815, inclusive. The returns in the third class are not, apparently, in full: those for Cheshire, Derbyshire, Lincolnshire and Nottinghamshire are missing, and only England is covered for 1812, 1813, 1814 and 1815.

¹ 45 G. 3, c. 49 and 46 G. 3, c. 65.

The returns in the third class are practically duplicates of those in the second but slightly more accurate, as all clerical and minor errors have been corrected. The miscellaneous papers include letters on administrative problems to the Tax Office in London and to the Auditor General, accounts of arrears and less important information.

There are no details from Scotland in the Record Office: Scotland was administered as a single Receiver General's district and never yielded more than 7 per cent. of the total for the two kingdoms. Whatever Scottish details have survived—and they are comparatively meagre—must be sought among the papers of the King's Remembrancer in the Scottish Court of the Exchequer, preserved in the General Register House, Edinburgh.¹

The documents in the Record Office give a fair picture of the War Income Tax, and their existence, up to the present time, has been unknown. How they were preserved is, perhaps, a matter for speculation; because, apart from the intimation that they were removed to the Office, presumably from that of the King's Remembrancer, printed on the labels of some of the sacks and bundles, there is no direct evidence.

There is a persistent legend that, during the time of rejoicing in 1816 after the repeal of the Income Tax legislation, the future Lord Chancellor Brougham assisted in stoking a fire in Old Palace Yard, Westminster, consisting wholly of the records of the "hated impost"—a more spectacular form of destruction than consignment to the mash tubs of 1802, but one which proved no less incomplete. The windows of the Auditor General's Office overlooked Palace Yard, and if Richard Gray the Deputy Auditor, a man who had done much to make the Income Tax a success, was watching the bonfire it must have given him a certain feeling of amusement. The future patron of the "Society for the Promotion of Useful Knowledge", Lord Brougham, whether or not he stoked the fire, had not done his work quite so completely as he thought.

¹ For catalogue numbers of documents in Public Record Office and for documents in the General Register House see Appendix I.

Chapter I

THE ANTECEDENTS OF THE INCOME TAX

Writing in 1776, Adam Smith stated that, “apart from a levy on the emoluments of offices, which are not, like those of trades and professions, regulated by the free competition of the market. . . there are no other direct taxes upon the wages of labour. Capitation taxes, if it is attempted to proportion them to the fortune or revenue of each contributor, become altogether arbitrary. The state of a man’s fortune varies from day to day and, without an inquisition more intolerable than any tax and renewed at least once every year, can only be guessed at. His assessment, therefore, must, in most cases depend upon the good or bad humour of his assessors and must, therefore, be altogether arbitrary and uncertain.”¹ Here, it appears, is a condemnation in unmistakable terms of anything resembling an Income Tax. Yet Adam Smith is more concerned with denouncing the inquisitorial practices, which he believed such a tax would make inevitable, and the administrative difficulties involved, than with attacking the justice, or true economic basis of “capitation taxes proportioned” to income.

The man largely responsible for the introduction and ultimate success of the War Income Tax was William Pitt the younger. He was a student of Adam Smith and, on many occasions, the bold exponent of the theories of the *Wealth of Nations*. Undoubtedly the necessities of the French wars forced Pitt to adopt many forms of taxation that Adam Smith would not have endorsed, but it is interesting to see how the statesman may have been influenced by the economist, even in introducing a tax which, it was generally believed, Smith had condemned.

¹ Smith, Adam, *Wealth of Nations*, Cannan’s edition, Vol. II, Bk v, Chap. II, Pt II, Article IV, pp. 351–352.

Cambridge University Press

978-1-107-64033-7 - Income Tax in the Napoleonic Wars

Arthur Hope-Jones

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The War Income Tax in its final shape was made up of five “Schedules” which, in reality, were five separate and distinct forms of taxation. Schedule A was a tax on the rent of land and real property; Schedule B was a tax on the produce of the land; Schedule C taxed the interest received by the holders of Government funds; Schedule D was a tax on the profits from trade and commerce, manufactures, professional earnings and salaries; Schedule E was a levy on certain “offices, pensions and stipends”.

Concerning a tax upon the rent of land and real property, Adam Smith argues that it “may either be imposed according to a certain canon, every district being valued at a certain rent, which valuation is not afterwards to be altered; or it may be imposed in such a manner as to vary with every variation in the real rent of the land”.¹ He concludes that an impost based on a fixed and apportioned charge on each district, like the Land Tax of his own time and country, though it may be fair at first, necessarily becomes unfair. After outlining a system of lease registration and safeguards for protecting “improving landlords” from greedy tax-gatherers, he definitely approves of a “Land Tax” on a flexible basis, similar in essentials to Schedule A of the 1803 Income Tax legislation. He goes further and adds, “it would, therefore, be much more proper to be established . . . as what is called a fundamental law of the Commonwealth than any tax which was always to be levied according to a certain valuation. It does not appear to occasion any other inconveniency except always the unavoidable one of being obliged to pay.”² The taxation of real property is approved by Adam Smith. He argues that “ground rents are a still more proper subject for taxation than the rent of inhabited houses”;³ his endorsement, in principle, of Schedule A is almost complete.

¹ Smith, Adam, *Wealth of Nations*, Cannan’s edition, Vol. II, Bk v, Chap. II, Pt II, Article I, p. 312.

² *Ibid.* Vol. II, Bk v, Chap. II, Pt II, Article I, p. 318.

³ *Ibid.* Vol. II, Bk v, Chap. II, Pt II, Article I, p. 328.

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The views of the economist on taxation of the produce of the land are of great interest. His observations are extremely practical; his chief point is that “taxes upon the produce of land are, in reality, taxes upon the rent and, though they may be originally advanced by the farmer, are finally paid by the landlord”.¹ This, in the case of the tenant farmer, often happens when rents are reduced as a result of that form of taxation; it does not, of course, apply to taxpayers farming their own land. Schedule B of the War Income Tax was a tax on produce and the risk, made clear by Adam Smith, was taken, with certain safeguards. The farmer was taxed on an assumed value for his annual profit, which was three-quarters of the rent. All changes in rent were subject to appeal and review by authority. Adam Smith cannot be said to have approved a tax similar to Schedule B, but his observations were clearly of great value in making it possible to strengthen the weak points in such a scheme.

Smith’s views upon the taxation of the interest, drawn by the holders of Government bonds, are not clearly defined. He considered the policy of maintaining a permanent national debt, and paying interest upon it, wrong and dangerous. “Is it likely that in Great Britain alone a practice which has brought either weakness or desolation into every other country should prove altogether innocent?”² At the same time it does not appear unreasonable to assume that, admitting the fact of an unrepudiated national debt, Smith might have approved of a tax like Schedule C, particularly in time of war.

It is a tax similar to Schedule D of the War Income Tax that Adam Smith appears to condemn. Yet as has been pointed out, it is the contingent necessity for Government interference in private life and affairs and the extent of the administrative problem that appals him, rather than any essential injustice of the tax. It is significant that Smith’s “general condemnation”

¹ Smith, Adam, *Wealth of Nations*, Cannan’s edition, Vol. II, Bk v, Chap. II, Pt II, Article I, p. 313.

² *Ibid.* Vol. II, Bk v, Chap. III, Pt II, p. 414.

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of “all capitation taxes proportioned to income” is in fact limited to one schedule of the War Income Tax, and that, for highly specialized reasons. It is true that Schedule D, dealing with the incomes “varying from day to day”, was the most severe administrative problem facing the Income Tax organization during the war; and that Adam Smith’s hatred of Governmental interference and taxation necessitating it was shared in full by the British people.

Schedule E was merely the revival of the old eighteenth-century tax on offices in an improved form. Adam Smith approved of such taxation because those emoluments were “not regulated by the fair competition of the market” and, as such, were proper objects for discriminatory duties.

It is interesting to find that Smith considers that the scanty earnings of workmen and agricultural labourers should be exempt from any form of “income tax”. Such a levy would, he considers, be passed on to the “master manufacturer” in the form of a demand for higher wages, as wages are determined by the cost of subsistence for the workmen; or it would result in a fall in the demand for labour. In the same way, a tax on the earnings of agricultural labourers, he argues, would be passed on by the tenant to the landlord, as a demand for a reduction in the rent. Taxes of this kind he classifies as “absurd and destructive”.¹ Under the War Income Tax throughout the period from 1799 to 1816 the earnings of all labourers and workmen, except a small number of prosperous artisans, were within the exemption limits of tax-free income provided for in the various Acts of Parliament. For “capitation taxes proportioned to the fortune of each contributor, in general,” Smith, in spite of his apparently full-blooded condemnation in one place,² in another gives a guarded approval. He states that “they can be levied at little expense and, where they are rigorously exacted afford a very sure revenue to the State”, although he does not think the

¹ Smith, Adam, *Wealth of Nations*, Cannan’s edition, Vol. II, Bk v. Chap. II, Pt II, Article III, p. 350.

² *Ibid.* Vol. II, Bk v, Chap. II, Pt II, Article IV, p. 351.

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greatest sums yet raised in such a way have justified the inconvenience inflicted on the people.¹

In the 1770's, according to Adam Smith's own calculation, about "ten millions sterling were annually levied upon less than eight millions of people". The average tax income of Great Britain from 1809 to 1813 was £67,000,000 and, in 1812, £15,488,546 was raised by H.M. Government through the "Property Tax",² popularly referred to as the "Income Tax". Pitt, and his assistants at the Treasury and the Tax Office, had discovered "a very sure revenue" for the State and the exigencies of war in their opinion justified the inconvenience to the people. The War Income Tax was popularly considered to be inquisitorial; but administrative difficulties had been faced, and largely overcome, by the creation of a civil service organization of hitherto unexampled efficiency.

There is no direct evidence that earlier experiments in raising money by income taxes influenced Pitt's mind or were studied by him. The "Estimo" of early fifteenth-century Florence, among many others, would no doubt have interested him. The tax was levied on rents and capitalized income. In 1451 it was replaced by the "Catastro", a true income tax, which later gave way to the "Scala", an income tax on a progressive basis. The private ledgers of Florentine business houses were open to the inspectors and private citizens were obliged to declare their income to the assessors. Under the Medici regime, the Scala degenerated into a convenient means of political blackmail and, upon their overthrow, was abolished.³

The ancient taxes of England, such as the Danegeld and

¹ Smith, Adam, *Wealth of Nations*, Cannan's edition, Vol. II, Bk v, Chap. II, Pt II, Article IV, p. 354.

² A. Parliamentary returns, Property Tax, 1812. B. Marshall, J., *A Digest of all the Accounts* (1834), "Five Great Branches of Revenue", pp. 27-32, and p. 121. C. Session of 1870, Vol. 20; Reports from Commissioners, Vol. 9; 13th Report, Commissioners of Inland Revenue (1870).

³ Canestrini, *La Scienza e l'Arte di Stato*, quoted in Seligman, E. R. A., *The Income Tax*, Pt I, Prefatory Note, p. 45.

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Carucage, Scutage and Tallage and later the “Tenth” and “Fifteenth” all shared one feature in common. Whether they began as flexible taxes or not, they rapidly became fixed and apportioned sums, charged on definite parcels of land, or specified communities. Poll taxes from that of Edward III to that of William III¹ had been assessed not according to income but “according to the degree of the contributor’s rank”. The “Subsidy” of Tudor times was introduced as a percentage tax on movables and the profit from land; it rapidly became a fixed sum, split up into numerous definitely apportioned charges. In creating the War Income Tax, Pitt and the Treasury men did not find the ancient taxes very encouraging as precedents.

The “Monthly Assessments” of the Commonwealth must have been of more interest. True, the tax was an apportioned levy, each district being named in the Acts for a specified sum which was to be paid in monthly instalments. At the same time the sums requisitioned from each district could be varied at will; and the money was raised by assessments on the rent or yearly value of land and real estate; or on an assumed income of 5 per cent. on the capital value of stock and other personal estate. The administrative organization is of interest, being somewhat similar to that of the eighteenth-century Land Tax, which supplied an essential part of the Income Tax organization. Commissioners were named in the Acts for each county and city, being a county in itself; they were to divide themselves into separate bodies for each hundred. In every parish “Surveyors and Assessors” were to ascertain yearly values and profits; in each hundred a “High Collector” was to pay in to the “Receiver General” for the county. The tax was levied on several occasions during the Restoration period and in the first years after the Revolution; but at the old level of assessments for 1656, with no serious attempt to tax movables.

When Pitt began his long period of power the Land Tax was still a corner-stone in the edifice of Government finance. First introduced as a war tax in 1692,² at four shillings in the pound,

¹ 9 William 3, c. 38.² 4 William and Mary, c. 1.