

# Still thriving after all these years

TORY Prime Minister Sir Robert Peel was facing an acute problem.

Taxes and duties levied on necessary imports were pushing up the cost of living.

The country had become much more expensive to run.

The solution offered in the 1842 budget was to revive an idea which had been introduced 43 years earlier to pay for the war against Napoleon — a tax on people's incomes.

It had been so universally unpopular and badly administered that it had been abolished soon after Waterloo.

But Peel felt that he had licked the problems and the real moment had arrived for Income Tax.

Until then, public revenues had been raised mainly by Customs and Excise duties as well as taxes on the consumption and use of various articles and goods.

Only the wealthiest people regularly paid any taxes at all

and so possessions such as carriages, silverware, crockery — and in those days, newspapers — all had taxes levied on them.

Attempts to spread the tax burden had been made, but had proved neither particularly fair nor efficient.

One method assessed liability on the numbers of windows in people's homes and another tried the same with fireplaces.

But tax evasion required little more than a bit of handy brickwork and taxable valuables could easily be hidden from the prying eyes of officialdom.

The idea of a tax based in income had first appeared in Adam Smith's influential *The Wealth of Nations* in 1776.

He suggested that a nation's subjects should each contribute towards the running of

the state; each according to their ability to pay and by means of a fair and reasonable tax on the incomes gathered with as little aggravation and inquisition as possible.

Peel's revived Income Tax Act of 1842 went to great lengths to create an acceptable system.

In today's currency, the standard rate of the new tax was 3p in the pound.

Special Commissioners were appointed to oversee fair play and administer the tax, which was intended to run for just three years.

But it soon became quite clear that the new tax system was working pretty well and that no government would ever be able to balance its budget without it.

By the 1920s, virtually the whole working population was

paying and the system gradually made it more efficient and easier to gather.

In 1920, the first personal allowances were introduced and in 1944 came the biggest change of them all when Pay As You Earn appeared.

## TAX FACTS

Britain was the first country in the world to introduce income tax. That was in 1799 and it lasted until 1815.

When it was re-introduced 150 years ago, it was payable on annual incomes over £150 and the standard rate was 3p in the pound.

The highest rate ever levied was the 50p in the pound (50pc) between 1941 and 1946 to pay for the Second World War.

The lowest rate ever was the 4.8p (0.83pc) under Benjamin Disraeli in 1875/76.



■ Peel: (left) "Well, my little man, what are you going to do this session?" Disraeli: "Why — I've made arrangements to smash everybody."