I am being severely criticised for not announcing at once the decision of the Government for or against a levy on War Wealth, and I shall have to ask for a Cabinet decision at the earliest possible date after the recess. The case for and against the levy is, I think, already pretty well known, and I prefer not to circulate papers on the subject in advance of the Cabinet decision; but I hope that my colleagues will be good enough to make themselves acquainted with the terms of the Select Committee's report during the recess. A copy of the report is attached for this purpose.

(Initialled) A.C.
REPORT
FROM THE
SELECT COMMITTEE
ON
INCREASE OF WEALTH (WAR).

Ordered, by the House of Commons, to be printed,

LONDON:
PUBLISHED BY HIS MAJESTY'S STATIONERY OFFICE.
To be purchased through any Bookseller or directly from
H.M. STATIONERY OFFICE at the following addresses:
Imperial House, Kingsway, London, W.C.2; and 28, Abingdon Street, London, S.W.1;
37, Peter Street, Manchester; 1, St. Andrew's Crescent, Cardiff;
23, Forth Street, Edinburgh;
or from E. Ponsonby, Limited, 116, Grafton Street, Dublin.
1920.

Price 1d. Net.
ORDER OF REFERENCE,

Increase of Wealth (War):—Ordered, That a Select Committee be appointed to inquire into the proposal to impose a tax on war-time increases of wealth, and to report whether such a tax is practicable; and, if so, what form it should take.

Committee accordingly nominated of:—Sir John Bethell, Mr. Hartshorn, Mr. Holmes, Mr. Macquiston, Captain Moreing, Mr. Murchison, Sir William Pearce, Colonel Sidney Peel, Mr. Pennefather, Lieutenant-Colonel Assheton-Pownall, Lieutenant-Colonel Royds, Mr. Walsh, Colonel Penny Williams, Mr. Wilson-Fox and Mr. Robert Young.

Ordered, That the Committee have power to send for persons, papers, and records.

Ordered, That Five be the quorum.—(Colonel Gibbs.)
REPORT.

The Select Committee appointed to inquire into the proposal to impose a Tax on War-time Increases of Wealth, and to report whether such a tax is practicable, and, if so, what form it should take, have agreed to the following Report:

1. The subject on which your Committee have to Report is one of great complexity, affecting widely varying interests, and they have therefore found it necessary to examine witnesses representing many points of view. Valuable assistance has been rendered to your Committee by the Chancellor of the Exchequer, who acquainted them with his views on the subject generally, by representatives of bankers, stockbrokers, landowners, agriculture, trade and commerce, by expert economists and surveyors, by the Treasury, who gave evidence as to the general financial position, and by the Board of Inland Revenue, who placed themselves at the service of the Committee and furnished them with information on a variety of questions.

2. The non-official witnesses examined by your Committee were as follows:—Mr. Holland Martin, C.B., and Mr. W. W. Paine, representing Bankers; Mr. A. H. Kilner, representing the Federation of British Industries; Mr. A. J. Hobson, representing the Association of British Chambers of Commerce; Sir James Martin, representing the London Chamber of Commerce; Dr. J. C. Stamp, C.B.E., Examiner in Public Finance to the University of London, and Lecturer on Economics and Statistics at the University; Mr. Pothick Lawrence, the well-known economist; Mr. H. M. Cobb, C.B.E., and Mr. J. D. Wallis, representing the Surveyors Institution, and Lord Clinton, representing the Central Chamber of Agriculture and the Central Landowners' Association.

3. Your Committee commenced their investigation into the subject covered by their terms of reference by examining a carefully considered scheme prepared at the suggestion of the Chancellor of the Exchequer by the Board of Inland Revenue. This scheme was submitted to your Committee by means of a series of five memoranda which have been printed in the form of a Command Paper (Cmd. 594). It may be convenient, however, if a broad outline of the scheme is given here.

4. The Board of Inland Revenue have come to the conclusion, a conclusion which they support by reasoned argument, that the only practicable method of approaching the problem is by a comparison of the aggregate wealth of individuals as ascertained by a valuation at two fixed dates; and they contemplate that (subject to certain allowances) duty would be charged at graduated rates on the increase shown by these two valuations. The dates suggested by the Board are the 30th June, 1914, and the 30th June, 1919.

5. Under the suggested scheme, taxpayers liable would be required to furnish returns giving particulars of their wealth both at home and abroad at the two dates, and stating the value of the assets at each date. In order to avoid delay, provisional assessments would be made on the basis of the values shown in the returns. In any case where, after the return had been properly examined and any necessary check valuation had been made by the Inland Revenue, it was found that the provisional assessment was incorrect, that assessment would naturally be subject to revision.

6. It is contemplated that the duty would be payable either in cash or by the transfer of Government Stock or other approved securities and that in cases where the payment of the duty in a lump sum would involve the taxpayer in difficulties, e.g., in cases where a taxpayer's resources are locked up in business, payment would be accepted by instalments with interest over a period of years.

7. The scheme provides for the constitution of a strong appellate body to decide disputed questions (subject to an appeal to the Courts on points of law) and for the imposition of heavy penalties to check evasion.

8. In the memoranda in which this scheme was placed before your Committee, the Board of Inland Revenue submitted for purposes of illustration two graduated scales of duty. Under these scales, duty would be charged at rates ranging from 28 per cent. to nearly 80 per cent. on the amount of the increase shown by the two valuations, subject to a general tax-free allowance, in one case of £2,000, and in the other of an amount equivalent to 10 per cent. of the pre-war wealth. Under both scales it was suggested that persons whose post-war wealth did not exceed £5,000 should be exempt from the tax. It was estimated that the yield of duty under these illustrative scales would amount to £900,000,000 and £1,000,000,000 respectively.

The Board of Inland Revenue estimate that the aggregate of the individual increases of wealth for the whole population of the United Kingdom is £4,180,000,000, and, that if the increases in the hands of those persons whose post-war wealth does not exceed £5,000 are excluded, there remains an aggregate increase of £2,846,000,000 in the hands of 340,000 persons, and it is only to this reduced sum that the original scheme would apply.
9. On a close examination of the suggested scales, it became evident to your Committee that, unless far heavier tax-free allowances were granted than those for which provision was made in these two scales—

(a) The proposed tax would fall, not only on the class who had made large profits owing to the exceptional conditions arising out of the war, but equally on those citizens who had increased their wealth by hard work and severe economy; and

(b) Liability to the tax would arise in cases where the only increase of wealth was an increase in money-value due to the general reduction in the purchasing power of money.

10. In the opinion of your Committee it is clear that factors of this kind require to be dealt with by means of substantial general allowances, and they consider that, if a tax on the proposed lines were imposed, it would be impossible to justify a scheme which did not make provision for such allowances.

11. As the result of a suggestion made by the Chairman of your Committee while the original scales were under consideration, several new scales were prepared in which provision was made for largely increased tax-free allowances.

12. The selection of a suitable scale is necessarily a matter of some difficulty as several conditions require to be satisfied. For instance:

(a) Such a scale must, as stated above, provide substantial tax-free allowances;

(b) The rates of tax must be so framed as not to press inequitably or too heavily on any section of taxpayers;

(c) At the same time the rates must be high enough to yield an amount of revenue sufficient to compensate for the trouble and disturbance which the imposition of the proposed tax would cause.

After considerable discussion, however, the following scale—known as Scale C (2)—was adopted as a basis of enquiry.

SCALE C (2).

PART I—ABATEMENTS.

From the amount of the increase of wealth there would be deducted an abatement equivalent to a percentage of the pre-war wealth. That percentage would be 100 per cent, where the pre-war wealth did not exceed £25,000, and would diminish by very small steps until it reached a limit of 30 per cent, in cases where the pre-war wealth exceeded £500,000.

The following table shows the abatement at various steps in the scale:

<table>
<thead>
<tr>
<th>Amount of pre-war wealth.</th>
<th>Abatement to be deducted from increase.</th>
</tr>
</thead>
<tbody>
<tr>
<td>£25,000 and under</td>
<td>100 per cent. of pre-war wealth</td>
</tr>
<tr>
<td>50,000</td>
<td>95</td>
</tr>
<tr>
<td>100,000</td>
<td>95</td>
</tr>
<tr>
<td>200,000</td>
<td>90</td>
</tr>
<tr>
<td>500,000</td>
<td>80</td>
</tr>
<tr>
<td>Over 500,000</td>
<td>80</td>
</tr>
</tbody>
</table>

PART II—RATES OF DUTY.

The following rates of duty would be charged on the balance of the increase, after deducting the above abatement:

<table>
<thead>
<tr>
<th>Rate of duty where the amount of post-war wealth lies between</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of pre-war wealth.</td>
</tr>
<tr>
<td>----------------------------</td>
</tr>
<tr>
<td>Exceeding £25,000</td>
</tr>
<tr>
<td>25,000</td>
</tr>
<tr>
<td>50,000</td>
</tr>
<tr>
<td>100,000</td>
</tr>
<tr>
<td>200,000</td>
</tr>
<tr>
<td>500,000</td>
</tr>
</tbody>
</table>

* See also Appendix to this Report.
To avoid hardship in cases where the pre-war wealth—and consequently the abatement under Part 1 of the scale—was very small, taxpayers whose pre-war wealth was less than £2,500 would be treated as if they had held property of that value. The result of this provision would be that, however small a taxpayer's pre-war wealth, at least £2,500 of his post-war wealth would escape duty, viz., the £2,500 presumed pre-war wealth and a tax-free abatement of the same amount.

13. The salient features of this scale appear to be as follow:—

(a) The number of taxpayers likely to be found liable to duty would probably not exceed 75,000, although the number of returns would be considerably larger. This figure is far below the number of taxpayers that would have been rendered liable under the schemes set forth in the Board of Inland Revenue's original Memoranda.

(b) There would be a corresponding reduction in the number of valuations entailed by the levy.

(c) Certain forms of wealth, the value of which expressed in terms of money has increased during the war, have not increased in value to an extent corresponding to the abatements suggested under the scale. This is particularly the case as regards land and buildings, and generally speaking, farming stock. The man whose wealth is wholly or mainly invested in land, buildings or farming stock would, save in rare instances, be removed from the scope of the tax.

(d) The scale gives an allowance—liberal as regards the majority of cases—for savings, and includes a substantial recognition in all cases of the diminished value of money.

(e) The scale secures from the “new rich” a large contribution according to their means; but, at the same time, by the reduction of the rate in the case of small fortunes, it avoids any suggestion of vindictive taxation levelled against any section of successful men.

(f) The number of taxpayers unable conveniently to pay the duty, otherwise than by instalments, is likely to be smaller under the present scale than under the scales originally put forward by the Board of Inland Revenue. Your Committee consider, however, that facilities for payment by instalments should be given in those cases in which that method of payment is requisite.

14. It is estimated by the Board of Inland Revenue that a tax imposed under the above scale would yield £500,000,000. This amount your Committee regard as the minimum yield which would justify the imposition of a tax of this character. In estimating the yield the Board have not taken into account the loss of Income Tax, Super Tax and Death Duty which would result from the imposition of the duty on war-time wealth; they do not think, however, that such loss is likely to be heavy.

15. In the preparation of the estimate of the yield of the duty under this scale, the Board of Inland Revenue have assumed—

(a) That in cases where property has passed on death since the 30th June, 1914, any increased wealth which accrued to the deceased during the war period would be accounted for by his successors. (Considerable misapprehension appears to exist on this point and it has been suggested in many quarters that, if a tax were imposed, it would be charged on the whole amount of any inheritance received during the war period. This, however, is not the view of your Committee: in their opinion, if such a tax were imposed, only that part of the inheritance which represented increased wealth acquired by the deceased during the war period should bear it.)

(b) That for the purpose of computing the duty, any large gifts, including marriage settlements or other settlements inter vivos, not being public or charitable gifts and not being part of the normal expenditure of the donor, should be treated as if still the property of the donor. (Where duty is payable in such cases the donor would, of course, have the right to recover a proportionate part thereof from the donee.)

(c) That any increase in the value of houses in the occupation, or furniture in the possession, of the owner or in the value of life insurance policies; where such assets were held continuously between the two appointed dates would be excluded from consideration in computing liability to the levy; and

(d) That private businesses would be valued on a reasonable basis as going concerns, to include the value of goodwill.

16. As regards the effect of the imposition of such a tax on the individual taxpayer and on the country at large, your Committee found that:—

(a) The representatives of commercial and financial interests were convinced that the imposition of a tax on war-time wealth would have dire results. In their view such a tax would lead to a general shrinkage of credit, to a fall in the prices of securities and a rise in the rate of interest. They feared that traders would withdraw from business, that advances made to traders by their bankers would be called in, that exports would be curtailed, and that unemployment, panic and disaster would ensue. One and all, they were of opinion that reduction of debt should be secured by taxation of current profits and current income and not by any levy on capital, however limited in extent. These witnesses were also asked to express
an opinion as to the effect of a levy on the modified basis indicated in Scale C (2). It appeared from the written replies received that their objections apply to any tax of this character, and are not affected by the revision of the scale.

As regards the effect of the tax on the individual taxpayer, these witnesses were of opinion that the payment of duty would in many cases involve him in great difficulty, that he would often find it impossible to provide a statement of the property held by him as long ago as 1914, and that the valuation of his property at the two dates would impose on him both trouble and expense.

(b) On the other hand, the economists who came before your Committee disagreed with many of these conclusions. They contended that the imposition of such a tax could not diminish the wealth of the country, expressed in terms of things, and that in so far as taxpayers were impelled to reduce their expenditure in order to meet their liability to the tax, the actual capital resources of the country would be improved. If there were any general disturbance of credit and finance, such effect must, they considered, be purely temporary, while in so far as the tax was applied to the reduction of floating debt, a reduction in the price of commodities should result.

(c) The Board of Inland Revenue for their part pointed out that the main part of the industry of the country is in the hands of public companies and that these concerns would not be directly affected, any tax on the increased value of the shares being paid by the individual shareholders.

As regards the difficulty of supplying particulars of property held in 1914, they contemplate that in cases where such difficulty arises, access should be given to Income Tax and Super Tax returns and to other information in the hands of the Department.

CONCLUSIONS.

17. The terms of reference to your Committee direct them to report on two questions, viz.:

(a) The practicability of a tax on war-time increases of wealth; and
(b) If such a tax is practicable, what form it should take.

After a close examination of these questions and consideration of the evidence, often of a conflicting character, laid before them, your Committee have come to the following conclusions.

18. They are of opinion that, although the administration of a tax of this character would involve many difficulties, yet those difficulties should not be insurmountable, and in its main features the scheme of the Board of Inland Revenue, as now amended is practicable in an administrative sense, inasmuch as—

(a) The examination of taxpayers' returns, valuation of property, and assessment and collection of duty could be carried out in an effective and impartial manner;
(b) The cost of administration and collection, having regard to the amount of the estimated yield, would be small.

On the other hand, the duty of the taxpayer to furnish a return of his wealth at the two dates, and a statement of its value would involve him in both trouble and expense.

19. The effect of the large abatements now proposed is that the burden of taxation would, in the main, be cast only upon those individuals who could most justly be called upon to make the sacrifice and that the tax would discriminate against those who had made exceptional profits in consequence of the war conditions.

20. As regards the question of practicability in its wider sense of expediency and desirability your Committee feel that this question is one which can only be determined with regard to national and financial conditions in general.

21. If the financial position of the country is such that it becomes a matter of urgent necessity to raise a sum of the magnitude of £500,000,000 which cannot be obtained by other means, the objections raised against a tax of this character should not be allowed to stand in the way of the imposition of such a tax to meet the national emergency. Moreover, although the suggested tax is strongly opposed by the financial and commercial world, there is, on the other hand, a very large body of public opinion which regards it not only as expedient but as a just and necessary attempt to equalise the losses suffered during the war.

22. Your Committee desire to point out, however, that since they were appointed the financial conditions governing the problem have been largely modified.

(a) By the Budget proposals of the Chancellor of the Exchequer, including the proposal to increase the rate of Excess Profits Duty as an alternative to a tax on war-time increases of wealth.

(b) By the offer of the new 5-15 years Treasury Bonds.

23. Whether in the present financial position a tax of this description is desirable or expedient as an alternative to Excess Profits Duty or to the taxation of profits in any other form is a matter on which your Committee feel that it is not within their province to pronounce an opinion, and they must therefore leave that question to the decision of the House of Commons.
24. As regards the form which a tax on war-time wealth should take if it were imposed, your Committee are of opinion that Scale C (2) might form the basis of charge of any such tax. That Scale appears to them to indicate in the main a satisfactory solution of the difficulties of the problem so far as those difficulties are capable of solution, although your Committee have not made a complete examination of the scale in every detail. For the rest, the scheme put forward by the Board of Inland Revenue might be adopted, subject to modification on certain points. Among those are the following, to which your Committee attach considerable importance:—

(a) That special relief be granted in the case of combatants who have been disabled as a consequence of the war and of dependants of those who have lost their lives while fighting.

(b) That war securities be accepted in payment of duty at not less than the issue price;

(c) That the large general abatements granted under Scale C (2) render it unnecessary to grant special allowances to taxpayers who are married and have dependent children.

Your Committee also consider that the features set out in Paragraph 15 of this Report should be incorporated in any scheme for a tax of this character.

25. Your Committee feel that their Report would not be complete without an acknowledgment of the assistance they have received from the officials of the Board of Inland Revenue. The information supplied to the Committee by them has involved arduous and difficult work, and the Committee are greatly indebted to Sir John Anderson, K.C.B., Mr. R. V. Nind Hopkins, C.B., and other officials. They desire also to express their thanks to Mr. H. G. Dunford, whose services were placed at their disposal by the Board, and who has rendered them great assistance.

APPENDIX.

The following table is an amplification of the Table (Scale C (2), Part 1) in Paragraph 12 of the Report showing the operation of the sliding scale of abatements:—

<table>
<thead>
<tr>
<th>Amount of Pre-War Wealth</th>
<th>Abatement to be deducted from increase</th>
<th>Amount of Pre-War Wealth</th>
<th>Abatement to be deducted from increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
<td></td>
<td>£</td>
<td></td>
</tr>
<tr>
<td>25,000 and under</td>
<td>100 per cent.</td>
<td>110,000</td>
<td>44 per cent.</td>
</tr>
<tr>
<td>30,000</td>
<td>93</td>
<td>120,000</td>
<td>43</td>
</tr>
<tr>
<td>35,000</td>
<td>86</td>
<td>130,000</td>
<td>42</td>
</tr>
<tr>
<td>40,000</td>
<td>79</td>
<td>140,000</td>
<td>41</td>
</tr>
<tr>
<td>45,000</td>
<td>72</td>
<td>150,000</td>
<td>40</td>
</tr>
<tr>
<td>50,000</td>
<td>65</td>
<td>160,000</td>
<td>39</td>
</tr>
<tr>
<td>55,000</td>
<td>63</td>
<td>170,000</td>
<td>38</td>
</tr>
<tr>
<td>60,000</td>
<td>61</td>
<td>180,000</td>
<td>37</td>
</tr>
<tr>
<td>65,000</td>
<td>59</td>
<td>190,000</td>
<td>36</td>
</tr>
<tr>
<td>70,000</td>
<td>57</td>
<td>200,000</td>
<td>35</td>
</tr>
<tr>
<td>75,000</td>
<td>55</td>
<td>210,000</td>
<td>34</td>
</tr>
<tr>
<td>80,000</td>
<td>53</td>
<td>220,000</td>
<td>33</td>
</tr>
<tr>
<td>85,000</td>
<td>51</td>
<td>230,000</td>
<td>32</td>
</tr>
<tr>
<td>90,000</td>
<td>49</td>
<td>240,000</td>
<td>31</td>
</tr>
<tr>
<td>95,000</td>
<td>47</td>
<td>Exceeding 500,000</td>
<td>30</td>
</tr>
<tr>
<td>100,000</td>
<td>45</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>