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MADRAS RECORD OFFICE.

Government of Madras.

Revenue DEPARTMENT.

G.O. No. 182 Press / Mis.

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Not to be folded or roughly handled

Proceedings of the Madras Government, Revenue Department, 3rd February 1862.

Read the following letters :—

No. 38. From W. HUDLESTON, Esq., Secretary to the Board of Revenue, to J. D. SIM, Esq., Secretary to Government, Revenue Department, Fort Saint George, dated Chepauk, 24th January 1862, No. 605 :—

SIR,

1. I am directed by the Board of Revenue to submit their reply to the Proceedings of Government, dated 27th August 1861, No. 1,721, Revenue Department, directing the Board to submit in due course their report on the proposed simplification and consolidation of the Acts for direct taxation contemplated by the Supreme Government.

2. Mr. Laing's proposals are,

"To commute the Income Tax under Sections 1 and 2 on Trades and Land into fixed "payments by classes under a system of Licenses," retaining the system of the Income Tax under Schedules 3 and 4 on fixed incomes derived from Dividends, Salaries, Pensions, &c.

That there should be ten classes of Licenses charged annually as under, and that individuals should be classed according to their Trades, Arts, Calling, Profession, or Dealing, so as to make their payments approximate, as nearly as can be done, without scrutiny into individual incomes, to what on the average of their respective classes shall give 4 per cent. on incomes above Rupees 500, and 2 per cent. on incomes ranging from Rupees 100 to Rupees 500.

Class	I.	To include incomes notoriously above Rupees 25,000 per annum, and to be charged such special sum as may be determined by the chief Revenue Officer of the District on composition with the individual.			
Class	II.	To be charged Rupees	1,000	= 4 per cent. on Rupees	25,000
,,	III.	,,	500	= do. ,,	12,500
,,	IV.	,,	250	= do. ,,	6,250
,,	V.	,,	100	= do. ,,	2,500
,,	VI.	,,	50	= do. ,,	1,250
,,	VII.	,,	25	= do. ,,	625
,,	VIII.	,,	10	= 2 per cent. ,,	500
,,	IX.	,,	5	= do. ,,	250
,,	X.	,,	2	= do. ,,	100

Incomes estimated below Rupees 100, to be exempted.

All Ryots, Agricultural laborers, and cultivators of Land selling the produce of the land they cultivate but not otherwise trading or enjoying income, to be exempted.

The classification to be made by Collectors and persons exercising the power of a Collector, by Deputy Collectors and by persons specially authorized for the purpose.

The provisions of the Income Tax Bill regarding assessments on Districts by Punchayet to be maintained, and Districts to be allowed to compound for a fixed sum, to be levied in general conformity with the above principles.

Persons possessing an income exceeding Rupees 2,000 per annum to be assessed at their option by the Special Commissioner or Collector to the Income Tax under Act XXXII of 1860, instead of being required to take out a License, and

The special appropriation of the 1 per cent. Income Tax to Public Works to be abandoned.

3. Mr. Laing grounds his proposals on the notorious general untruthfulness and uselessness of the returns of income under Schedules 1 and 2, so that surcharges have been every where the rule; and except that the assessment of the License Tax will not aim at such exactness, the effect of the change will be merely to make that course avowedly the rule, which under the Income Tax Act was the alternative, viz., that the assessment shall proceed on the assessing Officer's *Estimate* of the income of the individual as formed on enquiry, without returns of any kind from the party assessed.

4. It is scarcely necessary for the Board to repeat that by the Natives of this country the returns required by the Income Tax Act have been deemed a far greater evil than the amount of the tax itself, and that the wide spread feeling of distrust and discontent which undoubtedly

has arisen, is mainly if not entirely due to the inquisitorial nature of those returns, which after all, have been utterly useless in a vast number of cases for the purpose of assessment under Schedules 1 and 2.

5. It is as to knowledge of the *sources* of his income that the Native is so sensitive, and under these circumstances the Board cannot but entirely approve the policy which aims at dispensing with individual returns as far as possible, and has in fact been already inaugurated by Act XXI of 1861.

6. They are of opinion that the change will remove one great cause of dissatisfaction with the recent measure of direct taxation, and will assimilate it more nearly to the traditional finance policy of the country, which when dealing with a people so impatient of change from what is of long standing as are the Natives of India, is an argument of no light weight.

7. As to the rate of tax to be charged on the Licenses the Board see nothing to object, but unless it be distinctly provided that the principle of the rating shall be so applied as to ensure that the tax shall in no instance exceed the intended per centage on the estimated income, although it may fall considerably below that amount; in other words, that incomes estimated at all below the amount on which the class rate is calculated, shall fall necessarily into the next lower class; they would suggest the addition of a class to include the great majority of payers.

Col.	Tax.	Rate.	Estd. Income.
IX	6	2 per cent.	500
X	4	—	200
XI	2	—	100

the bottom of the list as shown in the margin, and thus make the gradations less abrupt in these lower classes, which will

8. The above would in the Board's opinion be preferable to the present classification if no relinquishment of the 1 Rupee class under the Trades duty, which tax will of course be abolished in favor of the consolidated measure of taxation.

9. The option allowed to all persons possessing Incomes of Rupees 2,000 and upwards to claim to be assessed to the Income Tax under Act XXXII of 1860, by the Collector or Special Commissioner in lieu of being rated to the License Tax, will doubtless be availed of in many instances, and to obviate reason for individual dissatisfaction the Board would advocate the extension of this privilege to all possessors of Incomes above Rupees 1,250, corresponding with the sixth class of License in which class Incomes estimated at Rupees 2,000 would usually fall. As the exercise of the option will generally involve a higher assessment of taxation, there seems to be little reason for objecting to the extension proposed.

10. The Board presume that provision will be made in the Bill when fully drawn for the revision of the classification in individual cases under the License Tax, when the party is able to show that on the principle of the rates, he has been too highly classed.

The information obtained in the first year of the Income Tax will furnish the Assessing Officers with useful *data* for some time to come in classing individuals under the new system, and will probably render the number of such cases but few.

11. The Board observe with much satisfaction that Ryots are to be exempted from the proposed Tax, while the enactment itself frees them from Income Tax. This relief to the land, already fully taxed, is only equitable, and will be highly appreciated by a most deserving class.

12. The Board would beg leave to support Mr. Laing's proposal to relinquish all double Income Tax on dividends paid out of India, so soon as the state of the finances will permit of the measure with prudence. They do not doubt that the State loses more than it gains by insisting on its right in this respect.

13. Annexed are Abstract Statements of the operations of the Income Tax Act in the year ending July 1861, and of the assessment for the same period under each Schedule. The Board regret that the returns made to them did not exhibit the *number* of assessments made, for comparison with the number of cases of surcharge.

14. I am desired to state in conclusion that Mr. Hall, the Second Member of the Board having as President of the Commissioners for Income Tax, already expressed his views and suggestions in the report of that body on the same subject; the present letter is intended to convey those of the first and third Members only of the Revenue Board.

No. 1. *Abstract Statement showing the operations of the Income Tax Act in the several Districts of the Madras Presidency for the year ending 31st July* 1861.

Districts.	Number of special notices issued.	Number of returns made.	Number of surcharges.	Gross receipts. Stoppages from the pay of public servants, and interest on Promissory Notes.	Gross receipts. Collections from private individuals.	Gross receipts. Penalties.	Gross receipts. Total.	Charges. Establishment.	Charges. Contingent and Sádirwárid charges.	Charges. Total.	Net proceeds.
1	2	3	4	5	6	7	8	9	10	11	12
	No.	No.	No.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Total of Districts exclusive of the Town of Madras	1,36,711	80,754	62,710	2,46,655	10,84,657	5,866	13,37,178	23,817	11,214	35,031	13,02,147
Do. of Madras Town	30,212	23,000	90,172	...	3,03,000	...	3,03,000	57,330	17,075	74,405	2,28,595
Assessment on public salaries, &c., by ex-officio Assessors	...	...	...	5,25,467	...	...	5,25,467	...	...	...	5,25,467
Total...	1,66,923	1,03,754	1,52,882	7,72,122	13,87,657	5,866	21,65,645	81,147	28,289	1,09,436	20,56,209

No. 2. *Abstract Statement showing the Income Tax Assessment under each Schedule for the year ending 31st July* 1861.

Districts.	Schedule I.	Schedule II.	Schedule III.	Schedule IV.	General Statement.	Total.
1	2	3	4	5	6	7
Total of 16 Districts	3,35,844	6,53,031	8,703	1,96,106	22,922	12,16,606
Do. of the Madras Town	48,806	1,74,838	...	49,406	320	2,73,370
Do. of stoppages from the pay of Public Departments at the Presidency, and interest on Promissory Notes...	...	...	99,108	4,26,359	...	5,25,467
Total...	3,84,650	8,27,869	1,07,811	6,71,871	23,242	20,15,443
Total of the Districts of Nellore, North Arcot, Tanjore and North Canara of which the particulars of Schedules are not given	...	...	...	...	...	3,18,851
Grand Total...	3,84,650	8,27,869	1,07,811	6,71,871	23,242	23,34,294

(Signed) W. HUDLESTON, *Secretary.*

No. 39. From A. HALL, Esq., President to the Income Tax Commission, to J. D. SIM, Esq., Secretary to Government, Revenue Department, Fort Saint George, dated Madras, 27th January 1862, No. 2:—

SIR,

1. In accordance with the Order of Government, dated the 27th August 1861, No. 1,721, I have the honor, with reference to the working of the Income Tax in the Town of Madras during 1860-61, to submit such suggestions as occur to the Income Tax Commissioners for the Town of Madras on the subject of consolidating all the Acts for direct taxation, and for simplifying the details connected therewith.

2. In the Minute by the Honorable S. Laing, first Member of Council, on the subject of the Income Tax Acts, it is avowed that, financially speaking, the Income Tax has been a failure, and much stress is laid upon the demoralizing effect produced by the premium held out to fraud by the Income Tax in its present shape.

3. The remedy proposed is the commutation of the Income Tax under Schedules 1 and 2 on trades and land into fixed payments, by Classes, under a system of Licenses; retaining the Income Tax, as a supplementary impost on fixed incomes, such as dividends, salaries, and probably house property, when the rental and ownership can be readily ascertained.

4. Mr. Laing points out, and supports his statement by the returns obtained from the North-Western Provinces, and from other parts of India, that evasion has been so entirely the rule that Forms and Returns are useless; and that to obtain any serious financial result it has been necessary to make use of arbitrary assessment made almost at random.

5. The experience of the working of Act XXXII of 1860 in the Town of Madras induces the Commissioners to report that the results have been in a great measure similar to those described by Mr. Laing, except as regards the European community and the higher classes of Natives, who have, as a general rule, made fair returns. The Commissioners so entirely concur in Mr. Laing's opinion that the provisions of Act XXXII are not suitable to a class whose incomes are as low as 200 Rupees a year, that they would strongly urge upon the Government, the revision of the Income Tax by excluding from its operation all incomes below 500 Rupees a year.

6. Such a modification of the Income Tax would render unnecessary minute enquiry among a numerous class who rarely keep accounts of their transactions, and are least able to defend themselves from the oppression which in India almost always accompanies such investigations. At the same time a progressive License Tax applied to those, whose incomes derived from Arts, Trades, and Callings, are below £50 would prove a full equivalent financially for the lower rate of Income Tax. The experience of the past year has shown that the two present assessments in the Town of Madras bear a proportion of 3 to 1, to the 4 per cent. assessments, while the amount realized by the lower Income Tax is only 15 per cent. in the total Income Tax collections. The greater portion of the Collector's Establishment is devoted to realizing the 2 per cent. assessments, whereas if these were converted into a License Tax and the collections of Income Tax, License Tax, Quit-rent, and Ground-rent within the limits of the Town of Madras made by the same agency, there would be a very considerable saving in the Establishments required at present for collecting separately these direct taxes.

7. While respectfully deferring to the authority which Mr. Laing's opinion must carry, the Commissioners doubt whether any real advantage would be gained by extending the License system to Incomes above 500 Rupees per annum. In carrying into effect such a License Tax as is proposed by Mr. Laing, it would be necessary for the Assessing Officer to frame classified lists of those licensed, without any data being furnished each year by the persons themselves, except in cases of parties whose incomes are 2,000 Rupees a year, when it would be optional with the parties to claim special assessment under provisions similar to those contained in Section XLIV of Act XXXII, or in cases of larger incomes, for which it is proposed to provide certain special compositions. Upon the publications of these lists, based chiefly upon information derived originally from very subordinate officials, the appeals would be exceedingly

numerous, as numerous as in the present cases of surcharge and exactly the same arbitrary process of assessment would necessarily result.

8. The more respectable Natives would easily understand the manner in which the class lists are prepared, and to avoid the inquisitorial visits of those charged with supplying the information required to make out the lists and the malicious exaggeration of their incomes, they would submit to extortion.

In the same manner, those desirous to evade the just payment of their assessments, would freely avail themselves of the corruption of the lower Native officials. At present the assessing Officer has before him the Return, however ill-drawn out, of each man's sources of income, and can in a measure control the enquiry required, when the return is not accepted.

9. Although the Commissioners considered and reported that the Forms of Returns which originally accompanied the Act XXXII, 1860, were cumbrous and confused, they believe that some such forms as were subsequently drawn up by the Board of Revenue, in communication with themselves, would be of use both to the officer making the assessments and to the parties themselves, who are required to state their incomes, and that with these forms before them the officers making the assessments have much greater facility in deciding upon the amount of surcharge necessary, and in disposing of the objections raised by those surcharged, than would be possible if they had before them only the entry of a man's name in a particular class of License.

10. The Commissioners are also unwilling to recommend the Government to forego the check which they believe the necessity of filling in a return of income exercises over a large number of persons, who will often hesitate to write down in such details, as will favor detection, an entirely false statement of their income or profits. The fact that all classes will, if the License system be generally introduced, be assessed without any reference to any return of income made by themselves, will, the Commissioners think, in Native opinion be held to justify every evasion of the tax which can be invented.

11. The License system is easily applicable to persons carrying on petty Trades, Arts and Professions. The incomes derived from these vary but slightly in India, and a tax levied on a man's trade irrespective of the individual's actual gains will generally be approximately just, but this will not be the case with respect to persons whose gains depend upon a greater or less amount of skill, capital and credit.

12. The Commissioners while believing that simplified forms of returns will not, for the future, be regarded as vexatious, are persuaded that the wealthier and more respectable Natives would prefer the Income Tax, thus amended, to having their names and classification publicly notified, as must be the case if the License Tax is made universally applicable. The distinction also of those who are Licensed as petty traders, and those whose higher position subjects them to Income Tax, will not be without some influence and importance as fixing in some measure the status in society of those who are liable to the superior tax.

13. The Commissioners believe that great objection would be made to the inequality, with which assessment by classes would press on those licensed, if these classes are not very much more numerous than appears to be contemplated by Mr. Laing. There would be good ground for such a complaint, for a man whose income was 12,500 (Clause III; *vide* Mr. Laing's Minute) would be paying the same rate of tax as one whose income was perhaps upwards of 20,000 Rupees.

SCALE OF LICENSE CLASSES.

Class.	Income.	Tax.	Per cent.
1st	400 to 500 =	12 =	2¾
2nd	300 to 400 =	8 =	2½
3rd	200 to 300 =	5 =	2½
4th	150 to 200 =	3 =	1½
5th	100 to 150 =	2 =	1½
6th	60 to 100 =	1 =	¾

14. Having these considerations in view, the Commissioners therefore would recommend a progressive License Tax on all incomes derived from Arts, Trades and Callings of all description (not purely agricultural) from 60 Rupees to 500 Rupees per annum. That all incomes from 500 Rupees and upwards should pay a tax of 4 per cent. under the provisions of Act XXXII, 1860. That all incomes above 2,000 Rupees should as at present, in the Districts, be specially assessed on parties claiming to be so assessed, and that in the Presidency towns the special assessments be limited to incomes exceeding 2,000 Rupees, or in other words that Section XLV be omitted and Section

XLIII and XLIV be made applicable throughout the Presidency, and that compositions should be encouraged by a reduction of 5 per cent. upon the amount of assessments for which composition has been made. A general notification published in the Gazette, and by proclamation affixed to Police Tannahs, should be held sufficient notice, and the special notices issued in accordance with Section XXXVIII, Act XXXII 1860, should be discontinued. After the date fixed in such notification has expired, parties failing to make their Returns should be charged as is done under the provisions of Section XLVIII, Act XXXII 1860. The object of this change is to avoid the numerous services of notice in connection with the Income Tax, and consequently the irritating interference of the Native subordinates, who withhold for purposes of corruption the the service of the special notices.

The recorded information in the possession of this office will enable the European Officer at the head of it to take all the necessary precautions against the evasion of the tax by parties who omit to make Returns.

15. Although the provisions to secure secrecy of assessments provided by Act XXXII, 1860, have not been much resorted to by the Native community, these provisions answer very fully the purpose for which they were framed, and may with advantage be retained.

16. The Commissioners most cordially concur in the opinion expressed by Mr. Laing in respect to the exception from Indian Income Tax of dividends paid out of India, and in the principle involved in such exception, viz., to avoid as much as possible subjecting any income to double assessment. Although Act XXXII, 1860, gives power to charge Income Tax on all incomes derived from an Indian source, yet practically to enforce this right, when it is manifest that such income has been assessed already elsewhere, would be neither politic or equitable.

17. The Commissioners are also of opinion that in the Madras Presidency, Section CXXX, which renders liable to Income Tax Ryots who pay annually above 600 Rupees, rent, to Government, presses very unfairly and hardly on those who have already, by the payment of Land Tax, largely contributed to the Revenues of the State. They therefore readily support the proposal of Mr. Laing to exempt all Ryots and other agriculturists from Income or License Tax, in respect of the sale of the produce of the land they cultivate, provided they do not otherwise trade or enjoy income from other sources. This exemption would not include Zamíndárs, Inámdárs or the occupants of lands held under similar favorable tenure, but would only apply to those who pay the assessment on the land.

18. It would, the Commissioners think, be desirable to extend the provisions of Section C, Rule 2, Part X, which enable public Companies to deduct Income Tax on the salaries of employés, to all other Companies, Partnerships or parties having more than ten employés liable to the tax. Such an extension would prove of very slight inconvenience, if any, to employers, and would greatly facilitate the collection of the Income Tax from a class who are generally improvident, and upon whom the collection of quarterly payments presses very heavily.

19. In respect of the collection of Income Tax on house property, the Commissioners deem it worthy of consideration, whether it would not be expedient to adopt the course of requiring the occupier of the house to pay the Income Tax, and of giving him power to recover it from his rent, if he is a tenant. This would avoid the inconvenience of the present system, by which the house proprietor is assessed for the whole years rental of all his house property, when perhaps his house or houses remain unoccupied during the whole or a part of the current year, and he is obliged to go through the troublesome process of establishing this fact, and obtaining revision of his assessment and abatement, and refund of his over-payments. There are great opportunities for fraud in preferring these claims to refund. All of this would be avoided if proprietors of houses merely made the return of their house property and its locality, the collections of the Income Tax thereon being made from the party in occupation of the house.

As regards the future License Tax the Commissioners would suggest that if means can be taken, which would make those taxed come forward themselves to pay the tax at the Collecting Office, much of the petty extortion connected with the tax would be avoided. The lower officials who are charged with the work of collecting revenue frequently hold the Government demand "in terrorem" over the heads of the needier tax payers, and extort small sums as the

price of delay in presenting the demand. If every License holder was required within 20 days after assessment to exhibit conspicuously his License at the place in which he carries on his Art, Trade and Dealing, and if those who failed to comply with this requirement were punishable by the Police Magistrates, there would be no delay whatever in securing the payment of the tax from the majority of those liable, and no necessity for the visits of the tax gatherer.

It might, as was originally proposed, be necessary to enact that a Plaintiff's License should be produced before any suit to enforce a contract or payment of wages could be heard in any Court of Justice. In the same manner in the case of household servants, supposing them included, as they should be, in the lower classes of License Tax; a penalty should be attached to the employment of unlicensed servants.

20. There is another point in connection with the working of the Income Tax which has come prominently before the Commissioners, and which they think it desirable to notice. The Commissioners believe that it would be of advantage if a single special officer was charged with the task of answering all references made with respect to the Act. So as to secure uniformity throughout the entire Presidency; and with such a general control and superintendence over the working of direct taxation as would enable its results to be accurately ascertained. General principles on all important points would be laid down by such an officer in direct communication with the Government, the Board of Revenue, and the Law Officers of Government.

It would also in many cases be of advantage that this controlling officer should have the power to revise any assessment which may appear to have been made from a misconception of the spirit or letter of the Act. It is not so much proposed to inaugurate a general power of appeal which might tend to weaken the authority of Collectors, as to correct erroneous assessments arising from errors or misconceptions, and to watch in detail the final experiment of direct taxation now being made in India.

No. 40. ORDER THEREON, 3rd February 1862, No. 182.

Ordered that the foregoing letters do lie over.

(Signed) J. D. SIM,

Secretary to Government.

Pro of 27th Augt/61 Nos 381-382

— 13 Septr/61 - 144 145

— 18 October/61 — 223 224

From the Govt of India
d/21st January/62 Cr 292

45-3-69+

Nos 38-39 & 40.

Revr = 1862 Dept
Pro: of Govt for February
V. 248.

From

The Secretary to the
Board of Revr

To The Secretary to
Government B.D.

Dated 24th
Dispd 24th } January 1862
Recd 25th
C.1-

No. 605.

Replying to the Pro: of Govt. dated 27th Augt 1861 No 1721 B.D. directing the Board to submit their report on the proposed simplification & consolidation of the Acts for direct taxation contemplated by the Supreme Government.

No 182 - 3 Feb/62

No. 182.

To lie over

From Govt Upr. George
3d. Feby. 1862