# AN COIMISIÚN UM CHÁNACHAS IONCAIM

## (COMMISSION ON INCOME TAXATION)

## AN TARNA TUARASCÁIL

## (SECOND REPORT)



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# SECOND REPORT
# OF
# THE COMMISSION ON INCOME TAXATION

*To Dr. James Ryan, T.D.,*
*Minister for Finance.*



## INTRODUCTION

1. This Report deals with three matters,

   (1) Simplification for the taxpayer of present income tax assessment and collection procedure;

   (2) The reform of procedure for assessment and collection of surtax;

   (3) Review of Schedule A taxation, and related problems.

## CHAPTER I

## "ONE TAXPAYER, ONE CHARGE"

2. A person whose income arises from different sources may get each year a number of notices of assessment, and he may also get separate demands for tax in respect of the income from one or more of these sources.

3. Income tax assessments are made under five Schedules, Schedules A, B, C, D, and E. Broadly it may be said that tax is chargeable under

Schedule A on income from the ownership of lands and buildings;

Schedule B on income from the occupation of lands, by a farmer or other person[1];

Schedule C on income from certain public investments, etc.[1];

Schedule D on income from trades, professions and vocations, on income from investments and deposits, and on rents from business premises;

and Schedule E on remuneration from offices and employments, and on certain pensions.

4. The State is divided into nineteen Tax Districts[2] outside the city and county of Dublin. (There is a special arrangement for the Dublin area.[3])

In each Tax District the assessments are made in separate sections, i.e., under Schedule D, Schedule E,[4] and Schedules A and B.

5. Annual notices of assessment are issued at different times during the months of July to December according as the administrative arrangements in the tax offices allow, and to suit the time-schedule of appeal sittings by the Special Commissioners.[5]

Notices of assessment under Schedule A are not issued in respect of properties situate in large urban areas; instead, a general notice is given in the Iris Oifigiúil, and in some daily newspapers, that the assessments may be inspected in the respective tax offices by the persons assessed, and stating the time allowed for giving notice of appeal.[6]

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[1]Notices of assessment are not issued under Schedule C, and Schedule A and B assessments on a property are usually covered by one notice, when a notice under these Schedules is issued.

[2]Three of these District offices are located in Dublin City.

[3]One large Tax District, known as Dublin General District, deals with the whole area; and associated with it are seven "D" Districts which are concerned with Schedule D assessments exclusively. In Dublin General District one large section, Schedule E Section, deals mainly with Schedule E assessments, and another section, Schedule A Section, deals with Schedule A and Schedule B assessments.

[4]For administrative convenience some Schedule D assessments are made in the Schedule E assessment books, e.g., on income from investments belonging to an employee.

[5]Normally there must be an interval of at least four weeks between dates of issuing notices of assessment and of appeal meetings, to allow time for notices of appeal to be given and for the issue of summonses to appeal meetings. Some notices, mainly relating to assessments for past years, issue in April.

[6]Finance Act, 1929, Sec. 3.

6. A Tax District which deals with a person's principal source of income notifies other Tax Districts in which that person has income from subsidiary sources regarding the allowances to be granted in those Districts, and the rate at which tax is to be charged.

7. When a tax office has issued notices of assessment it prepares the necessary records to enable the Collectors of Taxes to issue demands and collect the tax. These records, or " Duplicates " as they are termed, are then sent on to the Collectors.

There are about sixty Collectors of Taxes (not established civil servants), each of whom collects tax under particular Schedules for certain areas.[7]

Many Collectors collect tax for areas which are partly within one Inspector's Tax District and partly within another. The collection work is separate from the assessing work which is done in the Inspectors' offices; hence the need for issuing " duplicates " to Collectors, and notifying Collectors on each occasion when tax charged in any assessment is altered.

Demands for tax are usually issued shortly before payment is due; the time of issuing any repeat demands is largely within the control of the Collectors.

8. In these circumstances a person who has income from no more than one source or who has properties in different areas or Districts may receive each year a number of tax documents from different offices. For instance a person owning a shop which is let is assessed under Schedule A on five fourths the valuation, and again under Schedule D on the excess of the net rent receivable over the Schedule A assessment. These assessments may be made in different Tax Districts and tax may be payable to different Collectors. In other words the taxpayer may receive tax documents from four different officials in respect of that shop. Again, a person who carries on a business, owns his residence, and has a salaried appointment for a few hours weekly may get three notices of assessment from two or three Inspectors, and tax demands from two or three Collectors—four or five officials in all.

In such cases it is unlikely that the notices of assessment for any year reach him on the same date, or that the demands for tax due on any one date reach him by the same post. Until he has received all his notices of assessment he may not be certain that he has got his correct income tax allowances and reliefs, and when tax demands reach him at different times he must ensure that each demand agrees with the notice of assessment already received. A great deal of correspondence is unavoidable under such a system, because a change in one assessment may affect another assessment made in a different department, and if an enquiry has to be made of a Collector regarding a demand the Collector has to refer the matter to an Inspector who may have to refer to another Inspector; and if so, explanations and advices have usually to return by the same course.

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[7]Tax assessed in Dublin General District, Schedule E Section, is collected by a special department, known as " Central Collection ", staffed by established civil servants

9. If a person gets a notice of assessment under Schedule D or Schedule E on income from his primary source, showing the tax payable as " nil," he may assume from this that he is not liable to tax. Yet the assessment may be excessive, although no tax is payable, in which case he may be required to pay too much tax on some other assessment of which he is not notified until later.[8] This would not happen if he had received in one document a full statement of his tax liability.

When a professional adviser is consulted regarding a person's tax liability he usually finds it convenient to set out on a single sheet the income figures and the calculation of tax payable. He can readily do this even though income is divided into a number of sections, or Schedules, for administrative purposes; and he can usually do so within five or six months of the end of the year of assessment. It is not unreasonable to expect that the tax administration should provide taxpayers with a similar statement.[9]

10. There are many circumstances in which tax that has been demanded is reduced before payment is made, e.g. following a claim for relief in respect of bank interest paid or a dependent relative. If a person receives two or more assessments annually a reduction in the tax charged in one of them may affect the tax charged in one or more of the others but, as a number of officials may be concerned with the different assessments, delays are almost inevitable before the taxpayer can be made aware of his total liability as finally adjusted.

11. We have received a number of representations that the present system be changed.

*Mr. T. P. Crowley, M.A., A.C.A.*, Dublin, has written as follows:

> " It should be possible to have a new form of assessment drafted showing the different incomes on which a man is being assessed, and showing his total tax liability. One of the problems to be overcome would be that of having to raise Schedule A assessments in the district in which property is situate, even though the owner may be residing in a completely different place. That difficulty is not insurmountable, and it is strongly recommended that the Commission should seriously consider the possibility of adopting the principle, ' one taxpayer, one return, one assessment.' "[10]

12. *Mr. T. Donovan, B.E., B.L.*, retired Special Commissioner, has stated that:

> "A taxpayer having made a return of income is surely entitled to receive one account of his liability to tax, whether it is of Schedule

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[8]The allowances due to him have been set against the assessment on income from his primary source to a greater extent than if that assessment were in the proper amount. (It is thought that, in practice, an adjustment would be made, but a taxpayer should not have to depend on concession or on the admission of a late appeal.)

[9]The Representative Body of the Church of Ireland has supplied specimens of a printed form it uses to set out for each individual clergyman a composite statement of his assessments under the different Schedules and the total allowances and reliefs granted.

[10]Submission, 17th February, 1959.

A and/or Schedule B and/or Schedule D and/or Schedule E and/or surtax. . . . The present procedure is simply making work and creating a position where even an intelligent taxpayer is mystified, and obliged to employ an expert.

" There is only one solution—one account for each taxpayer."[11]

13. *Mr. F. M. Maguire*, principal of F. M. Maguire and Co., Accountants and Auditors, Cork, has written as follows:

". . . It is an entirely unsatisfactory situation that the taxpayer with possibly business profits, company directorships, and property, all in different locations, should receive perhaps a dozen income tax demands with his statutory allowances spread over such assessments, without a chance of establishing whether his allowances have had full attention. This difficulty is accentuated when such assessments do not reach the taxpayer at the same time but possibly at intervals spread over some months."[12]

14. *Mr. J. P. Warren*, St. Ursula's Terrace, Waterford, has written as follows:

"*Assessment Notices.*—The present system of issuing D and E Assessment Notices and A and B demands separately is not only making a lot of unnecessary work but is not fair to the taxpayer who, after all, is maintaining the State services, and is therefore entitled to first consideration. All income and all allowances and the total tax due should be shown on *one assessment notice.* This would considerably simplify the checking by the taxpayer, and the taxpayer would be in a position to see on one form the total amount of tax which he will be called upon to pay. Under the present system it is quite common for a taxpayer to get a Schedule D assessment notice which includes the Revenue's estimate of his business profits, and, while the taxpayer considers that the profits shown are substantially more than he is making, he does not appeal because there is no tax shown on the assessment notice. Subsequently he gets a separate notice for Schedule E, and the Schedules A and B tax is at a later date demanded, by which date it is too late to appeal against the Schedule D assessment."[13]

15. We asked the Revenue Commissioners for their views on this matter. These are given in a memorandum which is reproduced in Appendix I. In paragraphs 2 and 3 of the memorandum it is mentioned that, although the idea of " one taxpayer, one charge " was mooted by a British Chancellor of the Exchequer some thirty years ago, this objective has apparently not yet been realised. However, even though Britain has not yet solved this particular problem, we consider that the present procedure is unsatisfactory and that it calls for early reform.[14]

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[11]Submission, 20th February, 1959.
[12]Submission, 3rd July, 1957.
[13]Submission, 30th June, 1958.
[14]The change in procedure would be a relatively smaller problem here than in Britain because the number of individuals liable to income tax is a much smaller percentage of the population, and we have not here the large movements of population within the country that tend to delay final tax calculations.

16. The Revenue Commissioners state that " The Income Tax Acts provide generally that income is to be assessed and charged at the place where it arises."[15] If this principle were retained it would be almost impossible to introduce a system of " one taxpayer, one charge." We see no need to retain it; in fact it has only a limited application at present. For instance, a person receiving rent from a business property is assessed on the rent,[16] not necessarily where the property is situate but in the District in which he happens to be assessed on income from his principal source. The position is similar as regards income from investments. Again, while Schedule E assessments are often made in the District where the head office of the employer is situate, they are sometimes made in either the District in which the taxpayer is employed or in that in which he is resident. The income tax code makes wide provision for matters of this kind.[17]

17. The Revenue Commissioners refer, in paragraph 6 of their memorandum, to those who have income from property, and they state that, for these persons,

> " It would of course be possible to agree on the ultimate figure for the total assessable income but only after considerable correspondence each year concerning sales or purchases of properties, voids, lost rent, allowances for maintenance, management, etc. It may perhaps be asked whether a simple notice of assessment in one sum would be accepted as sufficient in such an instance."

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[15]Appendix I, par. 1.

[16]i.e., under Schedule D, on the rent in excess of the Schedule A assessment.

[17]See Income Tax Act, 1918—Miscellaneous Rules applicable to Sch. D (as amended by Finance Act, 1922, Sec. 18):—

" 4. (1) A person engaged in a trade, profession, . . . or vocation, shall be assessable . . . in the parish

(*a*) where the trade, profession, . . . or vocation, is carried on . . .

or

(*b*) where he ordinarily resides.

. . . . . .

(2) A person who is a householder and not engaged in a trade, profession, . . . or vocation shall be assessable in the parish in which his dwelling-house is situate or where he ordinarily resides."

See also, as regards Schedule E, Income Tax Act, 1918—Rules applicable to Sch. E (as amended by Sec. 18, Finance Act, 1922) :—

" 18. . . .

(2) a person chargeable in respect of an office or employment of profit shall be deemed to exercise it at the head office of the department under which it is held, and shall be assessed and charged at that head office.

. . . . . .

(5) Notwithstanding anything in this rule, a person may be assessed and charged under this Schedule by the commissioners acting for any parish in which he ordinarily resides or in which he is employed."

See also No. III, Rule 7 of Schedule A (as amended by Finance Act, 1929, Sec. 8) as regards mining concerns.

Under the British code a farmer may be assessed either in the District " in which any part of his . . . farm is situated " or where he ordinarily resides—I.T.A. 1952, Sec. 152.

18. We are unable to see why there should be any more correspondence under the system of "one taxpayer, one charge" than there is now regarding sales or purchases of property, voids, lost rent, and allowances for maintenance and management. On the contrary some duplication of correspondence would disappear if the tax affairs of each individual were handled by one official. For instance when an official, examining a business account or a return of total income, notes any changes since the previous year in a taxpayer's property, he may have to make enquiries regarding the dates of these changes, the use to which each premises is being put, the rents payable or receivable for certain broken periods, and the debits and credits (in the business accounts) for rents. The officer dealing with the Schedule A assessments on these properties frequently finds it necessary, or convenient, to make some similar enquiries.

19. Notices of assessment do not normally contain details of voids, lost rents, or allowances for maintenance, management, etc. These matters affect Schedule A assessments only,[18] and individual notices of assessment are not issued for the Schedule A assessments in the cities and larger towns. Furthermore, when any such reliefs have been granted a new notice of assessment is not issued; either the original notice is amended by the tax office or the person assessed is given an informal statement showing the revised position.

20. Under a system of " one taxpayer, one charge " certain information, e.g. regarding remuneration of employees, would sometimes have to be passed on from one District to another, but the present routine exchange of information regarding allowances to be granted to individuals on different components of their income would not be required.

21. In our First Report we recommended the introduction for Schedule E taxpayers of a tax deduction system on the general lines of P.A.Y.E. in the Six Counties and Britain. The question arises as to the extent to which the objective of " one taxpayer, one charge " may be feasible for those coming within such a system. Under a P.A.Y.E. system the great majority of employees do not receive notices of assessment or tax demands,[19] but the small number who do (because they have substantial income from sources other than remuneration) would each receive only one notice instead of perhaps two or more as at present.

22. P.A.Y.E. affords a useful illustration of the feasibility of departing from long-established taxation procedure to bring under one head

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[18]Apart from Schedule A, management claims may arise in connection with a limited category, viz., life assurance and investment companies—I.T.A., 1918, Sec. 33.
If the recommendations made later in this Report regarding Schedule A are accepted, claims under these heads will almost disappear. The provisions regarding lost rents and maintenance and management will have no practical effect once a let property is assessed on the net income receivable.

[19]As regards individuals within P.A.Y.E. in Britain, notices of assessment are issued only to those who have large incomes from sources other than remuneration, and to a small percentage on whom formal assessments are made after the tax deductions for the year have been reviewed.

liabilities that arise under different Schedules. Before the introduction of P.A.Y.E. in the Six Counties and Britain Schedule A tax payable by employees on their residences was collected by the issue of demands to the individual employees. Under P.A.Y.E. the issue of these demands is unnecessary; the tax on a person's residence, as well as on his remuneration, is collected by the system of periodical deductions from pay, the basis of these deductions being set out in a single document, a notice of coding, that is issued as required. " One taxpayer, one charge " may be regarded as an extension of this procedure; liabilities on different forms of income are collated and one statement of the aggregate amount payable is presented to the taxpayer.

23. Under the present law partnership income is the subject of one assessment on the firm, and partners' allowances are deducted in totals, the allocation of the net charge between the partners not being shown.[20] Pending any further recommendations we may make on the matter of partnerships, we are of opinion that, even if the existing method of determining the income of the partnership is retained, this need not prevent the issue of separate notices to each partner showing the amount of his share of the partnership income, his allowances, and the tax chargeable on his share of the income. The notice of assessment issued to the partnership need then set out no more than the quantum of the assessment, and its allocation among the partners, and each individual partner might be made primarily liable for the tax appropriate to his share of the partnership income.

24. There are a few categories in respect of which it may not be practicable to issue to each taxpayer a single notice of assessment covering income from all sources. For example a person who receives remuneration on which tax is payable by his employer usually finds it convenient to receive a separate notice of assessment on such income, so that he can refer this notice to his employer; or if an employee assessed in one District has a farm (for which he submits a farm account) in another District there may be some administrative advantage in having the farm account examined in the District in which the property is situate, and the assessment on the farm dealt with in that District.[21] Again, a person who has a large amount of property managed by an agent may wish to have the income from that property separately charged to tax. However the number of persons in these categories is not large, and it should be practicable to give them some option in the matter.

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[20]Under the present system a notice of assessment relating to a partnership can not be checked by a partner or partners without at least some partner becoming aware of the allowances and reliefs granted, in that assessment, to the other partners. There is a similar difficulty when a partner is granted tax relief for, e.g., overdraft interest or a dependent relative against his share of a partnership liability for tax.

[21]There are, however, some administrative advantages in having a person's farm account worked by the official who has before him details of that person's total income over a series of years. There is often, too, a mutual advantage, from the point of view of accessibility for discussion, in having a farm account dealt with where the taxpayer is assessed on income from his primary source.

As regards public servants whose spouses have independent sources of income, our observations regarding P.A.Y.E. (pars. 21–22) apply to these.

25. In most other countries for which information is available to us tax on income from all sources is the subject of one yearly assessment on the taxpayer, even though his income may be classified under a number of heads. Our procedure here is outmoded, and revision is overdue. A change to a system of " one taxpayer, one charge " would eliminate a good deal of dissatisfaction, and at the same time make the administrative machinery work more smoothly. Not least of its incidental advantages would be to facilitate the collection of reliable statistics regarding corporate and individual incomes, and the incidence of direct taxation on income groups. With a system of " one taxpayer, one charge " many individuals would not feel compelled, as now, to employ tax consultants to collate and check their assessment notices and demands.

26. Subject to our observations regarding the limited categories of taxpayers referred to above,[22] *we recommend the adoption of the principle of ' one taxpayer, one charge,' i.e. that each taxpayer should normally be sent annually a single composite statement of his total tax liability.*



[22]par. 24.

## CHAPTER II

# SURTAX: ASSESSMENT AND COLLECTION

27. Surtax is chargeable on individuals whose incomes exceed £2,000 in the year of assessment together with certain personal allowances as granted for income tax. It is charged on a graduated scale, extending from 1/6 to 8/6 in the pound.

A memorandum submitted to us by the Revenue Commissioners giving an outline of the history of surtax and the machinery for assessing and collecting it is reproduced in Appendix II. This memorandum also includes the Revenue Commissioners' observations on some proposals which we put before them for changes in the surtax machinery.

28. It will be noted from it that

(a) each person liable to surtax receives yearly, from two separate offices, two forms on each of which he is required to complete a return of his income from all sources;

(b) while a person's income tax is assessed in one office and collected by another,[1] surtax is assessed in a third office, and payable to a fourth;

(c) although the number of surtax payers in recent years, up to 1957-8, was about 10,000, the income tax offices have submitted annually to the surtax department (in Dublin) about 18,500 reports of income tax assessments. The principal reason for the larger number of reports is that many taxpayers may have income chargeable in several Tax Districts.[2]

Taxpayers do not understand why it is necessary to complete two returns each year, and why income tax and surtax have to be dealt with from different offices, since these taxes are essentially one tax.

29. We have received a number of representations on these points.

*The Federation of Irish Industries* has written as follows:

"A separate department is maintained to administer surtax, and a separate return has to be submitted. This is not in accordance with the procedure in other countries. Why could not the same returns do for both income tax and surtax, and the two taxes be administered by the Inspector of Taxes?"[3]

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[1]It may be assessed in part in one office and in part in others, as shown in Chapter I.

[2]Reports of assessments have also to be made regarding many who are not ultimately liable to surtax, as well as of additional assessments made from time to time on persons who were insufficiently assessed to income tax in the first instance.

[3]Submission, 11th July, 1958.

30. The following is an extract from a representation made by *the Irish Banks' Standing Committee*:

"At present the computation of surtax assessments is undertaken centrally and not by the local Inspector of Taxes. As a result, a considerable time elapses between the agreement of a taxpayer's income tax assessment and the issue of any official notice that a surtax assessment will also arise; in the meantime the taxpayer may be entirely unaware that he has incurred this additional liability. It is appreciated that there may be sound administrative reasons for this procedure although it would seem that the work undertaken by the Inspector of Taxes and his staff is similar to the work of the surtax department, which in any event has to depend upon local tax offices for much of the information on which to base their surtax assessments. It is very desirable that income tax and surtax should be settled at the same time so that the taxpayer is not put to the inconvenience of negotiating twice on the same assessment figure."[4]

31. *The Association of Higher Civil Servants* has written as follows:

". . . , as the existing separate machinery for the making of surtax returns and the assessment and collection of the tax is troublesome to the taxpayer and probably an unnecessary expense to the State, it is submitted that the tax should be levied by the Inspector of Taxes and that only one return of total income be required annually from the taxpayer."[5]

32. *Mr. T. P. Crowley, M.A.*, Chartered Accountant, Dublin, has represented that

"As the local Inspector of Taxes has to have all the information regarding a taxpayer's income, it would appear logical that he should make the surtax assessment on the client also. The present system allows for too much overlapping and is uneconomical. If the surtax assessments were made out in the local tax offices only one return need be furnished by the taxpayer; and such a system is strongly recommended."[6]

33. The following is an extract from the observations of *Mr. J. P. Warren*, St. Ursula's Terrace, Waterford, on the subject of surtax returns:

" Under the present system it seems that the Revenue Commissioners must ascertain particulars of the assessment for surtax purposes from the local Inspector, then issue the Return Form and make the assessment. Where the taxpayer appeals, he appeals to the Special Commissioners, and the items he disputes must be referred by the Special Commissioner back to the Inspector, who then replies to the Special Commissioner, who writes to the taxpayer, thus making three-way correspondence . . . and delaying the agreement of the as-

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[4]Submission, April, 1958.
[5]Submission, March, 1958.
[6]Submission, 17th February, 1959.

sessment. The surtax return, assessment and collection of tax should be dealt with entirely by the local Inspector who already has the figures."[7]

34. *Mr. F. M. Maguire*, principal of F. M. Maguire and Co., Auditors and Accountants, Cork, has written:

> " The submission of separate surtax returns to Dublin, apart from local income tax returns, never had any significant justification in this country—on its limited financial resources. We were saddled with this procedure from the British legislation we took over, but it is, we respectfully submit, high time to get rid of it."[8]

35. *Mr. T. Donovan, B.E., B.L.*, retired Special Commissioner, has submitted to us that

> " It is most desirable that one return for income tax and surtax (which is an additional duty of income tax) should suffice. Take for instance a 1958-9 income tax return. If taxed dividends were by law returned on the previous-year basis then that income tax return would be sufficient for 1958-9 surtax, thus obviating the necessity for a separate surtax return which would be demanded in April, 1959.
>
> " In any case if surtax is decentralised, as it should be, the Inspector would make the surtax assessment also; and the Special Commissioners (who should really be designated 'Appeal Commissioners ') could then proceed with appeals in the normal way."[9]

36. The Revenue Commissioners when submitting their memorandum on surtax—Appendix II—naturally could not have taken into account the matters on which, in this Report, we have made recommendations, i.e. regarding " one taxpayer, one charge " and changes in Schedule A[9a]. The Revenue comments on surtax are therefore to a large extent inapplicable to the system of income taxation that we have in mind.

If the principle of " one taxpayer, one charge " were introduced, the officer who computes a person's income tax liability could readily compute the surtax liability also, particularly as surtax now applies to no more than about 5,000 out of the 200,000 individuals assessed to income tax.[10] It will be noted from the Revenue memorandum that about 90 per cent of the surtax assessments could be made by the clerical staffs in income tax offices.

37. The Revenue Commissioners stated that " The main advantage of the centralised system is the uniformity of treatment and practice achieved under it,"[11] but they agreed in subsequent discussions with the members of the Commission that if surtax were decentralised any lack of uniformity could be largely avoided if a small staff were maintained at Head Office to deal with special surtax problems.

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[7]Submission, 30th June, 1958.
[8]Submission, 3rd July, 1957.
[9]Submission, 20th February, 1959.
[9a]See Chapter III later.
[10]Following the provisions in the Finance Bill, 1959, increasing the surtax exemption margin and granting personal allowances for surtax.
[11]Appendix II, par. 7.

38. The Revenue memorandum sets out three different forms which surtax decentralisation might take,[12] and a preference is expressed for a system, similar to that applicable to Corporation Profits Tax, under which the formal assessing and collecting of surtax would be carried out by a central branch of the Revenue Commissioners. From the point of view of the taxpayer this would not be much improvement on the present system; he would still get his income tax documents from two (or more) offices and his surtax documents from another office—if not from two other offices.

39. We are of opinion that surtax assessments should be made in the local income tax offices, and that the collection of the tax should be under the control of these offices, so that as far as possible each taxpayer may, in his own area, have ready access to the officer who computes both his income tax and surtax. The Revenue Commissioners have stated that " for the purposes of budgetary and accounting control " less complete decentralisation would be preferable, but the number of taxpayers is so small that this problem cannot be a major one. Complete decentralisation would certainly provide a much greater administrative saving than the substantial one (26 per cent of the present cost) which the Revenue Commissioners state would follow from a change to even a semi-decentralised system of surtax administration. Under complete decentralisation of surtax the reports of assessments and the " continuous flow of correspondence between Tax Districts and the Office of the Special Commissioners in relation to the liabilities of Sur-tax payers "[13] would almost entirely cease, but under the system of partial decentralisation suggested by the Revenue Commissioners a large amount of correspondence would still be required.[14]

### Dispensing with Surtax Return

40. The Revenue Commissioners agree that if surtax were assessed by the income tax officials a separate surtax return would be unnecessary. It is apparently suggested however that, in the case of an individual who has investment income subjected to Irish tax by deduction, the income figures should be extracted from two consecutive income tax returns to ascertain the surtax liability. This would greatly complicate matters for both the taxpayer and the tax office. In particular, the surtax payer who has " taxed income " would have to refer to his income tax documents for two years to ensure that his surtax liability was correctly computed.

41. While income from trades, professions and investments is normally assessed on the amount arising in the previous year, investment in-

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[12]Appendix II, par. 17.

[13]See Appendix II, par. 12.

[14]For instance, each individual assessment would have to be made out in draft in the income tax office and submitted to a central surtax office ; the surtax notice of assessment would issue from that office, and any enquiries arising on it would normally be raised with the issuing office, i.e., the surtax branch. That Branch would then have to refer back most of such enquiries to the income tax offices. Similar difficulties and delays might occur in connection with later reminders for payment of surtax which the taxpayer regarded as incorrect or did not understand.

come from which Irish income tax is deducted before receipt is measured for tax purposes by the amount arising in the current year. A person cannot definitely know until the end of a year the amount of income he will receive, under any particular head, before the end of that year; hence the Revenue Commissioners' suggestions (a) that income tax returns generally should include the taxed income of the previous year, although this is not the statutory income,[15] and (b) that for surtax regard be had to a person's income tax returns for two consecutive years, that for year two containing the particulars of " taxed income " that are strictly proper to year one; and so on for later years.

42. In our view a simpler solution is possible as regards surtax, namely to take as the statutory measure of investment income from which Irish tax is deducted the amount arising in the *previous* year rather than the *current* year; and generally to adopt a similar basis for income from land and buildings (under whatever Schedule it may be assessed to income tax) as well as for " charges " on income, such as ground rents. Taking one year with another there would be no inequity in this treatment, and it would be far more easily understood by taxpayers. Furthermore, it would help to provide finality in surtax assessments more promptly than at present.[16]

43. The Revenue Commissioners have criticised this suggestion regarding the treatment of taxed income. They state that whenever tax is deducted on payment of income, the deduction must, for practical reasons, be at the current standard rate of tax; and " If the law were altered to have Sur-tax computed by reference to taxed income of the preceding year, there would be one total income for Income Tax purposes for a given year whereas for Surtax, which fundamentally is an additional duty of Income Tax, there would be a different total income for the same year."[17]

44. There are advantages even for income tax purposes in having all income, other than earnings subject to P.A.Y.E., assessed on a previous-year basis, in which case the suggested differentiation would not arise; but even if it did, the differences in total income would rarely be significant, and they would apply to only a very small number of taxpayers. Almost one half of those who were liable to surtax in recent years had little or no income from which Irish tax was deducted,[18] so that at most only about

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[15]i.e., for the year for which the Return is being made.

[16](*a*) Special considerations may apply to the year of death.

(*b*) Under a P.A.Y.E. system remuneration from employments and offices is charged to tax on the basis of current-year earnings, and for that reason surtax payers who come within P.A.Y.E. cannot have their surtax computed as promptly as other taxpayers. Nevertheless it would be of advantage to have income from all sources except earnings assessed to surtax on the previous-year basis. The number affected will probably be less than 2,000 as a result of the increase in surtax exemption proposed in the 1959 Budget.

[17]Memorandum, March, 1958, par. 14.

[18]The Revenue Commissioners state, in a letter dated 29 Lúnasa, 1958, that " for the year 1955/56 it is estimated that there were 9,400 Sur-tax payers. . . . Of the 9,400 Sur-tax payers it is estimated that 3,100 had no incomes subject to deduction of Irish tax at source and that 1,400 had income of under £50 subject to deduction of Irish tax."

Owing to the increase in the exemption margin etc. there are now only about 5,000 liable to surtax.

3,000 of the estimated 5,000 now liable to surtax, and out of approximately 200,000 who are liable to income tax, would be affected to any extent.

45. Some differences already exist between the concept of income for income tax and that for surtax. As stated in Appendix II annexed, " Though Sur-tax is charged as an additional duty of Income Tax, the two taxes have certain fundamental differences."[19] For instance, undistributed income of a private company is in certain circumstances deemed the income of its shareholders—for surtax but not for income tax. Again, part of the renumeration paid to a company director may be disallowed for income tax because it is regarded as too large by commercial standards and therefore, not " wholly and exclusively laid out or expended for the purposes of the trade."[20] Any sum that is so expended is treated as a distribution of income, and as such it is assessable to surtax, although not to income tax, on the person receiving it.[21]

46. It would clearly be undesirable to have any substantial differences between an individual's figures of total income for income tax and those for surtax, but as the difference under our suggestion regarding "taxed income " would rarely be significant and as even then, taking one year with another, it could cause no serious hardship,[22] it would be preferable to adopt that suggestion than to resort to the complicated procedure of having to refer on each occasion to the income tax returns for two years to complete surtax returns and check surtax assessments.

47. Now that personal allowances are being granted for surtax, it is all the more desirable that its administration should be transferred to the income tax offices. Unless this change is made, the income tax officials must include in their reports to the surtax branch not only the amount of income assessed on each individual concerned but also the personal allowances granted, i.e. married, widowed, children, dependent-relative, and housekeeper. Personal allowances may be granted at any time within six years of the year to which they refer; and, unless surtax is transferred to the income tax offices, these allowances must be reported to the surtax branch soon after they are granted, so that the surtax assessments may

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[19]Appendix II, par. 4.

[20]Income Tax Act, 1918, Rule 3 (*a*), Cases I and II.

[21]See also the various differences in the British code between income for income tax and surtax, e.g., regarding—

expenses of public officials abroad, Income Tax Act, 1952, Sec. 243 ;
income from investments, sales cum dividend and ex dividend, Income Tax Act, 1952, Sec. 237;
delay in payment of income, Income Tax Act, 1952, Sec 238 ;
purchase of new assets, Income Tax Act, 1952, Sec. 239 ;
interest on loans to pay insurance premiums, Income Tax Act, 1952, Sec. 241 ;
Savings Bank interest, Finance Act, 1956, Sec. 9 (2).

[22]If a surtax payer had, say, total income of about £2,500 p.a., including " taxed income " which fluctuated by as much as £100 between one year and another, our suggestion would mean that, at most, £7.10 surtax (£100 at 1/6) would be switched from the one year to the other. Normally the amount would be only a few pounds. There would be no change in total liability.

be correspondingly amended.[23] Moreover, failing such transfer, the surtax payer himself might find it necessary to furnish to two officers details of his personal allowances. There should be no need to impose this obligation on him.

48. We recommend:

(1) *that no separate return be required for surtax,*

(2) *that surtax, both in assessment and collection, be dealt with together with income tax in the local income tax office.*



[23]The Revenue Commissioners, in par. 64 of Appendix II, agree that if personal allowances were granted for surtax this would not cause much additional administrative work once surtax had been decentralised.

## CHAPTER III

# SCHEDULE A ASSESSMENTS

49. Income from the ownership of land and buildings is assessed under Schedule A on a notional basis—either five-fourths the valuation under the Valuation Acts or the valuation itself, less in certain circumstances a small fraction for " repairs."

An outline of the scope of this Schedule is included in a memorandum by the Revenue Commissioners incorporated in Appendix III to this Report, and an outline of the system of valuation is contained in Appendix IV.

### PROPERTIES OCCUPIED FOR BUSINESS AND PROFESSIONAL PURPOSES

50. A large fraction, probably more than one half, of the notional income assessed under Schedule A on buildings relates to property used for trading and professional purposes, which may be described as business property. These Schedule A assessments in effect produce no revenue, because if they did not exist the Schedule D assessments would be correspondingly greater. The tax office

(1) makes a Schedule A assessment on each business property, and

(2) deducts the amount of this Schedule A assessment in computing the income assessable under Schedule D (whether in the form of rent received or profits from the property).

51. For instance if a shopkeeper who owns his shop, with a valuation of £40, makes a net profit of £600 in any year, that profit is charged to tax partly in a Schedule A assessment of £50, i.e. five fourths the valuation, and partly in a Schedule D assessment of £550, i.e. £600 less the Schedule A of £50. If there were no Schedule A assessment there would be no loss of revenue as the Schedule D assessment would then be £600.

Again, if a person lets a business premises with a valuation of £40, and receives a net rent of £150 a year, after deducting all expenses, including rates, £50 is assessed under Schedule A, and the balance, £100, is assessed under Schedule D. The owner of the premises may thus receive at different times notices of assessment and separate demands for tax, each on a part of the income arising from the same premises.

52. This procedure can mislead. For example a shopkeeper who owns his premises with valuation £40, and whose profits amount to £500, may receive a notice of assessment showing profits assessed under Schedule D as £500, but he may discover later that the Revenue estimate of his profits was not £500 but £550, because, in addition to being assessed under Schedule D, he is assessed on £50 under Schedule A (five fourths the valuation).

53. *The Association of Chambers of Commerce of Ireland* and *the Federated Union of Employers* have written as follows on the subject:

> " Under Schedule A a charge to income tax is made from property in lands and buildings with the annual value of the holding as the basis of assessment. This provision is a relic of the past as it was originally enacted when property was owned in large holdings by a small section of the community. Under present circumstances, however, the administration of this Schedule involves a considerable volume of small assessments and it seems probable that the net tax yielded under this Schedule is less than the expenses incurred. It is considered that assessments under this Schedule should be discontinued and, in fact, with very little alteration in the taxation code, most of the tax at present collected under this heading could be brought in under other Schedules. In the case of a business the annual value of the firm's property is deducted as an allowable expense in the Schedule D computation, and by discontinuing this adjustment the tax previously collected from the firm under Schedule A would be included in the Schedule D payment. In the case of property let to a tenant the landlord could be assessed under Case III of Schedule D."[1]

54. *The Federation of Irish Industries* has written as follows, regarding Schedule A:

> " Present property valuations are inequitable and a comprehensive revaluation is obviously necessary. This, however, would take a long time. As an interim measure we recommend a revision of all property valuations not valued since 1922. It is suggested that this could be done in much the same way as certain valuations were increased by 25 per cent in the Finance Act, 1935. As an alternative to the foregoing proposal the Commission might consider whether this schedule should not be deleted completely, thereby further simplifying the code and probably effecting an economy. Four classes of taxpayer would be affected :—
>
> (a) *Farmers*: Suitable adjustments to Schedule B assessments would meet this case;
>
> (b) *Trades and Industries*: Cancellation of the present Schedule A deductions from adjusted profits would meet this case;
>
> (c) *Rented properties* (*other than businesses*): There would appear to be a strong argument in equity for substituting for the present Schedule A basis of assessment that of gross income from rents, less legitimate expenses;
>
> (d) *Owner-Occupiers*: We would recommend that the present system of regarding the Schedule A valuation as an addition to income should be discontinued—at least for valuations of up to £40."[2]

Paragraph (b) above is relevant in the present context.

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[1]Submission, March, 1958.
[2]Submission, 29th January, 1959.

55. The directors of *Messrs. Hardwicke Ltd.*, Dublin, a real estate company, have written as follows regarding Schedule A and lettings of property:

"(a) The profit from business lettings is taxed on the excess of the rent, less allowable expenses, over the Annual Value for Schedule A. It is submitted that this complex structure is archaic and unsuited to modern conditions. One set of officials record and collect the Schedule A tax while another delve into elaborate Schedules and analysis under Case III. The multiplicity of demands from Collectors renders the system most difficult for a layman to understand, much less to check.

(b) The whole processes of collection would be cheapened without significant loss of revenue if property companies could elect to be taxed simply on their annual net profit as shown by their accounts (after adding back any disallowable expenses charged).

(c) The present system of assessing the net profit from each business letting separately and of carrying forward any deficiency is badly in need of simplification."[3]

Others who have written advocating the cancellation of Schedule A assessments on business premises include *Mr. T. Donovan*, Dublin; *Mr. H. Hill*, Dublin; *Mr. P. J. Walsh*, Castlebar; *Mr. T. P. Crowley*, Dublin; and *Mr. J. P. Warren*, Waterford.

56. We asked the Revenue Commissioners to comment on a suggestion that properties occupied for business or professional purposes should not be assessed under Schedule A, and that corresponding deductions should not be granted under Schedule D.[4]

The Revenue Commissioners made two points:

(1) That this would involve giving an " earned income " allowance on income which is not " earned "; and

(2) That " the change would be likely to give rise to difficulties in its application to the case where trading premises are combined with living accommodation, or where part only of a property is occupied for business or professional purposes."[5]

" *Earned Income* " *allowance*

57. Under the existing law, if an individual's income is " earned income " a fraction of this income is relieved from tax.[6] Normally, income

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[3]Submission, 24th April, 1957.

[4]A special allowance of one-sixth the annual value is granted under Schedule D in respect of " mills, factories, or similar premises " owned and occupied by a trader (F.A., 1919, Sec. 18). An amendment of this provision is proposed in the Finance Bill, 1959. The matter will be considered later in connection with capital allowances generally.

It would probably be necessary, for the first year in which Schedule A assessments were omitted, to make no Schedule A deductions in computing the amount assessable under Schedule D.

[5]Appendix III, pars. 27–9.

[6]One-fourth of the first £800, and one-fifth of the next £1,000.

from a trade or profession (which is assessed under Schedule D) is " earned income," but income assessed under Schedule A is not; and if any of the income now assessed under Schedule A were to be brought within Schedule D, as our suggestion would require, an individual who carried on a trade or profession in a premises which he owned might get the " earned income " allowance on the equivalent of the present Schedule A assessment on his premises. This is the first point of criticism by the Revenue Commissioners.

58. Even if this is a valid criticism, it would apply to only a small number of properties. It would not apply to limited companies (which, gradually increasing in number, now own a great deal of the business property in the country) as limited companies are not eligible for earned income allowance. It would not apply to persons whose sole residence is in Britain or the Six Counties, as, under a special Agreement,[7] they are exempt from tax on property here. It would not apply to persons resident in other countries, as they are not entitled to earned income allowance on income arising in this country.[8] It would not apply to individuals whose earned income in any year exceeds the limit on which earned income allowance is granted, at present £1,800.

We are informed by the Revenue Commissioners that the extra earned income allowance to which our suggestion would give rise would reduce the tax yield by about £15,000.[9] This is clearly only a fraction of what it costs the State to make the thousands of unproductive Schedule A assessments on business properties. There must also be taken into consideration the cost and trouble to the many taxpayers who have a number of premises of furnishing up-to-date information regarding the valuations of each item of property owned by them, of apportioning new valuations or changes in valuation to correspond with accounting periods, and of ensuring that both the Schedule A assessments and the corresponding Schedule D deductions made by the tax offices are correct.

59. With regard to the Revenue Commissioners' suggestion that earned income allowance should not apply to the share of an individual's profit that is deemed to represent the " return on his investment in the premises,"[10] it would seem equally logical to exclude the return on capital invested in other assets such as plant, machinery, trading stock, and goodwill. It is hard to justify this discrimination against one form of business asset.[11]

60. Schedule A assessments on business properties, based on five fourths the valuations, are normally much less than the net letting values

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[7]Residence Agreement, 1926, as amended.

[8]Except to a limited extent in certain cases, under F.A., 1935, Sec. 8—e.g., Irish citizens resident abroad.

[9]Letter, 2nd February, 1959. (This amount is likely to become even less with the tendency towards incorporation of business firms.)

[10]Appendix III, par. 28.

[11]Take, for example, two businessmen, X and Y—each with £5,000 capital. X invests his money in business premises and, in order to provide trading stock, obtains bank accommodation of £5,000 on which he pays £250 per annum interest. Y invests in trading stock and rents business premises at £250 per annum. Each makes £1,000

of such properties, so that in any event these assessments scarcely represent the share of a trader's profits that might be imputed to ownership of his property.

*Premises partly used for business purposes*

61. The second point made by the Revenue Commissioners is that difficulties would be created by abolishing Schedule A on business properties part of which are occupied for non-business purposes. They state that " in such cases it would be necessary to continue to collect a part of the Schedule A tax, and changes of ownership would have to be watched and would give rise to adjustments."[12]

62. We do not agree that the suggested change would create any new difficulties, because it is at present necessary to estimate, for purpose of Schedule D assessment, the fraction of the Schedule A that relates to the business part of such premises. Hence the information required to assess under Schedule A the non-business part of these premises is already available,[13] and the collection of that Schedule A tax would be no more onerous

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profit, before debiting a charge for use of the additional capital required (i.e., interest to the bank in one case and rent in the other).

*Schedule D Assessments*

| | | |
|---|---|---|
| The profits of X are ... ... ... ... | | £1,000 |
| *Less* overdraft interest ... ... ... | £250 | |
| ,, Schedule A assessment, say ... ... | 250* | 500 |
| Adjusted net profit ... ... ... | | £500 |

X is assessed under Schedule D on £500 and under Schedule A on £250. He gets earned income allowance on £500 only.

| | |
|---|---|
| The profits of Y are ... ... ... ... | £1,000 |
| *Less* rent of premises ... ... ... | 250 |
| Net profit ... ... ... ... | £750 |

Y is assessed under Schedule D on £750, and he gets earned income allowance on £750, i.e., on £250 more than X.

(*Even if the Schedule A assessment is less, this does not seriously affect the argument.)

[12]Appendix III, par. 29. This is in line with the argument put forward in the Final (1955) Report of the British Royal Commission on the Taxation of Profits and Income, in which it was stated that the Commission was advised by the Board of Inland Revenue that, as regards premises only partly occupied for business purposes, " In this extensive field it would be necessary to continue to collect a part of the Schedule A tax : moreover, changes of ownership (which are said to be relatively frequent) would have to be watched and would give rise to adjustments ". (Cmd. 9474, par. 829.)

These observations, however, apply to a Schedule A code that is far more involved than ours. When, in 1940, the law was being amended in Britain to bring within the scope of income tax the excess of the net rents from all properties over the Schedule A assessments, the Solicitor-General, Sir William Jowitt, K.C., in explaining the statutory provisions being introduced, described British Schedule A as " the most complicated branch of an exceedingly complicated subject ". (361 H.C. Deb. 5s, Col. 1037.)

[13]If Schedule A were restricted to the non-business element in a " mixed " property the official making the Schedule D assessment should inform the Schedule A official regarding the amount to assess under Schedule A ; we have, however, recommended in Chapter I that each assessee should be the subject of one charge, so that this problem would not normally arise. In any event, under the present system, Schedule D officers must usually advise their Schedule A colleagues regarding the allowances to be granted when making Schedule A assessments, so that the extra work in notifying the amounts to be assessed (as well as the allowances) would be negligible.

There is the further point that once a Schedule A assessment is apportioned between the business and the non-business parts of a premises it will normally be unnecessary to change this apportionment in later years.

than the collection of a greater amount of Schedule A tax at the present time.

As regards changes of ownership, adjustments are now necessary when these changes arise, and the number of adjustments would be no greater under the scheme that we suggested than at present. When a property changes hands the new owner becomes assessable under Schedule A as from the date of change, and that date has now to be watched by the Schedule D officer to make the resulting adjustment in the Schedule D assessment. Under our suggested scheme the Schedule D assessment would not be affected in this way; there would be no Schedule A deduction from it.

63. The abolition of Schedule A assessments on business property would bring about a major simplification in the income tax system. It would obviate a great deal of official work in ascertaining and recording particulars of valuations and revisions of valuations, in making assessments and " duplicates " of them,[14] and in issuing notices, demands, and receipts for Schedule A tax.

64. The arguments in favour of abolishing Schedule A on business premises apply even more strongly to land that is owner-occupied for the purpose of a trade.[15] Land is assessed under both Schedules A and B, and the aggregate amount so assessed (under both Schedules) is usually deducted in computing the profits assessable under Schedule D. In such cases three assessments are made where one would suffice.

65. The system of making Schedule A assessments on business properties is a continuation of that which obtained in Britain in the early years of income tax there—a time when the amount of income assessed under Schedule A was greater than the amount assessed under Schedule D.[16] The relative importance that Schedule A had in the British tax code of the nineteenth century no longer holds; in this country at the present time the amount assessed under Schedule A is only one tenth of that under Schedule D. For 1956/7 the approximate figures were:— Schedule A, £6,092,100, Schedule D, £58,343,800.[17]

66. No convincing argument has been put before us in support of the present circuitous system of levying tax on income from business property.

67. We recommend the *abolition of Schedule A assessments on buildings, and of both the Schedule A and B assessments on owner-occupied lands, used for the purpose of a trade, profession, or vocation*; and *that no Schedule A or B deductions be made in assessing under Schedule D the rents or income from such properties.*

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[14]The " duplicates " are required for the Collectors. *See* par. 7.

[15]e.g., a field attached to a factory and used for horse-grazing, or for amenity purposes by the employees.

[16]Income assessed Schedule A in Britain in 1803 amounted to £38,691,000 as against £34,854,000 under Schedule D—*see* page 93, *Addington, Author of The Modern Income Tax* (A. Farnsworth, LL.D.).

[17]Annual Report of Revenue Commissioners, 1957/8, pages 114 and 115 (Pr. 4797).

## Ground Rents and Head Rents Payable

68. The treatment for tax purposes of ground rents and head rents[1] is outlined in paragraph 32 of Appendix III. Under the system of " deduction at the source " the owner of a property, on paying a ground rent, deducts tax and remits it to the Revenue Commissioners. The person to whom the rent is payable has no further tax to pay on that rent; it is what is termed " taxed income " so far as he is concerned, just as a dividend paid by a limited company is " taxed income " of the shareholder. When a person pays a superior rent out of a rent or rents he receives, he too deducts tax on making payment. In this way he effectively pays tax (at the standard rate) on his profit rent.

69. The system of tax deduction goes back almost to the beginning of income tax in Britain. Income tax was introduced there in 1799, and it lasted until 1802 when it was discontinued. However it was re-introduced in 1803, and the principle of deduction at the source was first applied on that occasion. Although the rate of tax was reduced from 2/- to 1/- in the pound, the tax yield in 1803 and 1804 was almost as high as in the earlier years.[2] This fact has sometimes been referred to as an argument in favour of tax deduction at the standard rate, although there were a number of other circumstances that affected the amount of tax collected throughout those years. The income tax machinery, set up in 1799 during a war with France, could not have been fully " run in " within a few years, so that the yield at the outset would naturally be low. The sources of information, regarding incomes, that were available to the Revenue officers then could not compare with those available today, so that in the Britain of 1799–1802, when a tax on incomes was a new concept, very many who were liable to tax had little difficulty in avoiding it. Furthermore, other improvements on the 1799 Act were made in the Income Tax Act of 1803,[3] and these must have helped to increase the yield.[4] In addition, some forms of profits which did not come within the previous income tax act were brought for the first time within Schedule D by the Act of 1803.

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[1]For convenience of reference we use the term " ground rents " as covering both.

[2]The figures were :—

| | | | | |
|---|---|---|---|---|
| Net yield of income tax, to the nearest £1,000. | 1799–1800 | ... | ... | £5,800,000 |
| | 1800–1 | ... | ... | £5,873,000 |
| | 1801–2 | ... | ... | £5,300,000 |
| | 1803–4 | ... | ... | £4,761,000 |
| | 1804–5 | ... | ... | £4,692,000 |

*Addington, Author of the Modern Income Tax* (A. Farnsworth, LL.D.), pages 19, 22, 25, 91 and 92.

[3]Its full title was " The Property and Income Tax Act, 1803."

[4]A return of total income was not required under the Act that was introduced in 1803. The obligation to make such a return had been regarded as the chief objection to the Act of 1799, and it was to avoid disclosure of total income that the five " Schedules " which are part of the present code were introduced in 1803—*see* Dowell's *History of Taxes*, vol III, page 111.

Under the 1799 Act the Revenue authorities had practically no check on statements of commercial and trading profits ; they were not allowed access to the returns of traders (which were dealt with by local " Commercial Commissioners " in each area). This defect was remedied in the 1803 Act.

70. We now consider how far tax deduction on ground rents is suited to this country in present circumstances.

If a property owner, A, pays a head rent of £10 to B, A must deduct tax at the standard rate on paying the rent,

| | | | |
|---|---|---|---|
| i.e., tax deducted, £10 @ 7/– = | £3 | 10 | 0 |
| net rent paid = | £6 | 10 | 0 |
| making the total rent of | £10 | 0 | 0 |

A pays £6 10s. 0d. to B and £3 10s. 0d. to the Revenue Commissioners. In this way B has effectively paid tax at the standard rate on his rent of £10, but if B is not liable at the standard rate he has paid too much tax and he must claim a refund, or else a credit against other income tax for which he may be liable.[5] To establish his title to a refund, he must, for each item of rent he has received, get a certificate from A showing the tax deducted on payment of rent.

71. What is the likelihood that the recipient of the rent is liable to Irish income tax, and that he is liable at the standard rate ?

According to the figures furnished us by the Revenue Commissioners the total number of individuals liable to income tax for 1957/58 was about 193,000. Of these, it is estimated that about 133,000 were liable at a rate other than the standard rate, and only about 60,000 at the standard rate. In addition there are close on 7,000 limited companies liable to tax at the standard rate.

It is not improbable then that a very large number of persons who are entitled to ground rents are not liable to Irish income tax, or are not so liable at the standard rate.

72. The person who deducts tax from a ground rent must pay that tax to the Exchequer, and it is a matter for consideration whether the State can collect the tax more readily from the person who receives the rent than from the person who pays the rent.

In this context rent recipients may be divided into three broad categories—limited companies, individuals who are liable at the standard rate, and individuals and bodies of persons who are not so liable.

If a ground rent is paid to a limited company, as it is likely that the company is already assessed, the tax on the rent can often be more easily collected from the company than from the person who pays the rent (and who may not be liable to tax on his own income). If a ground rent is paid to an individual who is liable at the standard rate, it should normally be easier to collect the tax from the person who is so liable than from the individual who pays the rent, and who may or may not be liable to tax on his personal income.[6] If a ground rent is paid, less tax, to a person who is not liable at the standard rate, that person will then have had too much tax deducted from him, and the State will have to repay some of it when a claim for refund is submitted.

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[5]e.g., at a reduced rate, or for some other year.

[6]An exception is, of course, a person resident outside Ireland and Britain ; here tax deduction is clearly desirable.

73. From the point of view of the State tax deduction has much in its favour in certain circumstances, e.g., in connection with payment of interest on Land Bonds (where collection of tax is effected by a mere transfer from one department to another) and payment of company dividends, where the tax is readily collected " at the source " as these dividends are paid out of profits that are already charged to tax at the standard rate.[7] But this is not generally so as regards ground rents. From the figures already given[8] it would seem that most house-owners who pay ground rents are not personally liable to tax at the standard rate, so that the problem of collecting from them tax at the standard rate on the rents they pay, super-imposed on that of collecting tax at one or other of the reduced rates on their own taxable income (if they are so liable) must cause administrative complications[9] which would not arise if the rents were paid without tax deduction and the beneficiary assessed at the correct rate based on his personal circumstances from year to year.[10]

74. The cost of the machinery for repayment of tax is in large measure a by-product of deduction at the source. Tax repayments usually arise because deductions have been made at the standard rate from persons who are exempt, or not liable at that rate.

75. There is at present a staff of about 42 in the Claims Branch,[11] engaged exclusively on tax repayment. In addition, about 28 officials are employed in the tax offices on work relating to repayment claims, i.e., making out reports of assessments for the Claims Branch and dealing with enquiries from that Branch and from claimants; so that, apart from the time spent by senior officers on technical and administrative matters, some 70 officials are occupied full-time on tax repayment. Their work relates of course to tax on dividends and interest as well as on ground rents, but the number engaged gives a general indication of one of the less advantageous aspects of tax deduction from the point of view of the State. The cost to an individual taxpayer, in time and money, of formulating and vouching a repayment claim and dealing with enquiries arising on it should not be overlooked.

76. It has been suggested that it may suit house-owners to pay ground rents " in three instalments (say, two half-yearly payments of net rent and the payment in respect of Income Tax), as at present, rather than to have

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[7]There are certain structural differences between tax deduction from company dividends and deduction from other forms of income, but these do not affect the matters discussed here.

[8]*See* par. 71, indicating the general position in the country. The great majority of owners of residences are likely to be married persons or persons with relatives dependent on them.

[9]Such as adjustments in earned-income and personal allowances.

[10]The existing records must contain detailed information regarding the recipients of the vast majority of ground rents; with this information a change-over to payment of ground rents gross could be made without risk. We understand that even at present rents are so paid to some landlords.

[11]Claims Branch is a centralized department which deals with all claims for repayment of Irish income tax.

to pay in two half-yearly payments of gross rent "[12] On this point it must be remembered that many of these house-owners are not personally liable to tax, and if a house-owner who is exempt pays a ground rent he is, under the present system, brought within the tax net; he receives tax demands; and he has usually to furnish to his landlord a certificate of tax deduction in respect of each moiety of rent he pays. He has to deal with two tax offices, an assessing office and a collecting office; and he has to compare his tax demands with his rent demands if he is to ensure that the total amounts to the gross rent for which he is liable. Furthermore, tax is deductible from ground rents at the rate applicable to the period over which the rent has accrued,[13] and if that period overlaps two financial years for which different rates of tax apply (e.g., a period of six months ending 30th June, 1959) a house-owner will have difficulty in reconciling tax deducted from his rent with the tax demanded by the Collector of Taxes. Most house-owners would be slow to agree that this system, with the many tax documents that are part of it, provides a convenient method of paying rent by instalments; rather would they regard income tax as an unwelcome factor complicating what should be a simple transaction entirely divorced from tax.

77. In every case in which tax that has been deducted is subsequently repaid the Exchequer has had that money in its possession between the date it received the tax and the date it makes repayment. Those who are entitled to the refund are out of pocket to a corresponding extent.

As to delay in obtaining refunds, the Revenue Commissioners state that " there is no accumulation of arrears in the Claims Branch ".[14] But as all tax repayment claims are dealt with by a central department, that department has usually to refer to the local tax offices the vouchers presented with claims, particularly those relating to rents, to verify that the refunds claimed are in order; and even this routine operation inevitably causes delays. In addition, certain enquiries are necessary in connection with most repayment claims, causing some further delays before repayment can be made.

78. We are of opinion that there are a number of individuals who do not claim a refund of tax to which they are entitled. Of these, some may consider it too troublesome to submit a claim, and to deal with subsequent enquiries; others, feeling that expert assistance is necessary, regard their claims for refund as scarcely worthwhile. Others again are perhaps not aware of their right to repayment and remain out of pocket as a result.[15]

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[12]Appendix III, par. 33.
[13]I.T.A., 1918 ,No. VIII of Sch. A, Rule 4.
[14]Appendix III, par. 33.
[15]The Revenue Commissioners state (Appendix III, par. 33) :
" If, however, such people exist nowadays they must be exceedingly rare and their ignorance of the law is scarcely a potent argument for its amendment."
The number of persons having income from which Irish tax is deducted must have grown considerably with the increase in the number of limited companies over the years—from 1,456 in 1925 to 8,320 in 1958—so that the number of individuals who are due tax repayment and who are unaware of it may not now be small. And while ignorance of a provision may not be a potent argument for amendment, it should be given some weight when considering the matter.

Tax deduction was only of minor significance up to fifty years ago when the standard rate seldom exceeded one shilling in the pound, but this is not so today when over one third of the rents, dividends, etc., is withheld under the system of tax deduction.

79. There is a much weaker case for having tax deducted from ground rents than from dividends. Ground rents are payable by a large number of persons to a much smaller number; on the other hand dividends are payable by a small number of companies to a much larger number of shareholders. Because many of those who pay ground rents are not personally liable to tax, or are liable at a reduced rate only, assessments that are otherwise unnecessary have to be made on them each year, and a number of demands have to be issued to collect the tax they deduct. This troublesome procedure does not arise in connection with dividends payable, less tax, by limited companies.

80. There must be many instances in which one individual or company is entitled to a number of ground rents, each payable by a different house-owner. Comparatively small amounts of tax must be collected separately from these house-owners, although the tax on all the rents might more readily be collected by a single charge on the person who receives them. It would in fact be more likely that in this way the tax would be charged at the correct rate in the first instance, and that repayment would not be necessary later. If, as often happens, the recipient of the ground rents is exempt, e.g., a Charity or an individual with a small income, the tax that was withheld by, and collected from, the various house-owners has to be refunded.

81. *The Irish Insurance Association* wrote to us on this subject as follows:

> " Life Assurance companies own very large numbers of ground rents. These rents are received net and the Life Office has to claim refund of all or portion of the tax depending on its own assessment to income tax. Until repayment is received the office suffers loss of interest on the amount involved. The amounts are so large and the delay in repayment so long—two years and upwards—that the loss to the Office is very great. The Life Offices can generally arrange with borrowers to pay mortgage interest gross, but no such arrangements can be made in the case of ground rents. From the Revenue's own point of view, it would be far simpler to collect tax on ground rents through the Life Offices than to seek to recover tax from thousands of individual payers.
>
> " Great administrative difficulties would be created for the Life Offices if ground rents were permitted to be paid gross or net at the payer's option. It is submitted that the law be altered to compel all ground rent payments to be on a gross basis."[16]

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[16]Submission, November, 1958.

82. In June, 1958, we put before the Revenue Commissioners a suggestion that a system on the following lines be introduced: —

(i) *Ground Rents payable*

These to be paid without deducting tax where the beneficial recipient, whether an individual or a company, is both

(*a*) fully identifiable; and

(*b*) either resident in Ireland or Britain, or doubly resident in these countries.

(ii) The Revenue Commissioners to be empowered to get from those who pay rents, and from trustees, agents, etc., receiving ground rents on behalf of others, full particulars of these rents, with the names and addresses of those beneficially entitled to them.

(iii) Ground rents not within paragraph (i), e.g., rents payable to

(*a*) persons resident outside Ireland and Britain;

(*b*) estate beneficiaries, where the addresses of some of them are changing or uncertain;

(*c*) some trusts and unadministered estates:

Tax to continue to be deductible as now on paying the rents.

(iv) Where it is necessary to " retain " a rent in charge by making an assessment, this not necessarily to be an assessment on property.

(v) The statutory provisions to be amended so that income from land and houses, however measured for tax purposes, need not, as at present, be assessed in the Tax District in which the property is situate.

83. The Revenue Commissioners comment on this in paragraph 34 of Appendix III. They state that " Any system designed to bring about such a result would, it is submitted, be administratively very troublesome, if it could be made to work at all. The payer of the rent is not concerned with its destination after he pays it and, in any event, would not be competent to decide, e.g., a question of residence for Income Tax purposes."

84. In case there is any misunderstanding in the matter, we would like to emphasise that our suggestion did not contemplate that a house-owner would himself have to decide the problem of the country of residence for tax purposes of either the recipient or beneficial owner of a ground rent; such decisions would remain with the Revenue Commissioners (the decisions being subject to the usual right of appeal). Tax would not be deducted from ground rents in certain clearly defined circumstances; it would be deducted in all other cases—see clause (iii) of our suggestion, in par. 82 above. We are satisfied that this suggestion

could be adopted with little or no risk of losing revenue. The procedure of tax deduction from ground rents would be altered only where it was regarded as practicable to collect from the recipient whatever tax was payable by him.

85. We do not consider it necessary that, before dispensing with tax deduction, the State should establish the identity of the person entitled to the rent, or of each such person where there is more than one; it should suffice if the person who *receives* the rent is known and can be assessed. It would then be for him either to pay the tax or else state the full names and addresses of those on whose behalf he receives the rent. A similar procedure already applies to rents from business premises; an assessment may be made " upon the person receiving, or entitled to"[17] such rents, not necessarily on the person to whom the rents are ultimately payable.

86. On this matter we suggested to the Revenue Commissioners that, where a house-owner did not deduct tax from a ground rent and it proved exceptionally difficult to collect the tax from the person receiving or entitled to the rent, a right might be reserved to the Commissioners to require the house-owner, on receiving reasonable notice, to deduct that outstanding tax and pay it over to the Exchequer. A provision of this kind would, in our view, be a valuable safeguard and, considered in connection with the observations we have already made, an adequate one. The Revenue Commissioners stated, however, that they would not be disposed to recommend dispensing with tax deduction " in the case of ground or head rents issuing out of property in the State".[18]

87. In our opinion the balance of advantage, in the present circumstances of this country, taking into consideration the interest of the house

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[17]Finance Act, 1932, Sec. 6.

[18]Appendix III, par. 35.

Although the principle of tax-deduction at the standard rate has been described in the 1920 Report of the British Royal Commission on the Income Tax (Cmd. 615, par. 154) as "at the very root of our income tax system," that principle has already been departed from in many instances.

It is the general experience that in this country (where so few are liable to tax at the standard rate) investments are more attractive if the interest or dividends are paid without tax deduction; and it has been specially provided by legislation that tax is not deductible from interest on the National Loans and on certain issues by the Agricultural Credit Corporation, the Electricity Supply Board and Coras Iompar Eireann. Interest on issues by local authorities may now also be paid without deduction of tax (Finance Act, 1955, Section 5).

Interest on loans from Building Societies and from the Board of Works and the Land Commission is normally paid without deduction of tax. Furthermore certain annuities payable by insurance companies may be paid without tax deduction, or under deduction of tax at a reduced rate, in order to obviate possible hardship. This followed a recommendation of the 1920 Royal Commission—which also recommended that "any company should be at liberty to make arrangements with the Board of Inland Revenue under which a shareholder or debenture-holder entitled to exemption or liable to be charged at 'half-standard rate,' and whose circumstances are unlikely to be subject to any material change in the near future" should be enabled to receive dividends without tax deduction or with tax deducted at a reduced rate. The Commission stated that ". . . the initial work given to the Revenue would ultimately be repaid by the restriction of claims to exemption and relief."—Cmd. 615, pars. 157–8.

owner who pays ground rents, of the person who receives ground rents, and of the Exchequer, is in favour of changing the system of deducting tax on the payment of ground rents.

88. We recommend

(1) *that owners of property who pay ground rents or head rents be no longer charged to tax on these rents*, nor entitled to deduct tax on paying them; and that the tax payable, if any, be collected by direct assessment on the person receiving or entitled to them, *except where the Revenue Commissioners (or, on appeal, the Special Commissioners) are satisfied that this course is impracticable;* the Revenue Commissioners to be empowered, in cases of exceptional difficulty in collecting tax from the person receiving or entitled to a rent, to direct the house-owner to deduct such tax on paying the rent for later periods, and remit the tax to the Exchequer.

(2) that the Revenue Commissioners be authorized to obtain any information reasonably required to identify the persons receiving or entitled to ground rents and head rents, together with details of these rents—dates of leases and agreements, amounts payable, etc.

(3) *that when an assessment is necessary to collect tax that is deductible from a ground rent, the assessment need not be under Schedule A, nor in the District where the property is situate but wherever it is most convenient for the taxpayer and the Administration—normally where he is employed or engaged, or where he ordinarily resides.*

PREMISES LET FOR NON-BUSINESS PURPOSES

89. Premises let for non-business purposes are assessed to tax under Schedule A on an " annual value " of five fourths the valuation under the Valuation Acts.[1] Compared with let business premises which are assessed on the net rents receivable, they are therefore given preferential treatment for tax purposes because the rents received from non-business premises, after deducting the cost of repairs and maintenance, are usually greater than the notional amounts on which the properties are assessed. Employees, business men, and persons who have income from investments might well regard it as inequitable that, while they are liable to tax on their total income, the landlords of non-business properties pay tax on what is normally only a part of their income from such lettings.

90. If two adjoining properties, each with a valuation of £20, are let, one as a shop and the other as a residence, and if the net rent receivable in each case is £75 p.a., tax is chargeable on the real income of £75 from the shop but on an assumed income of £25 (i.e. five fourths the valuation) from the residence. If each owner is liable at the standard rate, one will

[1]Except in the County Borough of Waterford, where the basis is the valuation.

pay £26 5s. 0d. tax (i.e. £75 @ 7/– in the pound) while the other pays one third of this amount, £8 15s. 0d. (i.e., £25 @ 7/- in the pound).

91. This differential tax treatment also creates administrative complications when a furnished premises is let for residential purposes.[2] In that case the rent has to be apportioned in order to ascertain what part of it is applicable to the furniture, and therefore assessable on the full amount receivable. The rent for the premises itself is assessable only to the extent of five fourths the valuation. The rent for the furniture is assessed under one Schedule, Schedule D, while the rent for the premises is assessed under another Schedule, Schedule A.

92. Since 1932 the full amount of the net rents arising from properties occupied for purposes of a trade or profession has been brought within the scope of income tax. This does not however apply to premises which are " mainly occupied for residential purposes, and no part thereof is occupied for the purposes of trade but a part thereof is occupied for the purposes of a profession or vocation "[3]; as regards such premises the amount assessed is restricted to the " annual value," i.e., five fourths the valuation. If, for example, two adjoining premises are let at the same rent, one to a shopkeeper and the other to a dentist, each of whom resides overhead, the full net rent payable for the property occupied by the shopkeeper is assessed to tax, but not so the rent for the property occupied by the dentist, which is assessed on five fourths the valuation.

If, however, the owner of the property that is let to the shopkeeper makes two separate letting agreements with him, one relating to the shop, and the other to the residential part of the premises, he can avoid being taxed on the full rent from the residential part; this part is assessed on the valuation basis instead.[4]

These anomalous situations would not arise if, for taxation, the measure of the income from premises let, for whatever purpose occupied, was the net rent receivable. Each property owner would then be assessed on the actual income from his property.

93. We have received a number of representations that all let property should be assessed on the net rents receivable.

*The Federation of Irish Industries* has stated in a submission to the Commission:

" *Rented properties* (*other than businesses*)

" There would appear to be a strong argument in equity for substituting for the present Schedule A basis of assessment that of gross rents less legitimate expenses."[5]

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[2]i.e., where the tenant has exclusive right of occupation of the property let.

[3]Finance Act, 1932, Sec. 6.

[4]Again, if a property that had been let for non-business purposes is let to a tenant who carries on a business in it, the owner, who was assessed on five-fourths the valuation, becomes assessable on the full net rent he receives. This happens if, for instance, a premises which had been let to a club for social use by its members is let to a person who holds social functions on a commercial basis in it.

If the tenant of a property that is occupied as a residence starts a business in it, or in part of it, the owner may then become liable for more tax, because he is now assessable on the net rent received instead of five-fourths the valuation.

[5]Submission, 29th January, 1959.

*The Institute of Chartered Accountants in Ireland* has written as follows on Schedule A:

"*Taxation of profits and income arising from land and buildings*

"The incidence of Schedule 'A' income tax is complicated and inequitable. It is recommended that this Schedule should be abolished and that net rents should in future be assessed to income tax under Case 3 of Schedule 'D'. The recipients of income from furnished and unfurnished lettings should, it is submitted, be assessed on the full net income arising, as is the case for business lettings. It is recommended that all income from property should be regarded as arising from one source, and consequently losses arising on any properties should be taken into account in arriving at the taxable income. In these circumstances the loss of tax from owner-occupiers of property[6] would, to a large extent, be made good by the receipt of tax on the excess of net rents over Schedule 'A' valuations of furnished and unfurnished lettings".[7]

94. *The Association of Chambers of Commerce of Ireland*, and *The Federated Union of Employers* have submitted that, as regards all property lettings,

"In the case of property let to a tenant the landlord could be assessed under Case III of Schedule D,"[8] i.e., on the net rent he receives.

*Mr. H. Hill*, Clonkeen Road, Blackrock, Co. Dublin, has written:

"In Great Britain and Northern Ireland all houses are now assessed on the net rents. Why do we not follow Britain in this matter? We are already doing it for business rents."[9]

A similar recommendation has been made by *Mr. T. Donovan*, retired Special Commissioner, and also by *Mr. J. P. Warren*, Waterford.

95. We have been unable to obtain a reliable estimate of the total net rents from properties let for non-business purposes, and it is difficult therefore to indicate what the increase in revenue would be if the assessments were based on these net rents. The increase would, we think, be appreciable. On this point it is pertinent to quote the following extract from a paper read before the Statistical and Social Inquiry Society of Ireland on the 28th January, 1955,[10] by Mr. C. C. McElligott, then Commissioner of Valuation:

"It is beyond doubt that there is a serious loss of income tax—probably over £1,000,000 per annum—by the State due to income tax under Schedule A being assessed on the basis of rateable valuation

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[6]i.e., on the basis that owner-occupation was exempted. Regarding this, see later in this Chapter.
[7]Submission, 24th October, 1957.
[8]Submission, March, 1958.
[9]Submission, May, 1957.
[10]Published in the *Journal* of the Statistical and Social Inquiry Society of Ireland, 1954/5.

instead of being related to true income at current levels. Other kinds of income, e.g., from business profits, salaries, wages, dividends, etc., being assessable to income tax on the basis of actual income, it is anomalous that owners of property are not generally taxed in like fashion."

While this estimate takes into account owner-occupied as well as rented properties, there is no doubt that a significant increase in revenue would accrue if all lettings of house property were assessed on the basis of the net rents receivable. This increase might well be in the region of £400,000–£500,000 per annum.[11]

96. If premises that are let, for whatever purpose, were assessed to tax under one Schedule only on the net rents receivable it would put taxation from that source on a straightforward and rational basis; it would end a substantial tax differentiation between one form of house property and another, a differentiation we find very difficult to justify; and it would increase the tax revenue. From the administrative viewpoint some extra work would arise in examining statements of rents receivable (although it is already necessary in certain circumstances to ascertain the net rents receivable from non-business lettings),[12] but there would be a large saving, in time and expense, in not having to obtain and keep up to date the records of valuations under the Valuation Acts, and in abolishing the provisions under which income from let premises is now assessed, sometimes under one Schedule only and sometimes under two, each with its own set of Rules.

97. In considering the question of the taxation of residential lettings it must be borne in mind that the rents payable for most residential properties, other than those owned by local authorities, are controlled under the Rent Restrictions Acts,[13] and for this reason these rents are

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[11]Local authorities would be unlikely to have any greater tax liability than at present as the interest payable on loans should offset the increase in income (as redefined) of these bodies. The loan indebtedness of local authorities was £136 million on 31st March, 1958.

[12]e.g. furnished lettings (*see* par. 91 above) and rents received by companies liable to Corporation Profits Tax. C.P.T., unlike income tax, is charged on net rents received rather than on a notional income from property let.

[13]Rent control applies to all dwellings erected before May, 1941, the valuation of which is £60 or less if in Dublin city or Dun Laoghaire, and £40 or less if elsewhere—excluding dwellings let to tenants by local authorities.

Where a dwelling is let at a rent which includes payment for board, attendance, or the use of furniture, or for the supply of commodities such as heat or electricity or for the rendering of any services, rent restriction does not apply unless the rent attributable to the dwelling itself is at least three quarters of the total rent.

Rent control does not apply to a building let together with land if the valuation of the land exceeds either (*a*) half the valuation of the building, or (*b*) £15 if within Dublin City or Dun Laoghaire; £10 if elsewhere.

If a dwelling is used partly for business purposes, nevertheless it is normally rent-controlled. So also is a business premises held under a tenancy of less than a year, or under a yearly tenancy which may be determined at less than three months' notice.

There is a distinction between " controlled (1923 Act) premises " and " controlled (non-1923 Act) premises ". For each type of premises the maximum rent is made up of a basic rent and certain " lawful additions ", but the basic rents of properties within the first category are related to 1914 rents, while the basic rents of properties within the second category are related to the rents obtainable in 1941. The " lawful additions " include varying percentages for repairs and structural improvements.

normally less than would be obtainable in a free market. It is noted however that, following a recommendation of the Capital Investment Advisory Committee,[14] the Government has stated in the White Paper entitled " Programme for Economic Expansion " that " Rent controls will gradually be relaxed."[15]

We are of opinion that while these controls continue some concession might fairly be made to the landlords of controlled properties, related to the extent to which rent restriction operates to reduce their income below what would be obtainable under free-market conditions. We have however insufficient information to indicate the extent to which residential rents are affected by the Rent Restrictions Acts, and we cannot therefore deal with the matter very specifically.

Moreover, even as regards lettings not subject to rent restriction, the change to the new basis of taxation, if applied in one step, could involve a sharp increase in tax liability. We regard it as reasonable to suggest that the change should be effected gradually over a period of, say, three years.

98. We recommend *that premises which are let for non-business purposes be assessed to tax on the same basis as premises let for business purposes, i.e. on the net rents receivable after deducting local rates and the cost of repairs, insurance, maintenance and management, so far as borne by the lessor*, subject to

(1) a proviso that, *in the case of rent-controlled premises, the amount assessable be reduced so as to take into account the extent to which, viewed generally, the Rent Restrictions Acts operate to reduce rent income.*

(2) a proviso that, *for a period of three years, the amount assessed in any year in respect of a non-business letting shall not exceed by more than one third the amount assessed in respect of the same letting in the previous year.*

### Residential premises owner-occupied

99. In this country, and in Britain where our tax code originated, a notional income has, from the outset, been attributed to residential property owner-occupied.[1] The amount of this notional income, or " annual value ", is at present the valuation under the Valuation Acts.[2]

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[14]Second Report, Pr. 4406.

[15]Pr. 4796, par. 8.

[1]This is not so in the United States, Canada, South Africa, Australia, New Zealand, and a number of European countries.

[2]Until 1934 (F.A. 1934, Sec. 2) the basis was the valuation less one sixth for " repairs "; it was then changed. In 1935 (F.A. 1935, Sec. 3) it was increased to five fourths the valuation, except for Waterford county borough; and in 1954 (F.A. 1954, Sec. 5) it was reduced to the amount of the valuation.

Tax is not chargeable on a house for a period in which it is " unoccupied "—I.T.A., 1918, Number VII of Schedule A. However, a furnished house is not normally regarded as " unoccupied ".

100. We have received a number of representations that the law should be changed to accord with the more general practice of omitting owner-occupied dwellings from the scope of income tax.

*The Federation of Irish Industries* has stated:

> " Owner-occupiers: We would recommend that the present system of regarding the Schedule A valuation as an addition to income should be discontinued—at least for valuations of up to £40."[3]

*The Association of Chambers of Commerce of Ireland* and *the Federated Union of Employers* have written as follows:

> " The majority of assessments which arise under Schedule A are for small amounts, mostly in respect of owner-occupied houses. It is considered that on social grounds Schedule A should not be assessed on this type of holding. Every encouragement should be given to extend the range of property owners in the country, and the most suitable means of achieving this is to facilitate in every way possible the owner-occupier system. It seems probable that the discontinuance of Schedule A tax on this type of property would not involve any ultimate loss to the Exchequer as the savings achieved in assessment and collection expenses would almost certainly exceed the present yield of tax from this class of holding."[4]

*The Institute of Chartered Accountants in Ireland* has recommended that Schedule A be abolished, because

> " The incidence of Schedule A income tax is complicated and inequitable. . . . The loss of tax from owner-occupiers of property would, to a large extent, be made good by the receipt of tax on the excess of net rents over Schedule A valuations of furnished and unfurnished lettings."[5]

*The Workers' Union of Ireland* has submitted a copy of a resolution passed at the 1957 annual delegate conference of the Union, as follows:

> " That no income tax be levied on a person in respect of the ownership of a house occupied by the owner and which does not exceed £3,000 in value, and where no other house-property is owned by the same person ".[6]

*The Civil Service Alliance*, consisting of a number of civil service organisations, has written as follows:

> " It is submitted that property tax on owner-occupied dwelling-houses should be abolished on the grounds that no income or profit is derived from such usage. Property tax is particularly invidious in the case of persons still purchasing their houses by means of loans.

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[3]Submission, February, 1959.
[4]Submission, March, 1958.
[5]Submission, 24th October, 1957.
[6]Letter, 20th December, 1957.

Moreover, a tax on dwellinghouses is against the best interest of society in that it tends to penalise those who purchase their own homes. (In the case of dwellings used partly for business purposes, a proportion could be allowed free of tax)."[7]

101. *The Irish Conference of Professional and Service Associations has written as follows*:

" We would urge that Schedule A Tax be abolished on owner-occupied houses. It is an anomalous tax in so far as such houses are concerned, as it is levied on a purely notional income deemed to accrue to the owner. In fact, the great majority of owner-occupiers purchase their own houses over a long period, and by their providence assist the State, and local authorities, and contribute to housing production, and to the building industry. Such people are then taxed on their notional incomes from the houses, while other members of the community who are less thrifty and provident escape such tax.

" Schedule A taxation, therefore, conflicts with the sound economic and social policy of encouraging house ownership.

" The anomalous nature of this tax is also high-lighted by the fact that the notional, but non-existent income on which it is levied is not held to arise from any other kind of property. For example, a man who owns his own car does not have to pay tax on the rental that he would otherwise pay to a car-hire firm. But a man who owns his own house does have to pay tax on the rent that he would otherwise have to pay to some other landlord.

" The anomaly is particularly objectionable in that it applies to house property which is already singled out to bear the burden of local taxation."[8]

*Mr. Seán Tóibin*, Corcaigh, has written,

" Daoine a bhfuil an tigh cónaithe ceannaithe amach acu fé bheartú cíos ceannaigh agus a n-ioncam fé bhun £500 sa bhliain, gan luacháil an tí sin d'áireamh mar ioncam. Tá an socrú so ró-dhian ar dhaoine a rinne spáráil chun an teach a cheannach. Pionós orthu é."[9]

*Mr. T. Donovan*, retired Special Commissioner, has written:
" *Schedule A*

Owner-occupied property should be exempted from Schedule A tax. An individual who receives £25 interest on deposit is exempted; this corresponds to a capital of £1,000 approx. Apart from the capital involved, the principle should be extended as suggested ".[10]

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[7]Submission, February, 1958.
[8]Submission, June, 1959.
[9]Submission, 5th April, 1957.
[10]Submission, 4th February, 1959.

*Mr. C. J. F. McCarthy, M.Comm.*, Certified Accountant, Cork, has included in certain suggestions to the Commission,

> " Property tax (Schedule A) not to be levied on the first £25 of annual value in respect of owner-occupied dwellings."[11]

Others who have written in similar terms include *Mr. T. P. Crowley*, Chartered Accountant, Dublin; *Mr. J. P. Warren*, Waterford; *Mr. J. A. Houlton*, Bray; *Mr. P. J. Walsh*, Castlebar; *Mr. J. Hurley*, Dublin; and *Mr. H. Hill*, Dublin.

102. Although, other things being equal, the owner-occupier might be regarded as having a greater taxable capacity than the person who has to rent a residence, income in the popularly accepted sense does not accrue from owner-occupation. Furthermore valuations of property are (for historical and other reasons) lacking in uniformity throughout the country, and inequities must result from using valuation under the Valuation Acts as a measure of " income " for tax purposes.

103. It will be agreed that if a notional income is attributed to a person's interest in an owner-occupied residence it is logical to treat similarly other durable assets such as furniture. As a source of income there is no fundamental difference between them and a residence.[12] The fact that a dwelling is a necessity for all families is regarded as strengthening the argument against taxing owner-occupation. Ownership of a necessity would appear to be, if anything, a less proper subject for taxation than ownership of amenities such as yachts or jewellery.

104. Turning to economic and social considerations, there are, in our view, good reasons for exempting houses that are owner-occupied. Under the present tax provisions an individual who puts moneys on deposit in a bank is exempt from tax on the interest, up to £25 in any year;[13] if he invests in Irish Savings Certificates the interest accruing is

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[11]Submission, 5th April, 1957.

[12]" To recognize the importance of including this item (owner-occupation) in the tax base is to raise question as to where one may stop. If it be so important to include return from real property used within the owner's household, is it not also desirable to proceed similarly with regard to furniture, fixtures, automobiles, art collections, yachts, and other personal property, especially that devoted to luxury or invidious consumption ?"—*Personal Income Taxation* by Henry C. Simons, University of Chicago Press; third impression, page 118.

" From imputed rental (from home ownership) it is only a slight generalization to the problem of imputed income from the ownership of other durable consumer goods. The problem is essentially similar, although of smaller magnitude . . . All forms of durable consumer goods give rise to an imputed income in this way, although the discrimination is not so patent if the item in question is not commonly rented and the services derived by the owner are of a type not comparable to any service commonly furnished separately." *Agenda for Progressive Taxation*, by William Vickrey, Ph.D. The Ronald Press Company, New York. Pages 24/5.

The British Royal Commission on the Taxation of Profits and Income state that, while the above argument is logical, " failure to tax such income from movable possessions rests on practical and administrative considerations ". Final Report (Cmd. 9474), par. 828.

[13]F.A. 1956, Sec. 3.

free of tax;[14] if he invests in any one of a large range of Irish securities he is exempted from tax on twenty per cent of the dividends;[15] if he takes out life insurance, or if, under a scheme or contract approved by the Revenue Commissioners, he makes regular contributions towards retirement benefits, or to a superannuation fund,[16] he may get a substantial reduction in tax in respect of his payments. These various tax provisions encourage certain forms of saving and investment. It appears to us that a tax provision which encourages home ownership is not less commendable. Home ownership develops a sense of responsibility, and it promotes the social virtues. It has also to be considered that the home-owner has to pay local rates and to maintain and repair his house.

105. One of the strongest reasons for not taxing home-ownership is that, notwithstanding theory, no income, as normally understood, is derived from it. The asset does not of itself provide a fund of income out of which tax may be paid, as does a salary, dividend, or business profit.

106. It may be suggested that if home ownership were relieved of Schedule A tax many taxpayers who do not own, and are unlikely to own their homes would be unable, for one reason or another, to benefit from this particular tax advantage. The same argument can however be advanced in connection with almost all forms of investment and saving that get preferential treatment under a tax code. For instance a taxpayer may be unable, because of age or ill-health, to secure a contract for life assurance, and so get a reduction in his tax liability; an employee may be unable to get the benefit of tax-free contributions to a superannuation scheme if his employer or his fellow-employees do not co-operate in providing one. Again, not many taxpayers have resources with which to purchase Savings Certificates or Irish investments to which preferential tax relief is accorded, or to make bank deposits the interest on which is exempt. So long as valuable tax advantages are granted in circumstances such as these, there is a strong case for exempting from tax a residence that is owner-occupied.

The effect of Schedule A taxation on owner-occupation is much more pronounced now than in the years up to World War II, not only because the rates of income tax and surtax have increased but also because income tax is now payable by a much larger number of persons in the lower-income groups. In 1939 there were only about 75,000 individuals liable for income tax; the number at present is about 200,000.

107. Some of the arguments in favour of tax exemption on owner-occupied dwellings apply equally to the larger houses, but not so strongly to such parts of them as are of an amenity nature. No doubt it can be argued that houses which have a high valuation are costly to maintain,

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[14]F.A. 1923, Sec. 3. The number held by the owner must not exceed the limit prescribed by the Regulations—at present £1,000 (at cost) of the current issue, irrespective of a person's holding in previous issues.

[15]F.A. 1932, Sec. 7, as amended and extended; relief is also granted from estate duty when such investments are included in the assets of an estate.

[16]Tax relief on retirement-benefit contributions is provided for under F.A. 1958, Secs. 31–39, and on superannuation funds and schemes under I.T.A. 1918, Sec. 32, F.A. 1921, Sec. 32, etc.

that they bear heavy local rates, and that their upkeep gives employment. Although this is so, exemption should not, in our view, extend without limitation as to amount; we consider that it should be granted up to a point that would represent moderate accommodation for an average family. This might be fixed at a valuation of, say, £30.[17] The excess over £30 valuation should continue to bear tax as at present, this excess representing an element of amenity which the owner-occupier has chosen to enjoy.

108. On the information available to us we cannot estimate as precisely as we would wish the cost to the Exchequer of granting this exemption. The Revenue Commissioners have stated that, for 1955/6, the total income assessed under Schedule A in respect of owner-occupied residences was £1½ millions, out of about £6 millions assessed on all property.[18] On this income of £6 millions there was a net yield of Schedule A tax amounting to £1½ millions, i.e. five shillings in the pound. If a proportional basis were to be applied[19] the tax on owner-occupied residences would be £375,000. At a more probable average rate of about four shillings in the pound for 1958/9, the tax would be £300,000. This however includes tax on the ground rents payable on the properties, and as these ground rents are not the income of owner-occupiers they would continue to be assessable to tax. Ground rents, where payable, vary from about one fifth to one half the valuations according to the age and location of the properties, and the tax yield from them must be considerable. We have however been unable to obtain any detailed information on this matter.

The net cost, in income tax and surtax at current rates, of exempting owner-occupiers from Schedule A tax up to a valuation of £30 would apparently be in the region of £200,000. The cost of exempting owner-occupiers without limit as to valuation would amount to a maximum of approximately £50,000 more. There would be administrative savings to offset these figures.

109. We consider that if a taxpayer, or his wife, is owner-occupier of more than one dwelling, the exemption should apply to one such dwelling only.

Any owner-occupied property that is not brought within the exemption need not continue to be assessed under Schedule A but could be assessed, e.g., under Schedule D as " property income," thus dispensing with a number of small Schedule A assessments.

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[17]Although valuations are far from uniform, the valuations of the great majority of residences of persons in the lower-income and middle-income groups do not exceed £30.

[18]*i.e.*, the gross " income " assessed (on a valuation basis), less exemptions and reductions, as set out in the Report of the Revenue Commissioners for 1955/6, pr. 3861, page 117.

[19]This proportional basis is to some extent excessive for residential properties. Business properties owned by companies are usually chargeable at the standard rate, so that, to have an average rate of 5/–, the rate of charge on residential property must be less than 5/-. On the other hand the cost to the Exchequer of granting Schedule A exemption is the aggregate of tax at the marginal rate on the exempted income of each individual concerned. There is also the point that the tax relief for interest paid in full to building societies, etc., reduces to some extent the present Schedule A revenue; this interest would be deductible, and correspondingly reduce the revenue from, other assessable income if Schedule A were abolished.

110. We recommend that *premises, not exceeding* £30 *valuation, in which an owner-occupier normally resides be exempted from Schedule A tax payable on owner-occupation*, and that premises exceeding £30 valuation be similarly exempted in respect of the *first* £30 *valuation;* in the case of owner-occupied premises not fully used for residential purposes, the exemption to apply to only the residential portion of the premises.

### Income from agricultural and other land

111. The question of taxation incidence on agricultural and other land will be dealt with in a later Report. We confine ourselves here to some observations on the machinery of assessing income from land, and the possibility of simplifying that machinery.

112. Most land is either free of rent or subject to an annuity to the Land Commission. The basis on which it is assessed to income tax is outlined in Appendix III, pars. 11–24 inclusive. From this it will be seen that land is assessed under two Schedules, under Schedule A on the valuation,[1] and under Schedule B on either the valuation or the original annuity payable to the Land Commission, whichever is the less.

113. We see no reason why owner-occupied land should be assessed under two separate Schedules, particularly as each Schedule is based on a notional figure of " income ". This separation into two Schedules dates from the introduction of Schedules in 1803, when landlords paid tax under Schedule A on the rack rents, or gross rental values, and the tenant farmers were assessed under Schedule B on similar annual values. With the virtual abolition of the landlord system in Ireland—the tenant-farmers have become owner-occupiers—the need for the present procedure under which there is an artificial separation of the income from ownership and the income from occupation of land has long since passed.

Under the existing law relating to Schedule A assessments on land there is a provision of old standing for making a small deduction to the extent of one eighth the valuation.[2] Furthermore in making a Schedule A assessment it is necessary to ascertain, in respect of any land annuity payable, the small capital element in it; a deduction is then made of the balance of the annuity (which represents interest). The capital element rarely amounts to as much as one sixth of the rent, and under the Land Act of 1923 and later Land Acts it is usually rather less. Considering that the Schedule A and B figures are both notional—rough estimates of income—the administrative work in making calculations of these small " repairs " allowances and deductions for land annuities payable, and in making separate records of assessments under two Schedules, appears to be unnecessary and superfluous.

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[1]The valuation under the Valuation Acts, which in the case of land usually includes farm buildings.

Nearly all the land in the country is owner-occupied. (An eleven months' tenant is not regarded as the occupier for tax purposes; he is assessable on his net profit from the take).

[2]I.T.A. 1918, No. V of Schedule A, Rule 7—usually referred to as " Repairs allowance ".

114. Income assessed under Schedule A is normally regarded as " unearned income " while income assessed under Schedule B on agricultural land is regarded as " earned income " and so entitled to the earned-income allowance. We have already commented on the discrimination against a particular form of business capital,[3] for earned income allowance, and we consider that there is no ground for a similar discrimination against agricultural land that is owner-occupied. We take this into account in the recommendation that follows.

115. *Without prejudice to our examination of the incidence of taxation on land*, we recommend that owner-occupiers of land and farm buildings be assessed *under Schedule B only* on twice the valuation—thus broadly maintaining the present incidence of taxation; that the income be normally regarded as earned income;[4] that, instead of deducting a substantial fraction of the Land Commission Annuity, *the full annuity be deductible, under Schedule B; and that where land is not used mainly for husbandry* (e.g. a public park or playing field), *the Schedule B assessment be on a reduced basis, say one and a half times the valuation*, this income being regarded as " unearned income "—to preserve the present differentiation in respect of such land.



[3]See pars. 57–9.

[4]The treatment of rents from land let (*i.e.*, as " earned " or " unearned " income, etc.) will be reviewed in a later Report.

## SUMMARY OF RECOMMENDATIONS

116. The following is a summary of the recommendations in this Report.

I. "*One taxpayer, one charge*"

The adoption of the principle of "one taxpayer, one charge", i.e. that each taxpayer should normally be sent annually a single composite statement of his income tax liability.

(par. 26)

II. *Surtax*

(1) That no separate return be required for surtax.

(2) That surtax, both in assessment and collection, be dealt with together with income tax in the local income tax office.

(par. 48)

III. *Buildings and land*

(a) *Business premises*

The abolition of Schedule A assessments on buildings and of Schedule A and B assessments on owner-occupied land used for a trade, profession, or vocation; and that no Schedule A or B deductions should be made in assessing under Schedule D the rents or income from such properties.

(par. 67)

(b) *Ground rents and head rents*

(1) That the owner of a property subject to a ground rent or head rent be not accountable for tax at the standard rate on this rent, but that whatever tax is payable be assessed on, and collected from, the person receiving or entitled to the rent, except when the Revenue Commissioners (or, on appeal, the Special Commissioners) are satisfied that this course is impracticable; the Revenue Commissioners to be empowered, whenever exceptional difficulty arises in collecting tax from the person receiving or entitled to a rent, to direct the property owner to deduct such tax on paying the rent for a later period, and to remit the tax to the Exchequer.

(par. 88)

(2) That the Revenue Commissioners be authorised to obtain any information reasonably required to identify the persons receiving and entitled to head rents and ground rents payable by property owners, together with details of these rents. (par. 88)

(3) That when tax is deductible on payment of a head rent or ground rent, this tax be accounted for not necessarily by a Schedule A assessment or in the District where the property is situate. (par. 88)

(c) *House property let for non-business use*

That rents from house property which is let for residential or other non-business purposes be assessed on the same basis as rents from business lettings, i.e. on the net income receivable after deducting local rates and the cost of insurance, repairs, and management, so far as borne by the lessor; subject to

(1) a proviso that the amount assessable in respect of rent-controlled premises be reduced to take into account the extent to which, viewed generally, the Rent Restrictions Acts operate to reduce rent income

(2) a proviso that, for a period of three years, the amount assessed in any year in respect of a non-business letting (whether or not rent-controlled) does not exceed by more than one third the assessment on that letting in the previous year.

(par. 98)

(d) *Owner-occupied residential property*

That premises, not exceeding £30 valuation, in which an owner-occupier normally resides be exempted from Schedule A tax on owner-occupation; and that residential premises exceeding £30 valuation be similarly exempted on the owner-occupation element in the first £30 valuation, the exemption to apply to the residential portion only of premises not exclusively occupied as a residence.

(par. 110)

(e) *Land: assessment under two Schedules*

*Without prejudice to later examination of the incidence of taxation on agricultural land*, that owner-occupiers of land and farm buildings be assessed under Schedule B only, on twice the valuation—to maintain the present incidence of taxation; that the income from agricultural land be normally regarded as all earned income; that the full amount of any Land Commission Annuity payable be deducted (instead of a substantial fraction of it, as now); and that where land is not used mainly for husbandry (e.g. public parks or playing fields) the Schedule B assessment be on a reduced basis, say one and half times the valuation, to preserve the present differentiation in respect of such land. (par. 115)

117. Recommendations numbered I, II, III(a), III(b), and III(e) are unanimous. Recommendations numbered III(c) and III(d) are majority recommendations.

**Our recommendations under head III involve the virtual abolition of Schedule A.** Some minor aspects of Schedule A are not covered, but we are of opinion that any Schedule A assessments not embraced by the above recommendations could readily be brought within either Schedule B or Schedule D, thus dispensing entirely with Schedule A.

118. Two of our recommendations affect tax yield. Recommendation number III(c) would, we estimate, bring in £400,000–£500,000 when fully operative, a lesser sum in the earlier years; recommendation number III(d) would, as far as we can judge, cost the Exchequer about £200,000. Even allowing for the modifying provisos attached to our recommendations regarding rents received, there should from the outset be some net gain to the Exchequer, increasing in future years.

119. We have no doubt that there would be a worthwhile net saving in administrative cost if all these recommendations were adopted, and there would certainly follow from them a substantial saving, both in time and expense, for a large section of the community.

CEARBHALL Ó DÁLAIGH (Cathaoirleach)
OWEN BINCHY*
P. A. BOLGER*
JOHN BUSTEED
PATRICK COGAN
ALAN P. DEMPSEY*
JAMES KAVANAGH*
FRANCIS N. KELLY
JAMES MEENAN*
DONAL NEVIN

*L. de Barra*, Rúnaí,
10 Meitheamh, 1959.

*with Addendum, pages 50

## ADDENDUM

While agreeing with the majority recommendation that residential premises owner-occupied should be exempted up to £30 valuation, we recommend that this exemption should extend to *all* owner-occupied houses.

Generally the arguments in support of the case for exemption are as applicable to the larger owner-occupied residence as to the smaller one. With regard to the statement that the excess over £30 valuation of a residence represents " an element of amenity which the owner-occupier has chosen to enjoy "—see par. 107—it more than often happens that there is very little choice in this matter. Residences usually pass on from one generation to another, and even when a house-owner wished to acquire a smaller residence he would frequently find that the purchase would be too expensive or otherwise impracticable.

The abnormal cost of maintaining large residences is a very important consideration; scarcely less important is it that maintenance and upkeep provide employment. Throughout the country many fine residences are, too fast, disappearing because of upkeep cost. The complete exemption from income tax on owner-occupation would not be a significant help to reduce the burden of upkeep, but it would be of some moment.

Another important reason why we recommend complete exemption is the administrative one, that it would wholly eliminate the cost of making assessments on owner-occupied residences. Most of these assessments would be in small sums of £5 to £15 or £20 (£2 to £5 in tax) representing merely the excess over £30 valuation. The maximum revenue from them would be relatively small, and it seems probable that the cost of collecting that revenue (including the cost of getting details each year of changes in valuations, of making entries in assessment books, assessment notices, tax demands, etc.) would on fiscal grounds be uneconomic.

The total exemption of owner-occupation would carry one step further the simplification of the tax code, and it would, at negligible cost, end the need for a series of small assessments on properties from which, in the words of the Majority Report (par. 105) " no income, as normally understood, is derived."

OWEN BINCHY
P. A. BOLGER
ALAN P. DEMPSEY
JAMES KAVANAGH
JAMES MEENAN

## MINORITY REPORT

### by Mr. R. C. FLANAGAN

I have not been able to sign this second Report for the following reasons:—

(1) I do not favour Interim Reports involving changes in the incidence of taxes as I believe that recommendations of this character should not be dealt with in isolation but against the whole background of income taxation.

(2) I do not favour an increase in the taxation on rent incomes whilst the Rent Restrictions Acts are in force.

(3) I do not favour relieving owner-occupiers of the Schedule "A" tax in conjunction with an increase in the tax on rent incomes.

(4) I support the recommendation made in Chapters 1 and 2 and the procedural recommendations made in Chapter 3.

R. C. FLANAGAN

# APPENDIX I

## MEMORANDUM BY THE REVENUE COMMISSIONERS

ON

## ONE TAXPAYER, ONE CHARGE

1. The Income Tax Acts provide generally that income is to be assessed and charged at the place where it arises. Thus, under Schedule A, properties are assessed where they are situate; under Schedule D, businesses are chargeable where they are carried on and, under Schedule E, the emoluments of public offices and other employments are assessed at the head office of the department or company or concern under which the offices or employments are held. Persons who are not engaged in business or employment are normally chargeable where they ordinarily reside.

2. Many years ago, when the burden of the tax was lighter than it is today, the question of endeavouring to reach the goal of " one taxpayer, one charge " attracted attention. In the course of his Financial Statement in the British House of Commons on the 11th April, 1927, the Chancellor of the Exchequer (Mr. Winston Churchill), who was adumbrating proposals for simplifying the Income Tax, said (Official Report, col. 83):

> " My third proposal for simplification is in itself simple; I believe it will also be welcome. It is that a single annual return should be made to serve as nearly as possible all purposes, and that that return should be given by the taxpayer on the simplest of all bases, namely, his total income for the preceding year."

He said later (col. 84):

> " Our progress in these matters must be gradual; I am advancing step by step; and my object will not be attained until arrangements are made to enable income tax payers liable to several direct assessments in respect of sources of income arising in different parts of the country to receive a single demand, and to make payment at a single place. This will be dealt with next year."

3. Despite the Chancellor's announcement, the British legislature does not yet appear to have given effect to this idea. It is not referred to among the recommendations of the British Royal Commission on the Taxation of Profits and Income.[1] The Revenue Commissioners are not aware of having received, over the past quarter of a century or so, any representations regarding the existing law. As they recall in their letter of the 16th January, 1959, to the Revenue Commissioners, the Commission on Income Taxation have not submitted any scheme in this connection.

4. Before the general issue could be discussed in any detail it would be necessary to know the background against which it was to be examined. There must probably be, for example, thousands of taxpayers assessable under Case I or Case II of Schedule D or under Schedule E whose only

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[1]Cmd. 9474.

other income is represented by the Schedule A assessment on their residence. Any difficulty that may arise in this type of case will have disappeared if owner-occupied houses are to be exempted from Income Tax as suggested by the Commission.

5. An assessment must specify the income assessed; and, if a notice of assessment is to be of any use at all, it must, it is felt, enable the taxpayer to recognise and to be able to check the items of income assessed. Income arises under different headings and different rules apply as to the method of ascertaining and measuring income from different sources. At present each of the various kinds of income is treated as falling under one of five Schedules, Schedules A, B, C, D, and E—and under one or more Rules or Cases of those Schedules. The British Codification Committee of 1936[2] thought that " the existing classification of income could not be defended on any logical ground " and they proposed instead that income should be divided into fifteen Classes, viz. Classes A to O.

6. There are some companies and individuals enjoying very large incomes from property—from ground rents and from rents from residential and business lettings. It would of course be possible to agree the ultimate figure for the total assessable income but only after considerable correspondence each year concerning sales or purchases of properties, voids, lost rent, allowances for maintenance, management, etc. It may perhaps be asked whether a simple notice of assessment in one sum would be accepted as sufficient in such an instance.



[2]Cmd. 5131.

# APPENDIX II

## MEMORANDUM BY THE REVENUE COMMISSIONERS

## ON

## SURTAX

## (based on Report of a Departmental Committee)

## PART I

### QUESTION OF DECENTRALISING THE ADMINISTRATION OF SURTAX

*Preliminary*

1. The tax which is now known as Surtax was introduced—under the title of Super-tax—as " an additional duty of Income Tax " in the year 1910. That was more than a century after the introduction of Income Tax in Britain and more than half a century after its extension to Ireland. Super-tax for the first year was charged upon individuals whose total incomes exceeded £5,000 at the rate of 6d. in the £ on the amount by which their incomes exceeded £3,000. Since 1910 the point in the scale of income at which the tax begins has been gradually lowered to £1,500, the tax applying only to that part of the income which is in excess of £1,500. Further, the simplicity of the single 6d. rate has given place to a scale of graduated rates on successive " slices " of income, starting at 9d. in the £ on the first £500 in excess of £1,500 and reaching a rate of 8s. 6d. in the £ on the slice of income over £20,000.

(2) The change from Super-tax to Surtax was made in Britain in 1927. The essential differences between Super-tax and Surtax is that, in the case of Super-tax, the tax was charged on the amount of the statutory total income of the year preceding the year of charge and was payable in the year of charge, while in the case of Surtax the tax was charged on the statutory total income of the year of charge and was payable in the succeeding year. Accordingly, in any given case, the resulting incidence of Super-tax and Surtax would be identical except that, under the Super-tax, the charge was for one year less than the number of years for which a taxpayer possessed a super-taxable income since no Super-tax was payable in respect of the income of the year in which he died or in which he last enjoyed a total income above the Super-tax limit.

3. In 1928 the Irish legislature followed the British precedent by discontinuing the charge to Super-tax and by imposing Surtax. The last year for which Super-tax applied was the year 1928–29. It was payable on the 1st January, 1929. Surtax was first charged for the same year 1928–9 but was not payable until the 1st January, 1930.

*Distinction between Income Tax and Surtax*

4. Though Surtax is charged as an additional duty of Income Tax the two taxes have certain fundamental differences. The machinery for charging them is different, and the method of collection and time of payment are different. No relief is given for Surtax in respect of earned income or personal allowances, etc. A deduction is, however, given for mortgage interest, ground rents and other annual payments from which the payer is entitled to deduct Income Tax.

*Reason for central organisation for Surtax*

5. Taxation at the source—the keystone of the Income Tax system—does not, and never did, apply to Surtax which is charged by direct assessment upon the recipients of the income. In 1910 the people with more than £5,000 a year were mainly those whose incomes were derived from property or dividends and who, under the law at that time, were not called upon to make a return of their total income from all sources for Income Tax purposes. Their numbers were small; and they were very sensitive about disclosing their full incomes particularly to local officials. It was therefore arranged at the outset that the administration of the tax should be completely centralised and kept absolutely out of the hands of the local assessors. It was entrusted to the Special Commissioners in London who obtained and examined all Super-tax returns, made all assessments, heard all appeals and collected the duty.

6. The Committee were of the view that the historical reasons for the central administration of Surtax no longer hold good. The lowering of the limit of exemption from £5,000 to £1,500 and the enormous rise in incomes generally because of the fall in the purchasing power of money has brought within the range of the tax many traders, professional men and employees who are quite accustomed to deal with their local Inspectors of Taxes. Because of changes which have been made in the Income Tax Code since 1910 a taxpayer must furnish the Inspector of Taxes with a statement of his total income if he wishes to claim the statutory allowances and reliefs to which he may be entitled. It is probable that in many cases it would be for the convenience of the taxpayer if the working out of his Surtax liability was placed in the hands of the local tax office which is already concerned with his Income Tax liability.

7. The main advantage of the centralised system is the uniformity of treatment and practice achieved under it. The Committee endeavoured to assess and weigh against this advantage the benefits which might flow from decentralisation, bearing in mind at the same time any accompanying disadvantages.

*Present Surtax System*

8. The work of Income Tax assessment is done in local tax offices, the collection being in the hands of local Collectors. Surtax is assessed and collected at one central office in Dublin, the Office of the Special Commissioners of Income Tax at Aras Brugha.

9. For the purposes of arriving at the amount assessable to Surtax in a given case, the official in the Office of the Special Commissioners uses

the information contained in special reports made by the Inspector of Taxes together with that furnished by the taxpayer in his return of total income for Surtax purposes. To the extent that certain types of income must first be dealt with by the Inspector and then included in the computation of *total* income made in the Office of the Special Commissioners, there is duplication. Ordinarily of course the Inspector of Taxes is concerned only with income arising under a particular Schedule and not with the total income of the individual, but in certain cases he has to carry out the task of computing total income for Income Tax purposes.

*Cost of existing Surtax organisation*

10. The Committee decided that it would be desirable to estimate the total cost of the present Surtax administration, in terms of manpower as well as in terms of cost to the Exchequer.

11. The staff at present engaged on Surtax work in the Office of the Special Commissioners at Aras Brugha totals forty heads.

12. More than 18,000 reports in relation to Surtax payers are received in the Office of the Special Commissioners each year from the Tax Districts. Each report covers all income assessed on the taxpayer in the reporting District. In round numbers the figures are—

(a) 17,000 renewal reports in relation to individuals;

(b) 1,000 reports of new cases (individuals) and

(c) 500 reports on partnerships.

Apart from these reports there is a continuous flow of correspondence between Tax Districts and the Office of the Special Commissioners in relation to the liabilities of Surtax payers. It is estimated that this work absorbs in Tax Districts the full time of six heads of staff—2 Tax Officers and 4 Writing Assistants.

13. There are other minor items in the cost of the present Surtax system—accommodation, heating, cleaning, stationery, etc. The total cost works out at about £29,500 per annum made up as follows:—

(a) cost of staff engaged in Surtax work at Aras Brugha—£24,600;

(b) cost of accommodation, heating, cleaning, etc. at Aras Brugha—£1,200;

(c) cost in respect of staff on accounting for Surtax in the Office of the Accountant General of Revenue—£650;

(d) cost of Surtax work which is carried out in the Offices of the Inspectors of Taxes—£2,450; and

(e) cost of stationery, including forms of return and forms for reports supplied by the Districts—£600 per annum.

In terms of manpower a total of 46 heads of staff is required for the administration of Surtax in the Office of the Special Commissioners and the local tax offices.

*The feasibility of decentralising*

14. The Committee considered that the essential problem was whether the nature of Surtax work would permit of decentralisation. The work is now done by officials who concentrate on Surtax administration; to the tax office staff it would constitute an additional and, in some cases, a merely occasional burden. Decentralisation could not be considered practicable unless the computation of Surtax liability would be handled economically by local staffs, of comparable standing with the centralised staff, without an appreciable loss of efficiency and uniformity.

15. A test scheme was carried out in one of the Tax Districts in relation to 100 cases in a provincial town, the liability being computed by reference to the local files. It was found in this case that the spread of the Surtax cases over the assessment books was so thin that the additional work involved should not seriously affect a tax officer's routine in relation to his Income Tax duties. The members of the Committee also examined a number of Surtax files and made a study of the nature of the Surtax work being done in the Office of the Special Commissioners. They concluded that about 70 per cent of the Surtax cases were reasonably straightforward to a person with Income Tax training and might be worked in Tax Offices by the officers responsible for the Income Tax assessments, with some guidance from superiors. About 20 per cent of the cases were somewhat more complex. The remaining 10 per cent would have to be worked by Inspectors in the Tax Districts and a number of them might involve submissions to Head Office on difficult points.

Special Instruction Books on Surtax would have to be prepared before decentralisation could be carried out.

16. The Committee reached the conclusion that Surtax decentralisation was feasible, but they recognised that the dispersal of the work amongst a greater number of officials and its operation in the different conditions of a local tax office might necessarily involve some loss of uniformity and quality in the work done. They considered, however, that this loss would not be sufficient as a decisive argument against decentralisation.

17. The Committee examined different forms which decentralisation might take—

(a) Surtax might be decentralised in the way that Corporation Profits Tax is now administered with collection work carried out jointly by the Districts and by Head Office;

(b) The computation of the liability might be done locally and assessment and collection carried out in its entirety at Head Office;

(c) The assessing might be transferred from the Special Commissioners to the Inspectors of Taxes by analogy with the Schedule D and E assessments.

Course (c) would represent a complete system of decentralisation. It would leave the entire work of assessment in the hands of the local Inspector. The logical sequence to this would be the transference of the collection of Surtax to the local Collector of Taxes. The Committee gave thought to each of the three methods. While they considered that ideally course (c) would seem the most attractive, the Committee thought that, for the purposes of budgetary and accounting control, course (b) would be preferable.

*Saving on Decentralisation*

18. Having come to the conclusion that decentralisation was feasible the committee's next task was to see what saving would be likely to result from it. The first question was how much of the paper work involved in reporting assessments to the Office of the Special Commissioners and in answering correspondence from there could be eliminated by local computation of surtax, bearing in mind that the taxpayer's main district might require a number of reports from other districts in order to arrive at a figure of total income.

19. The country Tax Districts send annually between 8,000 and 9,000 reports to the Office of the Special Commissioners. An investigation made in those Districts showed that all the information about Income Tax assessments which would be required for surtax purposes was available in the main office in about 85 per cent of these cases. The percentage for Dublin General District would probably be higher. On decentralisation the work involved in supplying the reports of assessments to the Office of the Special Commissioners and the answering of general enquiries from there would no longer have to be done in Tax Districts. After allowing for the work in relation to cases where enquiries could still be necessary from one or more other Districts, there would, it was thought, be a saving on decentralisation of five heads of junior staff—estimated at 1 Tax Officer and 4 Writing Assistants. The work involved in the getting of reports from other Districts where such reports would be required would absorb the time of 1 Tax Officer.

20. Of greater importance, but more difficult to measure, would be the saving which would result from the fact that in many cases a proportion of the work done in the Office of the Special Commissioners in arriving at total income is a duplication of what has already been done in the Tax District. The maintenance of two separate sets of files would be eliminated on decentralisation. A Surtax sub-file would be kept with the taxpayer's Income Tax file.

*Surtax work at Head Office following decentralisation*

21. In a decentralised system the ideal would be to have all the work carried out locally, but a nucleus of staff would have to be retained at Head Office to deal with problems of difficulty and to avoid holding up the flow of ordinary work in the Tax Districts. The Committee considered that the types of work to be reserved for Head Office should be those for which the Districts could not be supplied with staff to deal with economically: where the complexity required special knowledge. The types of work which the Committee had in mind were—

(a) major points of principle;

(b) action in relation to undistributed income of companies (Section 21, Finance Act, 1922);

(c) points involving income receivable under, and annual payments made under complicated settlements, dispositions, trusts, deeds, etc.;

(d) ascertainment of income of residuary legatees (Finance Act,1938) in difficult cases.

22. The nucleus of staff to be retained at Head Office would be something akin to the present staff in Secretary (Taxes); they would in no sense be people who would be handling individual cases completely themselves. They would simply deal with specific problems arising on cases which were being worked in the Tax Districts.

*Staff required for Surtax on decentralisation*

23. The Committee had some difficulty in estimating the staff which would be necessary for the administration of the Surtax on decentralisation. It must be stressed that the figures which follow are subject to certain margins of error. The calculations were based partly on personal judgment, and it was difficult to come to firm conclusions about output, when the work would be done by different staff under the different conditions prevailing in local tax offices.

24. The Committee, after full consideration, estimated that the Surtax work could be carried out in the Tax Districts with seventeen additional heads of staff. This estimate makes provision for one Officer who would be required for obtaining information from other districts in cases where all of the income did not arise in the main assessing district for the taxpayer. Accordingly the saving to be set off against the cost for local staff would be the 2 Tax Officers and 4 Writing Assistants mentioned in paragraph 12.

25. The staff which would be required at Head Office is estimated at thirteen heads. They would be engaged in handling submissions on Surtax from the Tax Districts, and in the assessing and collection of the tax. The committee considered that it would be feasible to have the issue of Surtax notices of assessment and of demands, as well as the accounting for the tax, dealt with in the mechanisation centre at Aras Brugha. The above figure for staff, however, is based on the assumption that for some time these processes will have to be dealt with manually—because until the collection of Schedule E tax for the Dublin area is working normally it would be difficult to fit the Surtax into the mechanisation programme.

26. On decentralisation, therefore, Surtax would, according to the estimate, require 17 officials in Tax Districts and 13 officials at Head Office—a total of 30 against 46 at present.

27. The estimated cost of a decentralised system of Surtax would be—

| | £ |
|---|---|
| Staff in Tax Offices .. .. .. .. .. | 11,500 |
| Staff at Head Office .. .. .. .. | 7,650 |
| Staff in Accountant General's Office (as before) | 650 |
| Cost of accommodation, heating, cleaning, etc. | 600 |
| Stationery, say .. .. .. .. .. | 200 |
| Provision for overtime in Tax Offices .. .. | 1,000 |
| | £21,600 |

This would represent an annual net saving of 26 per cent on present costs.

*Transitional Problems*

28. The Committee next turned to the question as to what should be done on decentralisation in relation to cases where Surtax assessments had yet to be made for one or more back years. It was thought that, on an appointed day, the files in all cases should be passed to the Tax Districts and that the Inspectors and their staffs should take up the cases as they stood. Under the present system the Surtax assessment is not normally made until any Income Tax appeal which would affect the figure of total income has been disposed of. Consequently the assessing work in a number of Surtax cases is in arrear. On decentralisation it would be preferable to have the Surtax assessments for a given year made before a fixed date, where necessary in estimated amounts, in order to ensure more effective control over the state of Surtax work. This task would at the outset impose additional work on the local tax offices.

29. Certain establishment problems would arise as a result of decentralisation. The main saving would be in general service grades—executive officers and writing assistants in the Office of the Special Commissioners. The required additional staff would be of departmental grades. It is considered that, at the beginning, experienced executive staff might be utilised to start the scheme of decentralisation going in the Dublin District and possibly also in the Cork I District. In view of the size of the Revenue organisation and the relatively small numbers of individuals involved the Committee felt that no major establishment difficulty would arise in transferring the redundant staff to other Branches of the Head Office according as normal vacancies would occur.

*Factors which would affect timing of decentralisation*

30. A matter which the Committee thought would have an important bearing on their proposals was the arrear position in Dublin General and Cork I Districts and the heavy pressure of work in the tax offices generally. Apart from the difficulty in assessing the increase in staff which would be required in the Tax Districts in order to handle the additional work of assessing Surtax, a further trouble would arise in ensuring that any addition to existing staff would result in the requisite output of *Surtax work*. There is no doubt that the Dublin General District in particular is in a serious state of arrear at present. There has been an increase in the number of taxpayers since the staff was fixed at its present level but a more important factor is the consideration that the new types of taxpayers are to a large extent wholly unco-operative, and the average time required for each case is therefore greater than it was in the past. Furthermore there have been the new complexities arising out of the reliefs introduced by the various Finance Acts of recent years. One of the consequences is that blocks of Schedule E work have been falling heavily into arrears. There is no indication that this tendency towards arrears can be halted without the provision of additional trained staff, and in these circumstances the Committee feared that any staff allocated to the Dublin General District because of decentralisation of Surtax might simply become absorbed in the machine, and that a part of the Surtax assessing might suffer in consequence. The Committee were strongly of opinion that the establishment of a separate Surtax section in Dublin General, or indeed in any other Tax District, would not normally be a solution to this difficulty; it would be inconsistent with the principle of decentralisation.

31. For the reasons mentioned in paragraph 30 the Committee considered it essential that the position in the Tax Districts, and in Dublin General in particular, should be examined critically before any decision is made to impose additional work on them, even with a staff commensurate with the additional work; and they recommended that the necessary steps should be taken in the first instance to secure that the existing work in the Tax Districts would be kept reasonably up-to-date. In the opinion of the Committee the arrear position in Dublin General and Cork I Districts and the heavy pressure in the Tax Districts generally were matters which would have to be attended to without delay apart altogether from the question of decentralisation of Surtax.

32. Apart from the considerations relating to conditions in Tax Districts, the Committee were of the opinion that, if decentralisation were to be accepted as a matter of policy, at least twelve months would be required to make the appropriate administrative arrangements. In order to ensure that there would be no initial setback it would be desirable to have the departmental staff allocated in advance so that certain key men among the existing staff could be given a course of training on Surtax.

*Position in Britain*

33. The Royal Commission on the Taxation of Profits and Income in its final report[1] of July, 1955, touched on the question of decentralisation of Surtax in paragraphs 945 and 946 of Chapter 31 which is headed "Administration." The Commission observed that the computation of Surtax liabilities was in principle the same type of work as that undertaken by Inspectors of Taxes and their staff, and the staff of the Special Commissioners' Office had to depend upon local tax offices for much of the information that they required as to the amounts assessable under the different sources of a taxpayer's income. The Commission were informed by the Board of Inland Revenue that, leaving out of account the difficulties of the transitional period, comparative calculations had shown that an economy in staff costs might reasonably be expected to result from the introduction of a scheme for the decentralisation of Surtax administration. The Commission reported that they saw no objection of principle that need stand in the way of a scheme of Surtax decentralisation which offered prospects of administrative saving.

## PART II

### Question of Dispensing with Separate Return of Income for Surtax Purposes

34. Having reached the conclusion that decentralisation was feasible and would result in a material administrative saving the Committee then addressed themselves to the separate but related question whether the extra return of income for Surtax purposes could be dispensed with.

*Present position in Ireland*

35. Every person whose total income exceeds £1,500 is obliged by law to notify the Special Commissioners of that fact; and to make a return of his total income from all sources, when duly required to do so.

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[1]Cmd. 9474.

36. In addition to the return of total income required to be made to the Special Commissioners for the purpose of Surtax, a taxpayer is obliged for Income Tax purposes to make a return of (a) the annual value of all lands and tenements in his occupation, and (b) the amount of the profits and gains arising to him from each source, estimated according to the provisions of the Income Tax Acts. Further, if he wishes to claim any of the Income Tax personal allowances or reliefs he must make a return of all the particular sources from which his income arises, and the amount arising from each source. In the case of an individual a form of return for Income Tax is issued at the commencement of each year of assessment. It provides for the completion by the taxpayer of a statement of total income from all sources and the making of a claim for any of the allowances or reliefs to which he might be entitled.

*Position in Britain*

37. In Britain, unless the election mentioned in the next paragraph is exercised, it is the duty of every person to make a return to his Inspector of Taxes of all his sources of income and of the amount derived from each source for the year preceding the year of assessment. (It may be noted that this is *not* the total income from all sources estimated in accordance with the Income Tax Acts.)

38. A person who is chargeable to Surtax may elect to make the return of his total income *from all sources* to the Special Commissioners instead of to the Inspector of Taxes. If he exercises this option he is required to make to the Inspector of Taxes a return only of income assessable under Schedule D or Schedule E. The Special Commissioners also have power to call for a return of total income for Surtax purposes in any case where a taxpayer has failed to make a return to the local Inspector of Taxes, or where such a return has been supplied but is insufficient for Surtax purposes.

*Dispensing with separate return for Surtax without decentralisation*

39. Dispensing with the separate return of income for Surtax purposes without decentralisation would, no doubt, be possible. The British have apparently done so for some thirty years. A central system for copying all documents might be devised; and if the procedure now operative in relation to reports of assessments were retained, the Special Commissioners would be in possession of all the relevant information. It would be a matter of substituting for the information now available on a Surtax return, similar information which could be gleaned from *two* Income Tax returns. Apart, however, from relieving the taxpayer of the necessity of making a separate return for Surtax purposes no practical purpose would be served by such a change. The movement of several thousands of returns from local Tax Districts to the central copying unit would inevitably cause dislocation in the Tax Districts and would impose an appreciable amount of extra work on their staffs. Correspondence between the Office of the Special Commissioners and the Tax Districts would probably be materially increased. In the opinion of the Committee the demand for a change could scarcely be regarded as sufficient to justify dispensing with the separate return of income for Surtax if decentralisation were not adopted. It would be a step which would make the work of assessing Surtax more cumbersome and more costly.

*Dispensing with separate return of income for Surtax following decentralisation*

40. The objection to the abolition of the separate return for Surtax under the existing system arises mainly from the expense involved in putting the Office of the Special Commissioners in possession of the information which the local tax office has available from the Income Tax returns. This problem would not arise if Surtax were decentralised. Nevertheless, even in a decentralised system, the dispensing with the separate Surtax return would give rise to certain additional work. At the present time the return of Income Tax made, for, say, the year 1957–58 is made to the Inspector of Taxes in April or May of 1957. In theory, this return should show the taxed income of the year 1957–58, but the taxpayer may not know so early in the tax year what taxed income (e.g., dividends from Irish companies) he is likely to receive in that year. The common practice therefore is to return the Irish taxed income received *in the preceding year*. If a late return were being made, say in March, 1958, the taxpayer might possibly insert the taxed income actually received in 1957–58—though the normal practice would be to insert the income of the previous year. However, without specific enquiry a tax officer might not know whether the income shown related to a given year or to the year preceding it. The British method of meeting this difficulty was to provide that the taxpayer should supply a return of total income showing the income from each source (including taxed dividends) for the year preceding the year of assessment.

41. On the assumption that legislation on the British lines were enacted in this country, the local officer, to compute the total income for Surtax purposes for, say 1957–58, would require the Income Tax return for 1957–58 to get particulars of Schedule D and E income and the Income Tax return for 1958–59 to get particulars of Schedules A and B and taxed income. The extra work involved in having to build up total income in this manner rather than from a single Surtax return would, it is estimated, absorb in the aggregate, over all Tax Districts, the time of one Senior Tax Officer.

42. A further consideration is that taxed income has hitherto been an item of minor interest to the local tax office in the case of the ordinary taxpayer. It would, if the suggested changes ware made, be a matter of first importance. To supplement the information available from the Income Tax returns, and as a check-up on the figures of taxed income, the Committee considered that arrangements should be made to have the annual returns in the Companies Registration Office inspected periodically and abstracts of shareholdings supplied to the local tax office. If this work were to be carried out systematically—and in the view of the Committee it should be—it would require the addition of one clerical officer to the staff of the Office of the Special Commissioners.

43. In the opinion of the Committee the separate return for Surtax could be dispensed with if the administration of the tax were decentralised. The cost of the extra staff required would be about £1,250 a year but there would be a small saving in stationery to set off against this.

# PART III

## MATTERS WHICH ARISE CONSEQUENTIALLY

44. A matter which would be of some significance in relation to the question of decentralisation is the effect which any amendment in the rates of Surtax or in the general framework of the tax would have on the number of persons who would remain within the Surtax charge. The Committee therefore, while recognising that budgetary matters would have to be examined by reference to budgetary considerations, felt that it would be desirable to include in their Report certain statistical data relating to Surtax and to make certain observations upon them.

### *Rates of Surtax (Super-tax) in Ireland*

45. The Table in Annex I shows the rates of Surtax (or Super-tax for the years up to 1928–29) in force in Ireland since 1923–24.* For 1923–24 the tax was chargeable on incomes exceeding £2,000. The lowest rate of 1/6 in the £ applied to income in the £2,000 to £2,500 zone; the highest rate of 6/- in the £ applied to income in the " over £30,000 " zone. Income in zones between £7,000 and £30,000 was chargeable at rates varying from 4/6 in the £ to 5/6 in the £. The Finance Act, 1924, reduced the rates on all income over £7,000 to a flat 4/6 in the £. The rates in the lower zones remained unchanged. In his Budget Speech of that year the Minister for Finance explained that these reductions, as well as reductions in the higher rates of Estate Duty, were being made with the object of inducing wealthy persons to become resident in Ireland.

46. The Finance Act, 1926, effected further changes in the rates of Super-tax. The minimum rate was retained at 4/6 but henceforth was chargeable only on income over £10,000. The rates for all ranges below £10,000 were scaled down. The lowest rate—applicable to the £2,000 to £2,500 zone—was reduced from 1/6 to 9d. in the £. These reductions were in line with reductions which were made by the British in their Finance Act, 1925, and were effected because of considerations in relation to double taxation relief.

47. The Finance Act, 1932, imposed a new scale of Surtax for 1931–32. The exemption limit was reduced from £2,000 to £1,500, a rate of 6d. in the £ being charged on income in the £1,500 to £2,000 zone. The rates for all ranges over £2,000 were increased, the highest rate of charge being 6/3 in the £ which applied to income in excess of £20,000. The rates of Surtax imposed for 1931–32 were re-enacted for each year until 1938–39. The Finance Act, 1939, increased the Surtax charge by 10 per cent where the total income was between £3,000 and £8,000 and by 15 per cent where the total income was over £8,000. The Finance Act, 1940, which affected 1939–40, raised further the charge on higher incomes by providing that, where the total income was over £20,000 the Surtax should be increased, not by 15 per cent but by 20 per cent. The rates were not changed again until 1947 when a new scale was introduced for 1946–47. The scale has been re-imposed by the annual Finance Acts each year since then.

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*The rates from 1946/7 to 1956/7 only are reproduced.

48. The changes in 1932 and those of later years were made because of budgetary considerations and, apart from the last, were accompanied by increases in the standard rate of Income Tax. In 1932 the Income Tax was raised from 3/6 to 5/- in the £; in 1939 from a rate of 4/6 to 5/6 in the £; and in 1940 from 5/6 to 6/6 in the £. The 1946–47 scale of Surtax was introduced by the Finance (No. 2) Act, 1947.

*Number of Surtax payers in Ireland*

49. During the period between 1923 and 1939 the number of individuals in this country with total incomes exceeding £2,000 was never more than 2,000. There were at no time more than 1,000 individuals with total incomes between £1,500 and £2,000. Indeed until the exemption limit was reduced to £1,500 in 1932 there were only about 1,500 or 1,600 individuals in Ireland within the Surtax charge. The figure jumped by about 1,000 when incomes between £1,000 and £2,000 were brought within the ambit of the tax.

50. By 1938–39 there were close on 3,000 Surtax payers in Ireland of whom 1,000 had income below £2,000. During the War the number of Surtax payers rose steadily so that by 1945–46 there were some 5,000 chargeable individuals of whom almost 2,000 had total incomes of less than £2,000, and another 1,500 had total incomes lying between £2,000 and £3,000. The figures have been rising fairly persistently since then. Assessments for 1956–57 are still being made but it is estimated that about 10,000 individuals will ultimately be charged for that year. Of these, it is estimated that 4,075 have incomes between £1,500 and £2,000 and a further 3,200 have incomes between £2,000 and £3,000. A table is included in Annex II which shows the dispersal of Surtax payers over the various zones of income.

51. The 4,075 individuals with total incomes between £1,500 and £2,000 pay £31,000 in Surtax, that is, about 1.4 per cent of the yield. The next 3,200 individuals with incomes between £2,000 and £3,000 pay £156,000 or 7.2 per cent of the yield. The 1,200 with incomes between £3,000 and £4,000 pay £184,000 or 8.5 per cent of the yield. Thus 85 per cent of the number of individuals who are chargeable to Surtax account for only 17 per cent of the yield. The remaining 83 per cent of the yield is derived from the 15 per cent in numbers who have incomes at the top of the scale; and in fact 44 per cent of the tax is derived from the 200 individuals with the highest incomes.

52. Although the taxpayers with total incomes between £1,500 and £2,000 account for only £31,000 of the Surtax, the cost of raising the starting point of the tax to £2,000 would be much more than £31,000 because the tax which is paid in respect of the slices of income between £1,500 and £2,000 by those with total incomes over £2,000 would also have to be surrendered by the Exchequer. The estimated cost to the Exchequer of raising the commencement point of Surtax to £2,000 would in fact amount to £140,000 in a full year and £65,000 in a first year—that is, assuming that the rates on ranges of incomes above £2,000 remained unaltered. To raise the commencement point to £2,500 and to charge 1/6 in the £ on the slice between £2,500 and £3,000—the rates over £3,000 continuing unchanged—would cost an estimated £310,000 in a full year and £140,000 in the first year.

*Yield of Surtax*

53. The yield from Surtax (Super-tax) during the years 1923–24 to 1938–39 fluctuated between £500,000 and £650,000—apart from one or two exceptional years. Moreover during the six following years, i.e., up to and including 1943–44, the net receipt from Surtax never reached £650,000. During the eleven years 1944–45 to 1954–55 the yield rose steadily from £700,000 to £2,133,000. It has not appreciably altered since 1954–55. The Budget Estimate of Net Receipt for Surtax in 1957–58 is £2,193,000 but this provides for the collection of a higher proportion of arrears than normal, and the estimate of Net Receipt in 1958–59 has been put at £2,150,000.

*Rates of Surtax in Britain*

54. The Table in Annex III shows the rates of Surtax (Super-tax) in force in Britain since 1923–24.* For 1923–24 the British rates were the same as those in Ireland for that year. The rates chargeable in zones up to £15,000 were reduced in Britain for 1925–26, but the rates in zones above £15,000 were left unchanged and the maximum rate remained at 6/- in the £. There were various increases in Britain for 1929–30, 1930–31, 1938–39, 1939–40 and 1946–47. A reduction in the rate for the " over £20,000 " zone was made for 1951–52. It was brought down from 10/6 to 10/- in the £ but this was done because the standard rate of Income Tax went up from 9/- to 9/6 in the £.

55. The exemption limit for Surtax in Britain was never reduced below £2,000.

56. In all zones above £2,000 the present British rates of Surtax are higher than the Irish rates except for the slice of income between £8,000 and £10,000 where a rate of 7/6 in the £ applies in both countries. In Britain the highest rate of 10/- is chargeable on income over £15,000.

*Effect of reducing the higher rates of Surtax*

57. Between Income Tax and Surtax together, the British Exchequer now takes 18/6 out of every £ of income over £15,000. In Ireland the highest charge to Surtax is 8/6 on income in excess of £20,000. Income Tax and Surtax combined take 16/- out of every £ over £20,000. The British charge of 18/6 in the £ leaves the taxpayer with only 1/6 in the £ as regards income in the zone affected. The Irish charge of 16/- leaves the taxpayer with 4/- out of every £ over £20,000. It is sometimes suggested that if a greater proportion of his income were left with the taxpayer in Ireland there would be an inducement to outsiders to come to live here. No doubt the argument would be that the greater the amount left with the taxpayer, the greater the inducement.

58. The following Table shows the effect of " levelling off " at different stages in the Surtax scale. It has been assumed in each instance that

*The rates from 1951/2 to 1957/8 only are reproduced.

the rates on income from £1,500 to the point of "levelling off" would remain unchanged.

| Level off at | Effect | Amount of each £ in top layer left to taxpayer. | Cost to Exchequer | |
|---|---|---|---|---|
| | | | First Year | Full Year |
| | | | £ | £ |
| 8s. 0d. rate ... | Charge all income over £10,000 at 8s. 0d. in the £ ... ... | 4s. 6d. | 5,000 | 12,000 |
| 7s. 6d. rate ... | Charge all income over £8,000 at 7s. 6d. in the £ ... ... | 5s. 0d. | 20,000 | 46,000 |
| 6s. 0d. rate ... | Charge all income over £6,000 at 6s. 0d. in the £ ... ... | 6s. 6d. | 85,000 | 185,000 |
| 5s. 0d. rate ... | Charge all income over £5,000 at 5s. 0d. in the £ ... ... | 7s. 6d. | 145,000 | 320,000 |

*Personal allowances in relation to Surtax*

59. The British Royal Commission on the Taxation of Profits and Income in their Second Report (presented in April, 1954*) made a recommendation which was followed by important changes affecting Surtax in Britain. In Paragraph 181 of the Report, the Commission said—

> "We think that it is wrong that the surtax charge should be imposed without any differentiation between the respective taxable capacities of the incomes of the single, the married and the parent. In other words adequate differentiation is not secured by carrying the allowances into the income tax assessment alone. The alteration that commends itself to us as the simplest . . . is to make surtax liability start at different points for these different categories of taxpayer . . . We do not envisage altering the width of the surtax bands; we envisage the same width of band, and the same steps in rate, but applying to different ranges of income according to the difference of starting point."

60. Section 14 of the British Finance Act, 1957, gave general effect to this recommendation. It provided that certain Income Tax allowances, namely the married personal allowance, the child allowance, the dependent relative allowance and the housekeeper allowance, should be taken into account in computing the Surtax liability for 1956–57 and subsequent years. The deduction to be made for Surtax purposes is the amount by which the personal allowances exceed the single allowance.

61. Thus the British starting point for Surtax is—
£2,000 for a single person;
£2,100 for a married couple (the difference between the personal allowance for a married couple and an unmarried individual being £100 in Britain);

*Cmd. 9105.

£2,200 for a married couple with a child allowance of £100; and
£2,300 for a married couple entitled to two allowances of £100 for each of two children, etc.

62. The respective slices of the income which are subject to the graduated rates of Surtax are reckoned from the relevant starting points, so that in effect the allowance is given at the highest rate of the tax. For example, in the case of an unmarried individual with an income of, say, £3,200, the charge is as follows:—

(a) on the £500 slice of income between £2,000 and £2,500—2/- in the £;
(b) On the £500 slice of income between £2,500 and £3,000—2/6 in the £; and
(c) on the £200 slice of income between £3,000 and £3,200—3/6 in the £.

In the case of a married couple with the same income the charge is:—

(a) On the £500 slice of income between £2,100 and £2,600—2/- in the £;
(b) on the £500 slice of income between £2,600 and £3,100—2/6 in the £;
(c) on the £100 slice of income between £3,100 and £3,200—3/6 in the £.

For the married couple with one child the charge commences at an income of £2,200. The slice between £2,200 and £2,700 is charged at 2/- in the £ and the slice between £2,700 and £3,200 at 2/6 in the £.

63. It would of course have been feasible for the British to have granted these Surtax allowances from the lowest range of chargeable income instead of from the highest range. To give the relief in that way would have materially reduced the cost to the Exchequer.

64. The question may be raised of importing into the Surtax code a form of relief for personal allowances, etc., on the lines of the British system. Under existing conditions, from the practical point of view, a flat increase in the exemption limit to £2,000 or £2,500 would, if a change were contemplated, be preferable because the Surtax officer has no information about the personal allowances and reliefs which are granted in the Income Tax assessments. No doubt provision could be made to enable the taxpayer to claim the relief on his Surtax return; but it would be necessary to check up with the Income Tax position and the volume of correspondence passing between Tax Districts and the Office of the Special Commissioners would inevitably be increased. If, however, the granting of personal allowances for Surtax purposes did not become operative until after decentralisation it would involve very little additional work.

65. There are no statistics available as to the conjugal status, etc. of Surtax payers. However, the Committee computed the costs of certain schemes on the best information available. It will be appreciated that the figures are to an extent conjectural, but the Committee believed that they represent a reasonably close approximation to what the reliefs would cost.

COST OF GRANTING SURTAX DEDUCTION FOR MARRIED MAN OF £160 (*i.e.* EXCESS OF MARRIED PERSONAL ALLOWANCE OF £310 OVER SINGLE PERSONAL ALLOWANCE OF £150), CHILD ALLOWANCE OF £100, HOUSEKEEPER ALLOWANCE OF £100, DEPENDENT RELATIVE ALLOWANCE OF £60

| Scheme | First Year | Full Year |
|---|---|---|
| | £ | £ |
| A. Exemption limit to remain at £1,500, and relief referred to above to be given from *lowest* part of income chargeable to Surtax ... ... ... | 35,000 | 75,000 |
| B. Exemption limit to remain at £1,500, but relief referred to above to be given from *highest* part of income chargeable to Surtax ... ... ... | 80,000 | 180,000 |
| C. Exemption limit to be increased to £2,000 and above-mentioned allowances to be given from *lowest* part of income chargeable to Surtax. | | |
| Raising exemption limit ... ... ... | 65,000 | 140,000 |
| Personal allowances, etc. ... ... ... | 45,000 | 100,000 |
| | 110,000 | 240,000 |
| D. Exemption limit to be increased to £2,000 and above-mentioned allowances to be given from *highest* part of income chargeable to Surtax. | | |
| Raising exemption limit ... ... ... | 65,000 | 140,000 |
| Personal allowances, etc. ... ... | 70,000 | 150,000 |
| | 135,000 | 290,000 |

*Earned Income Relief for Income Tax on income of individuals in the Surtax ranges*

66. The British Royal Commission (in paragraph 221 of its Second Report) recommended an increase in the earned income relief which previously ceased at earnings of £2,025, the maximum relief being 2/9ths of £2,025=£450. Their suggestion was that this limit should be raised to 2/9ths of earnings up to £2,500 and 1/9th between £2,500 and £3,000. Section 12 of the British Finance Act, 1957, gave effect to this and in fact went a great deal further than the Commission proposed—by raising the limit of earned income relief to £1,550 representing 2/9ths on earnings up to £4,005 and 1/9th on earnings between £4,005 and £9,945. The relief was raised as an inducement to expansion in industry and business. The extension is of course only of benefit to persons whose earnings exceed £2,025. The earned income relief in Britain applies only for Income Tax and not for Surtax purposes.

67. The number of Surtax payers in Ireland has risen since 1939 from about 3,000 to 10,000. The 7,000 new Surtax payers are principally persons whose main source of income is derived from earnings (this term is meant to include business, professional or salary). Indeed it is estimated that of the total of 10,000 Surtax payers at least 80% obtain their main source of income from earnings.

The point at which Surtax commences, viz. £1,500, has remained unchanged since 1932. Taking into account the fall in the value of money, £1,500 today is equivalent to £568 in terms of 1939 money.

68. A matter to which the Committee thought it proper to draw attention is the relatively steep progression in the tax on earnings from £1,500 upwards, taking Income Tax and Surtax together. At just below £1,500 tax is charged at a net 6/– on each £, i.e. 7/6 Income Tax, less 1/5th earned income relief. On each £ between £1,500 and £1,800 the net rate is 6/9 in the £, i.e. 6/– in Income Tax, plus 9d. Surtax. At £1,800 Earned Income Relief ceases and the tax goes up to 8/3 on each £ between £1,800 and £2,000, i.e. 7/6 Income Tax plus 9d. Surtax. At £2,000 the Surtax rate increases to 1/6 so that on earnings over £2,000 tax is charged at 9/– in the £, i.e. 7/6 Income Tax, plus 1/6 Surtax.

69. The Committee considered that there would be little point in introducing into the Surtax code the complexity of differentiation between earned and unearned income when the same broad purpose could be served by raising the point at which earned income relief ceases for Income Tax purposes. Earned Income Relief for Income Tax is ¼th on incomes up to £800 plus 1/5th on incomes between £800 and £1,800 (maximum allowance £400). To raise the limit of earned income on which relief would be granted at 1/5th to £2,300 (maximum deduction £500) would cost about £190,000 in a full year and £65,000 in the first year. If relief were to be given at 1/10th on income between £1,800 and £2,300 the cost would be £95,000 in a full year and £33,000 in the first year.

70. The Committee did not attempt to measure what effect the raising of the Surtax starting point would have on the figures of staff required for Surtax work or on the savings which might be expected from decentralisation. Although the raising of the figure from £1,500 to £2,000 would remove over 4,000 cases from the Surtax rolls it will be appreciated that, relatively, they are in the main the more straightforward ones where there is seldom more than two or three sources of income—earnings, ownership of residence and perhaps a small amount of taxed income. The saving in staff would therefore not be proportionate to the reduction in numbers of cases, and in any event would not become effective for quite an appreciable lapse of time.

## SUMMARY OF CONCLUSIONS

1. Decentralisation of Surtax is feasible in principle and ought to result in worthwhile administrative saving.

2. Before decentralisation could safely be embarked upon, the general position in Tax Districts, and in particular Dublin General and Cork I Districts, should be investigated and the necessary action taken to ensure that existing work could be adequately dealt with before further duties were imposed upon the Tax Districts.

3. If Surtax is not decentralised, dispensing with the separate return of income for Surtax would make the assessing of the tax more cumbersome and more costly.

4. If Surtax is decentralised the separate return for Surtax might be dispensed with, at a small additional administrative cost.

5. Following decentralisation the work of assessment and collection of Surtax might be fitted on to the programme of mechanisation at Aras Brugha, but this step should be deferred until the mechanised organisation is more fully developed.

ANNEX I.

IRELAND

RATES OF SURTAX IN THE £.

| Slice of Income | 1946–47 to 1956–57 |
|---|---|
| £ £ | s. d. |
| 1,500—2,000 ... | 0 9 |
| 2,000—2,500 ... | 1 6 |
| 2,500—3,000 ... | |
| 3,000—4,000 ... | 3 0 |
| 4,000—5,000 ... | 4 0 |
| 5,000—6,000 ... | 5 0 |
| 6,000—7,000 ... | 6 0 |
| 7,000—8,000 ... | |
| 8,000—10,000 ... | 7 6 |
| 10,000—20,000 ... | 8 0 |
| 20,000—30,000 ... | 8 6 |
| Over £30,000 ... | |

## ANNEX II—SURTAX.

ESTIMATED FIGURES ON BASIS OF YIELD OF £2.15 m. PER ANNUM.

| Range of Income | Rate of Tax on Income in range | No. of Taxpayers with total income in range | Surtax payable on income in different ranges | | | | | | | | | | Double Taxation Relief | Net Tax payable by persons in various ranges |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | £ 1,500— 2,000 | £ 2,000— 3,000 | £ 3,000— 4,000 | £ 4,000— 5,000 | £ 5,000— 6,000 | £ 6,000— 8,000 | £ 8,000— 10,000 | £ 10,000— 20,000 | £ Over 20,000 | £ TOTAL | | |
| | | | All figures in £000s. | | | | | | | | | | | |
| 1,500— 2,000 .. | 9d. | 4,075 | 31 | | | | | | | | | 31 | — | 31 |
| 2,000— 3,000 .. | 1/6 | 3,200 | 60 | 96 | | | | | | | | 156 | — | 156 |
| 3,000— 4,000 .. | 3/– | 1,200 | 22 | 90 | 72 | | | | | | | 184 | — | 184 |
| 4,000— 5,000 .. | 4/– | 600 | 11 | 45 | 90 | 48 | | | | | | 194 | — | 194 |
| 5,000— 6,000 .. | 5/– | 275 | 5 | 21 | 41 | 55 | 27 | | | | | 149 | — | 149 |
| 6,000— 8,000 .. | 6/– | 300 | 6 | 22 | 45 | 60 | 75 | 72 | | | | 280 | 10 | 270 |
| 8,000—10,000 .. | 7/6 | 150 | 3 | 11 | 22 | 30 | 37 | 90 | 45 | | | 238 | 15 | 223 |
| 10,000—20,000 .. | 8/– | 160 | 3 | 12 | 24 | 32 | 40 | 96 | 120 | 256 | | 583 | 25 | 558 |
| Over 20,000 .. | 8/6 | 40 | 1 | 3 | 6 | 8 | 10 | 24 | 30 | 160 | 275 | 517 | 120 | 397 |
| TOTAL .. | | 10,000 | 142 | 300 | 300 | 233 | 189 | 282 | 195 | 416 | 275 | 2,332 | 170 | 2,162 say 2,150 |
| Double Taxation Relief .. .. | | | | | | 5 | 5 | 10 | 15 | 60 | 75 | 170 | | |
| NET YIELD .. | | | 142 | 300 | 300 | 228 | 184 | 272 | 180 | 356 | 200 | 2,162 say 2,150 | | |

ANNEX III.

## BRITAIN.

### RATES OF SURTAX* IN THE £.

| Slice of Income | | | 1951–52 to 1957–58 |
|---|---|---|---|
| £ | £ | | s. d. |
| 2,000— | 2,500 | ... | 2 0 |
| 2,500— | 3,000 | ... | 2 6 |
| 3,000— | 4,000 | ... | 3 6 |
| 4,000— | 5,000 | ... | 4 6 |
| 5,000— | 6,000 | ... | 5 6 |
| 6,000— | 7,000 | ... | 6 6 |
| 7,000— | 8,000 | ... | |
| 8,000— | 10,000 | ... | 7 6 |
| 10,000— | 12,000 | ... | 8 6 |
| 12,000— | 15,000 | ... | 9 6 |
| 15,000— | 20,000 | ... | 10 0 |
| 20,000— | 30,000 | ... | |
| 30,000— | 50,000 | ... | |
| Over | 50,000 | ... | |

*Super-tax to 1928–29.

# APPENDIX III

MEMORANDUM BY THE REVENUE COMMISSIONERS

ON

## PROPOSALS IN REGARD TO INCOME TAX UNDER SCHEDULES A AND B

### SECTION I

*Historical Note*

1. Under the Income Tax Act of 1803 particular returns in respect of particular sources of income were required for Income Tax purposes. The sources were classified into Schedules, these being the well-known five schedules—A, B, C, D and E—which, though extensively modified in detail, still constitute an important part of the framework of the Income Tax code.

2. This memorandum deals, *inter alia*, with a proposal having for its main object the abolition of one of the Schedules—Schedule A—and the making of alternative provision for the taxation of the income (or of a part of the income) at present included in that Schedule.

*The charge under Schedule A*

3. Tax under Schedule A is charged in respect of " the property in " all lands, tenements, and hereditaments in the State, "for every twenty shillings of the annual value thereof ". It is a tax upon income, measured by annual value. Certain special types of property, those formerly within the subdivision of Schedule A called No. III of Schedule A, (e.g., mines, quarries and railways) were, for all practical purposes, transferred to Schedule D in 1929. (Finance Act, 1929, Section 8 and First Schedule, Part I). Another subdivision—No. II of Schedule A—appears to have no force in Ireland. It may be taken therefore that Schedule A in Ireland covers an area which may be described by reference to the language employed in No. I of Schedule A, viz." all lands, tenements (and) hereditaments . . . capable of actual occupation, of whatever nature, and for whatever purpose occupied or enjoyed, and of whatever value (except the properties mentioned in No. II and No. III of this Schedule . . .) ".

4. Schedule A covers not only the income derived from letting property but also income imputed to an owner-occupier of property or to an occupier who holds the property at a rent less than the annual value. The framers of the Schedule appear to have been guided by the principle that the profits falling within it " are those annual profits which an owner makes, or could make, by granting or limiting part of his rights as owner of the land in favour of others ".[1] By contrast a person assessable under

[1]Sywell Aerodrome Ltd. *v.* Croft; 24 T.C. at page 136.

Schedule B, which treats of profits from the occupation of land, is regarded for the purposes of that Schedule as deriving his profits from the land itself by virtue of his own operations. The same person may of course both own and occupy the land, as is usually the case in this country. But, to quote Lord Greene, M.R., in the Sywell case, "a person who is both owner and occupier (i.e., of land) is regarded as taxable in two different capacities in respect of two different profits calculated on two different principles "[2]

*Annual value and basis of assessment*

5. " Annual value " in the present context, usually referred to as the " valuation ", is defined as a figure to be ascertained " according to the respective surveys and valuations from time to time in force under the Valuation Acts ".[3] It is understood that, in the case of land, the valuation is measured by reference to the prices, obtaining over a century ago, of agricultural produce. In the case of buildings the valuation purports to be based on the annual rent for which, one year with another, the building might, in its actual state, be reasonably expected to let from year to year, assuming conventional tenancy conditions. It is understood that, generally speaking, valuations of houses as at present in force tend to fall well short of the actual up-to-date letting values of the houses.

6. The basis of assessment under Schedule A of buildings is five-fourths of the valuation, or, in the cases of owner-occupied dwelling houses and of property within the County Borough of Waterford, the actual valuation. Lands and farm buildings used as such are assessable under Schedule A on the basis of the actual valuation, the assessment being reduced by one-eighth as regards the land and (usually) one-sixth as regards the buildings on the score of "repairs". A "repairs" allowance of one-sixth is granted in respect of mills, factories or other similar premises for Schedule A purposes, but the full amount of the assessment on such premises is allowed as a deduction in arriving at the profits of the trade carried on in such premises. The difference is by way of compensation for the abnormal depreciation to which the buildings are subjected.

*Main categories of cases*

7. The following main categories of cases coming within Schedule A may be distinguished at this stage—

(*a*) Premises let for occupation by the tenant for the purposes of a trade, profession or vocation.

(*b*) Premises occupied by the owner for such purposes.

(*c*) Residential premises (houses; flats) let to tenants.

(*d*) Owner-occupied dwelling houses.

(*e*) Lands, including farmhouses or farm buildings used as such.

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[2]Sywell Aerodrome Ltd. *v.* Croft; 24 T.C. at page 136.

[3]Income Tax Act, 1918, Section 187, as amended by Section 3 of the Finance Act, 1944.

8. The bases of assessment under these various heads may be set out as follows—

(*a*) The Schedule A assessment is on five-fourths of the valuation.[4] An assessment under Schedule D is made upon the lessor on the excess of the rent (less outgoings) over the Schedule A assessment.

(*b*) The Schedule A assessment is on five-fourths of the valuation.[4] An amount normally equivalent to the amount of the assessment is deducted in arriving at the business profits.

(*c*) The Schedule A assessment is on five-fourths of the valuation.[4]

(*d*) The Schedule A assessment is on the amount of the valuation.

(*e*) The Schedule A assessment is on the amount of the valuation less, normally, a deduction for " repairs " (see paragraph 6).

9. The assessment under Schedule A is normally made on the 'landlord or immediate lessor " i.e., the owner, though assessment upon an occupier or distraint of an occupier's goods to satisfy the tax may, exceptionally, occur. The normal thing is that the owner pays tax on his property in one sum[5] at or about the due date which is the 1st January in the year of assessment.

10. The valuations for assessment purposes, obtained at intervals from the various local authorities concerned, are kept up to date during the intervals by means of lists of alterations and revisions which are supplied to the Inspector of Taxes.

## Section II

*Taxation of farming profits*

11. The profits of the farmer as such—in other words, his profits from the use, as distinct from the ownership of his lands—are dealt with under Schedule B of the Income Tax Acts. Tax under Schedule B is charged in respect of the *occupation* of all lands, tenements, and hereditaments in the State " for every twenty shillings of the assessable value thereof". Under existing law the expression " assessable value " means, in relation to Schedule B, an amount equal to the annual value, except that, where the lands are amenity lands, it means an amount equal to one-third of the annual value. The annual value for Schedule B is taken to be the valuation or, if less, the purchase annuity.

12. It should be mentioned that, while most of the early purchase annuities have now been terminated, it has been held that the Schedule B assessment in such cases must still be fixed on the amount of the annuity, if less than the valuation.

13. If, at the end of the Income Tax year, a farmer finds that in fact the profits which he has made are less than the amount of the assessment, he may require, within a year from the end of the year of assessment,

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[4]Assessments in the County Borough of Waterford are made on the actual valuation and not on five-fourths of it. (Finance Act, 1935, Section 3(8)).

[5]Finance Act, 1928, Section 5.

that the assessment be reduced to such actual profits. Further, if he finds that he has made a loss he may claim within the same period

(*a*) that the Schedule B assessment be discharged wholly,
and
(*b*) that the amount of the loss may be set against another assessment.

If such other assessment is not sufficient to cover the loss and if there still is other income on which tax already has been suffered, the farmer may require repayment to be made by reference to the excess loss. Again, if within two months from the beginning of the year of assessment—that is, before the 6th June in any year—a farmer notifies the Inspector of Taxes that he requires his profits from farming to be assessed, not under Schedule B, but under Schedule D, he will be assessed on the actual profits of the preceding year.

*Nurseries or market gardens. Stallion fees. Special note*

14. Profits arising from nurseries or market gardens are charged under Schedule D upon the full amount of the profits, regarded as profits of a trade.

15. Under a provision in the Finance Act, 1939, where a person who is the occupier of land in respect of which he is assessed under Schedule B is also the owner or part-owner of a stallion which is ordinarily kept on the land, profits derived by such a person from fees received for the service by the stallion on the land of mares owned by other persons are deemed for tax purposes to arise from the occupation of the land. That is to say, they are deemed to be covered by the Schedule B assessment.

*Previous Schedule B legislation*

16. Prior to 1915 the basis of the Schedule B charge was one-third of the annual value. It was then raised to the full annual value. In 1918 the basis for lands occupied for husbandry was fixed at twice the annual value but in 1922 the " annual value " basis, which still obtains, was restored.

*British legislation*

17. The British legislature provided in 1941 that farming profits should be treated for Income Tax purposes as profits of a trade and be charged accordingly under Schedule D by reference to actual profits, instead of under Schedule B on the conventional basis of assessable value. This alteration was not to apply to individuals, or partnerships of individuals, who farmed lands of a total annual value not exceeding £300. In the course of the debates in the House of Commons the British Chancellor of the Exchequer said on the 17th June, 1941 (Official Report, Col 551) :—

> " I am making certain changes in the position, so far as large farmers are concerned. I have done this after consultation with the Minister of Agriculture."

In 1942 the limit was reduced from £300 to £100. At the same time the charge under Schedule B, in the case of farmers with lands of an annual

value not exceeding £100, was increased from an amount equal to the annual value to three times that figure. By the British Finance Act, 1948, the limit was removed. In his Budget Speech on the 6th April, 1948, the British Chancellor stated (Official Report, Col. 63) :—

> " So far as farmers are concerned, it is proposed that, with effect from 1949–50, those farmers who still remain assessed under Schedule B on the basis of three times the annual value of the lands they occupy should thereafter be assessed under Schedule D on their profits. With the present system of guaranteed prices, there is no reason why farmers should not, in common with everyone else, pay tax on their true income. Indeed it is a matter of importance both for the nation and for the farmers that accurate and proper accounts of their activities should be available in connection with the review of costs undertaken by the independent economists for the fixation of prices under Part I of the Agriculture Act, 1947, and we believe that this alteration in the method of taxation will help to produce such accounts."

18. In the course of the Finance Bill Committee Stage debate in the House of Commons on the 2nd June, 1948 (Official Report, Cols. 1125 *et seq.*) the British Chancellor contended that it was impossible to exempt anybody by reference to a limit of annual value. During the War farming profits fell within the scope of the Excess Profits Duty and there had therefore been an opportunity of seeing what the profits were from farms of under £100 in annual value. The Chancellor indicated that in certain cases the profits were very considerable but that, where profits were small and likely to be covered by personal reliefs, the farmer, as an administrative act, would not be assessed. Such a farmer " need have no anxiety that he would be harried or caused to call in accountants and lawyers to help him in this matter ".

19. The British tax provisions outlined above cover the Six Counties as well as Britain. It may be of interest to record that a booklet entitled *Farmers' Income Tax* has been issued in the Six Counties. A preface notes that the booklet was ' compiled by the Inland Revenue Department in collaboration with the Ministry of Agriculture for Northern Ireland." The object sought is " to describe in simple terms how a farmer's Income Tax is worked out."

*Additional note on Schedule A tax on farmers*

20. As already indicated (see paragraph 3) tax under Schedule A is charged in respect of the *property* in all lands, tenements and hereditaments in the State " for every twenty shillings of the annual value thereof". So far as agricultural land is concerned the annual value for Income Tax purposes is the rating valuation.

21. Section 3 of the Finance Act, 1935, enacted that the annual value with reference to which Income Tax under Schedule A was to be charged should in future be five-fourths of the valuation. The increase to five-fourths did not apply to lands, farmhouses and farm buildings occupied with lands for the purpose of farming the lands. (Section 5 of the Finance Act, 1954, excluded owner-occupied residential property from the scope of Section 3 of the Finance Act, 1935.)

22. Likewise when Section 2 of the Finance Act of the previous year, 1934, abolished the " repairs " allowance under Schedule A, this alteration was not to affect assessments on any lands or on any farmhouse or farm buildings occupied together with any lands for the purpose of farming the lands.

23. The broad position accordingly is that the farmer is assessed to tax under Schedule A on the valuation basis subject to a fractional " repairs " allowance of one-eighth of the total valuation of the lands and (usually) one-sixth of the total valuation of the house and other buildings. From the assessment a further deduction may be made in respect of the interest portion of the land purchase annuity payable to the Land Commission.

*Lands let for grazing*

24. A person who takes land for grazing in such circumstances that he does not obtain the exclusive occupation of the land, e.g. where the take is on the eleven months' system, is assessable under Schedule D on the profits of his tenancy.[1] The lessor of the land in such cases is normally the person assessable under both Schedules A and B. The assessment under Schedule B is made on the higher assessable value (see paragraph 11).

## Section III

## General Notes on Matters Raised by the Commission on Income Taxation

*Owner-occupied dwelling houses*

25. It is true that the man who owns his dwellinghouse draws no cash income from it. But the ownership of the house is worth a substantial annual sum to him since it relieves him from paying rent for a house to live in. Unlike such things as motor cars, that may or may not be purchased by a man for his personal enjoyment, living accommodation is a necessity of life and a taxpayer who does not own it is obliged to rent it. It follows that the owner-occupier who has a given income and pays no rent has a greater taxable capacity than a tenant occupier with the same income who has to pay rent out of it. It is this benefit enjoyed by the owner-occupier which is taxed under Schedule A.

*Owner-occupied business premises*

26. The owner-occupier of business premises is charged under Schedule A on (usually) five-fourths of the valuation but is permitted, when computing the profits of the business for Income Tax purposes, to deduct the amount of the Schedule A assessment. Thus it is said, in such circumstances, Schedule A yields no real tax since whatever is paid under it is allowed as a credit for the purposes of Schedule D.

27. The abolition of the Schedule A charge in the circumstances

[1] McKenna *v.* Herlihy. 7 T.C. 620.

would, however, raise an important question. An individual (including a partner in a partnership) is entitled under the law as it stands to an allowance for earned income as follows in computing his taxable income—

$\frac{1}{4}$th of the first £800 of earned income;
$\frac{1}{5}$th of the balance of earned income;
Maximum allowance £400.

Normally profits of unincorporated businesses are regarded as earned income but income under Schedule A is not so regarded. Accordingly, if the total of the income under both Schedule A and Schedule D were to be treated as wholly within Schedule D the individual trader could get a benefit—Earned Income Relief on the equivalent of the Schedule A assessment, less charges—to which he is not at present entitled.

28. A trader who does not make some charge against his profits in respect of premises that he owns and occupies is including in those profits the return on his investment in the premises, and to allow him Earned Income Relief on that part of his profits would be to give him a preference as compared with a trader who pays rent for his premises. Suppose trader A makes a profit of £1,000 after deducting a rent of £300. Trader B makes a profit of £1,000 after deducting £300 in respect of the annual value of his premises, which he owns. In each case the profits from the trading operation are regarded as having amounted to £1,000 and the deduction of Earned Income Relief would be £240. If, however, trader B's Schedule A were abolished his Schedule D assessment would be £1,300 and he would be entitled to a deduction therefrom of a further sum of £60, making £300 in all, in respect of Earned Income Relief. He would get this further allowance even though his financial advantage over trader A is clearly by reason of his *ownership* of his business premises.[1]

29. If, as is sometimes urged, the charge under Schedule A were to be abolished as regards owner-occupied business premises while remaining in being as regards other subjects, the change would be likely to give rise to difficulties in its application to the case where trading premises are combined with living accommodation or where part only of a property is occupied for business or professional purposes. In such cases it would be necessary to continue to collect a part of the Schedule A tax and changes of ownership would have to be watched and would give rise to adjustments.

*Effects on the Collection of Tax*

30. Income Tax under Schedule A is normally payable in full on the 1st January in the year of assessment. This position was brought about by Section 5 of the Finance Act, 1928. Previously the tax had been payable in two instalments on the 1st January in the year of assessment and on the 1st July following. If Schedule A were to be abolished as contemplated by the proposed scheme, the bulk of the existing charge thereunder would, in effect, fall within other Schedules or might disappear altogether to the extent that there might be exemption from both Income Tax and Property Tax. In any event it seems unlikely that taxes corresponding to Schedule A tax as at present levied could be collected as

[1]House of Commons Official Report, July 2nd, 1957, Cols. 912 *et seq.* November 20th, 1958, Cols. 1295–6.

speedily as is the present Schedule A tax and the advantage gained by Section 5 of the Finance Act, 1928, would apparently be lost, at least in the beginning. So far as concerns owner-occupied business premises and rents derived from letting premises for business purposes, the tax payable on the 1st January is in the nature of a payment on account of ultimate liability. It may be added that the net produce of Schedule A Income Tax is of the order of £1½m. in a year.

*British Royal Commission's Report*

31. The British Royal Commission on the Taxation of Profits and Income (Cmd. 9474: June 1955) had occasion to consider suggestions for the abolition or modification of the Schedule A Charge on one or more of the following classes—

(1) owner-occupied residential properties;

(2) owner-occupied business premises;

(3) let properties.

The changes suggested in regard to (2) and (3) were presented primarily as matters of machinery; the income from the properties was not to escape tax. The Royal Commission, however, did not recommend any change under any of the heads. (Final Report: Chapter 28, pp. 245 *et seq.*).

*Ground Rents and Head Rents*

32. Under the law as it stands a ground rent or head rent is regarded as part of the income arising under Schedule A. Tax on the full amount of that income is normally payable by the owner (including an owner-occupier) who, upon payment of the ground rent, may deduct and retain the Income Tax appropriate thereto. Thus suppose that a dwellinghouse, occupied by the owner and having a valuation of, say, £30, is held on long lease subject to a ground rent of £10. The tax payable by the owner in relation to the dwellinghouse, assuming him to be liable at the standard rate, would be

£30 @ 7/6, i.e., £11 5s. 0d.

The tax amounting to £11 5s. 0d. would be payable by the owner; but, on payment to the ground landlord of the ground rent of £10, the owner would deduct

£10 @ 7/6, i.e., £3 15s. 0d.

The owner would thus ultimately bear tax amounting to £8. The ground landlord would bear " by deduction " tax of £3 15s. 0d. on his part of the income. If, by reason of his personal circumstances, he is not liable to bear tax at the full rate of 7/6 the ground landlord can claim from the Revenue a refund of the tax overpaid.

33. It is suggested, under the proposed scheme, that the rents should, as far as possible, be paid in full rather than that tax should be deducted upon making payment; and, in the draft proposals, various reasons are adduced in support of the suggested change. It is said, for example, that persons entitled to refunds of tax are unaware of their rights. If, however, such people exist nowadays they must be exceedingly rare and their ignorance of the law is scarcely a potent argument for its amendment.

As to delays in getting refunds, etc., the Revenue Commissioners will promptly investigate any specific complaint about delay or about the nature of enquiries. Actually there is no accumulation of arrears in the Claims Branch. The point is also put forward that owner-occupiers of a row of houses paying small ground rents to a single lessor are often in a weaker position to pay tax than the lessor. The payers of the ground rent must, however, pay their full rent in any event and it may suit them to pay in three instalments (say, two half-yearly payments of net rent and the payment in respect of Income Tax), as at present, rather than to have to pay in two half-yearly payments of gross rent.

34. It is proposed at point 24[2] of the Scheme that payments of ground or head rents to persons resident outside Ireland and Britain, to estate beneficiaries where some addresses are changing or uncertain and to some trusts and unadministered estates, should continue to be taxed by deduction upon payment. Any system designed to bring about such a result would, it is submitted, be administratively very troublesome—if it could be made to work at all. The payer of the rent is not concerned with its destination after he pays it and, in any event, would not be competent to decide, e.g., a question of residence for Income Tax purposes. In the case of trusts and estates the usual thing is that the rent is paid to a solicitor or agent who presumably sees to its allocation amongst beneficiaries of whom some may be resident here or in Britain and some resident abroad.

35. The Revenue Commissioners regard the system of deduction at the source as an important factor making for the efficiency and simplicity of the Income Tax machine and would not be disposed to advise that it be departed from in the case of ground or head rents issuing out of property in the State.

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[2]This is the renumbered point iii, page 33.

## APPENDIX IV

## THE VALUATION OF PROPERTY IN THE STATE

1. The present system of valuation of property in this country is based on the Valuation (Ireland) Act, 1852.

*Land*

2. A general valuation for the country, known as Griffith's Valuation, was completed between 1852 and 1865. The Act of 1852 laid down that the net annual value of land was to be ascertained by reference to a fixed scale of prices for agricultural products, and that it should take into account any peculiar local circumstances such as elevation, aspect, and ease of communications.

The scale of prices set out in the Act was the average for a number of market towns in Ireland in the years 1849–51 inclusive.

*Buildings*

3. The 1852 Act provided that the net annual value of a building was to be an estimate of the rent for which it might be let from year to year, in its condition at the time of valuation—after deducting rates, repairs, insurance and maintenance, so far as borne by the lessor.[1]

4. Under the Valuation Acts, a separate valuation is made in respect of each property occupied by one person under the same immediate lessor, and under one contract of tenancy; all buildings in what is termed a " rateable hereditament " are treated as one unit for valuation purposes. In rural areas the hereditament is normally a house, out-office, and land; and in urban areas it is often a shop and residence combined. Self-contained flats are usually valued as separate units.

*Revision of valuations; buildings*

5. Subject to what follows, Griffith's valuations of a hundred years ago still remain in force.

(*a*) Under the Valuation (Ireland) Act, 1852, and some subsequent Acts, provision was made for an annual revision of specific valuations on buildings and other hereditaments, except land. These revisions are still made under these Acts. However, the initiative has to be taken by the Rating Authorities who submit to the Valuation Office for revaluation properties reported to them by either a rate collector or a ratepayer in the area, or by the executive officer of the Authority itself.

(*b*) Under the Local Government Act, 1898, the corporations of county boroughs were empowered to request a general revaluation

[1]Special procedure applied to railways and some public utility buildings that are not normally let.

of their areas. In 1916 Dublin city was revalued under this Act, and Waterford city in 1926. Under a local Act of 1918 Sligo Borough was empowered to request a revaluation, but no action has been taken on this by Sligo Borough Council.

(The revaluation of properties in Dublin in 1916 was not on the basis of then-current letting values, but on 1913 values less a deduction of 10 per cent. The revaluation in Waterford in 1926 was based on 1913 letting values.)

(*c*) There is a clause in the Act of 1852[2] under which a general revaluation of buildings may be made. This clause has been regarded as ineffective as there is no statutory provision to meet the expenses that would be incurred under it.

(*d*) Under the Income Tax Act, 1918, Section 193 (as adapted to this country) the Revenue Commissioners are empowered to direct the Commissioner of Valuation to revise, for income tax purposes only, any valuation which they consider " not correct, having reference to the principles according to which the same ought by law to have been made ". The revision must then be made " in accordance with the principles prescribed by law ". This section, introduced in 1853 when income tax was applied to this country, has never been operated.

6. We understand that, for purposes of the annual revision of valuation of buildings, the Rating Authorities rarely request to have revaluations made except of buildings which have been improved or extended, or buildings which, for some reason or other, the rated occupier regards as too highly valued. Generally then, buildings that have not been structurally altered since 1860 retain the valuations they were given about that time; and where revisions have been made, this work has been effected at different points of time—with money values changing throughout, making uniformity in valuation very difficult. New or revised valuations are invariably fixed in lesser amounts than the current net letting values, in order to preserve some uniformity with existing valuations of neighbouring properties.

7. In recent years two local authorities, Galway Corporation and Buncrana U.D.C., requested comprehensive revaluation of the buildings in their areas. The valuations in Galway were revised during the years 1946–50, and in Buncrana during 1951. In each area an increase of approximately 50% was made in the aggregate valuation of the buildings; even so the valuations were only one-third (approx.) of the net letting values at the time of revaluation. Most revisions in recent years are made on a similar basis.

8. From this it will be apparent that there must now be a lack of uniformity in the valuations of buildings throughout the country, although, by and large, it is likely that these valuations are reasonably consistent within specific areas.

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[2]Valuation (Ireland) Act, 1852, Sec. 34.

*Land valuation; present position*

9. The valuation of land has remained unchanged since Griffith's time.[3] When land is divided the original valuation is apportioned on a reasonable basis. In Griffith's valuation the land was valued in lots of homogenous quality, or as near as possible thereto. The Valuation Office states, however, that

> " As the quality lots do not usually coincide with hereditaments or holdings, expressing the land valuation of a holding at an average valuation per acre would often conceal considerable variation in actual valuation."[4]

10. The fact that land valuations have undergone little or no change since they were made a century ago would suggest that, *relative to one another*, they are probably a reasonably good measure of values, although obviously very much below current annual values. However, certain developments must have affected the present reliability of land valuations, even *inter se*, since the time of Griffith's Valuation. Access to market towns was a matter on which some land had a century ago a marked advantage—reflected in its valuation. In the Report of the Commission of Enquiry into Derating, 1931, par. 9, it was stated that

> " land situated four miles from a market town was valued, on the average, approximately 25 per cent higher than equally productive land situated ten miles from the town ".

That Report comments:

> " The development of modern transport has greatly lessened the proximity value of this latter type, and the existence of such a differential valuation of land could probably not now be justified."

With the general improvement in roads, and the revolutionary development of motor transport over the past thirty years, the above observation is much more in point today than it was in 1931.

11. Again, some forms of agricultural activity such as livestock-raising have become relatively more profitable than others over the past one hundred years. Furthermore, beet was not grown in the country a hundred years ago, and the area under flax was much greater then than now. It should also be mentioned that there has been no increase in valuation of land as a result of the work done under the reclamation schemes carried on, with State help, in recent years. On the other hand one would expect that, for various reasons, many holdings have become less productive than they were when first valued a century ago, e.g. through lack of capital to buy fertilizers, lack of initiative, or perhaps intensive cultivation.

12. As regards a general revaluation of land, the Derating Commission of 1931 commented (par. 14):

> ". . . the periodical revision of the valuation of land presents

[3]In the revaluation of Dublin and Waterford, in 1916 and 1926 respectively, land within the borough boundaries was revalued on the basis of 1913 letting values.
[4]Letter to Commission, 13 Mean Fhómhair, 1957.

almost insuperable difficulties. A revaluation undertaken now would have to fix the valuations having regard to the profit-earning capacity of farms over recent years, when conditions have been exceptionally difficult and when agricultural prices fluctuated within wide limits, both absolutely and relatively to one another. It could not be completed for a number of years, and even at the low figure of 1/- per acre would cost £850,000. The possibility of a large variation in prices before the completion of the revaluation could not be ruled out, so that as soon as the work was completed it might have to begin all over again."

The pound of 1931 was worth almost three pounds in terms of 1959 money, so that on the above estimate, which the Commission on Derating stated was "low", the cost of a general revaluation of land would at present be approximately 2½ million pounds.

# INDEX.

*(Figures refer to paragraphs in Main Report except where otherwise indicated.)*

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