***Administrative Areas in the History of Income Tax Law: A Challenging Anachronism***

**Chantal Stebbings**

**working summary**

Throughout the nineteenth, and well into the next century, the revenue boards based in London were constantly striving for increased efficiency in their administration of taxes. In this necessary ambition, they were confronted with a raft of anachronisms which pervaded the very structure of all the taxes. Such anomalies were especially prevalent, and intractable, in the direct taxes which were administered on the basis of a localist system whereby tax assessments were made and appeals heard by propertied laymen in the taxpayers’ locality. As social and economic conditions altered rapidly with the growth of commerce, industry, urbanisation, population and communications, and as income tax became the principal impost on this new national wealth, so the anachronisms inherent in the essential mechanics of income tax assessment and collection became increasingly problematic. They undermined the efficiency of the process, inhibited the flexibility needed to adapt to new conditions and increased the work of the government revenue officials who sought to overcome them by improvising, circumventing and always addressing the extra layer of technical details in process which these anachronisms had caused.

A fundamental issue in income tax administration was that of areas, namely of that to be adopted as the unit of area for the implementation of the tax. This directly affected a range of key matters, specifically jurisdiction, the appointment, qualification and local knowledge of tax personnel, the access of taxpayers to the administrative process and its overall efficiency. And yet the issue of tax areas was one of the most anachronistic in the entire system, to the point that it was described in 1919 as ‘an historical joke’.

 From the late Medieval period, one territorial division above any other was used as the basis of key governmental functions, namely the county. The historic counties of England and Wales were ancient, settled and well known. Counties were generally subdivided into smaller hundreds, and hundreds comprised a number of parishes. The county was adopted as the territorial basis for the administration of justice, defence, parliamentary representation, local government matters and, unsurprisingly, the direct taxes.

The machinery of income tax administration traced its origins to the early English direct taxes, the subsidies, the monthly assessments, and, most recognizably, the land tax and the assessed taxes. All these taxes adopted the same territorial structure for their administration, a system which hardly changed over four hundred years. In line with the fundamental tax territorial unit, up to and including the land tax, lay commissioners were appointed for each county, the numbers being commensurate with its size and population. The commissioners were then to divide themselves up into the smaller divisions of the hundreds to begin the work of implementing the taxing legislation.

 It was specifically the land tax organisation which was adopted for the income tax in 1799. The land tax legislation of 1692 imposed a separate fixed quota to be raised on each county in England and Wales, with the hundreds and parishes contributing to the county quota in fixed proportions. The Act appointed named commissioners for some 50 counties, 19 cities, 30 towns, 15 boroughs, and a number of other extraordinary places. This framework, based on ancient territorial divisions of county, was retained in all the subsequent statutory iterations of the income tax. The only modification for the income tax was that the commissioners responsible for implementing the legislation, known as the General Commissioners, were appointed not to the county, but to a division of the county - the ancient hundreds and other established divisions. The areas to which the General Commissioners were appointed determined a number of issues: many matters of practical importance, but crucially the limits of their jurisdiction. General Commissioners could act only for their division and were strictly constrained to those limits.

This model, however, locked the income tax into an inflexible boundary framework. It ensured that convenience and efficiency in tax administration were compromised. The system could not accommodate those historically anomalous places which had either been allowed to remain or been given special treatment under the territorial arrangements of the land tax. These included extra-parochial places, detached parishes, and places of exclusive jurisdiction. All caused practical difficulties for everyone involved in the tax process, and were addressed for the most part in the parent legislation, though sometimes special legislation was required. Other practical issues arose from the inflexibility of the territorial arrangements, for example insufficient numbers of commissioners where a division was particularly large or populous. These too were addressed in the early legislation.

The statutory provisions addressing the foreseeable problems arising from territorial inflexibility were soon found to be insufficient as the income tax became an established feature of British fiscal life. It was clear that the system failed to serve the best interests of the taxpayer in terms of convenience, and that it could not, if left alone, function properly even within its localist parameters, and certainly could not meet the demands of the central revenue boards for efficiency and uniformity. First with the assessed taxes and then with the income tax, as they shared the same machinery, distinct steps were taken to ensure the system could function as it was intended.

From the middle of the nineteenth century there were more general reforms to the system, allowing the transfer of parishes from the jurisdiction of one division of commissioners to another, allowing parishes to be united for the more convenient execution of the taxing Acts, permitting the grouping of parishes together for the purposes of collection, and, finally, adopting the poor law parish as the administrative area for income tax. These reforms were useful and extensively used, but were problematic in two ways. First, they all allowed adjustments only to divisions and parishes within the county area, and secondly, most changes still had to be initiated by the Land Tax Commissioners rather than the Inland Revenue, and so the Land Tax administration was still the fundamental controlling model. None of the reforms had even begun to address the fundamental problem of an obsolete framework for the administration of tax.

Many of the divisions in England and Wales were outdated in income tax terms. They no longer reflected the social, economic and demographic conditions prevailing in a number of them, nor took account of the new and major developments in communications. Some divisions were no longer sufficiently important to warrant being maintained in their original form, while others were far too large and needed to be subdivided. The face of Britain had changed by the later years of the nineteenth century, and the territorial arrangement had not changed with it.

The old territorial arrangement caused inconvenience to both taxpayer and tax official, and this in turn led to increased inefficiency and raised costs. It reduced the facilities available to the public and increased the cost of administration. It prevented the Inland Revenue from being responsive to changing conditions, and constrained even their own internal flexible territorial arrangements. The need to correlate the administrative districts of the surveyor with that of the local commissioners placed a severe strain on individual officers.

It was when a serious shortfall in Inland Revenue staff occurred, at the very time that a Royal Commission began a comprehensive investigation into the substance and administration of the income tax, that the issue of territorial organisation was raised and its serious shortcomings exposed.The First World War resulted in a huge increase in direct taxation, a shortage of trained officials, and an urgent need for increased efficiency. The Royal Commission on the Income Tax 1920 was persuaded, but its recommendations were not acted upon. Indeed, there followed a period of over forty years of complete failure to engage with these recommendations, essentially because the issue of territorial organisation underpinned the position of General Commissioners as the assessing body for income tax. The issue in question was, therefore, not a mere recasting of administrative areas, but a far more profound reform going to the heart of the orthodox system of administering the direct taxes. As a result the Revenue Bill 1921 and the draft codification bill in 1936, both of which addressed the issue, came to nothing, and the Income Tax Act 1952 expressly retained the old divisions. Reform ultimately came in 1964 when the Income Tax Management Act finally divested the General Commissioners of their assessing functions in favour of the Inland Revenue. Crucially, assessment was no longer tied to the old land tax areas of jurisdiction. Although the General Commissioners retained their appellate powers, and they were to continue to act in the same divisions as before, the geographical limitations had lost their potency.

The territorial organisation of the income tax, in its operation and in the struggle to ensure its reform, reveals the priorities and constraints that moulded the localist system. It also demonstrates the significance of the entire system of local tax administration to the taxpayer, the power of vested interests, the pragmatism of the Inland Revenue, and the isolation of tax law.