

A HISTORY OF INDIAN TAXATION

BY THE SAME AUTHOR

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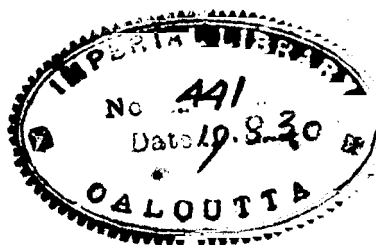
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A HISTORY OF INDIAN TAXATION

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PREFACE

Some aspects of the question of taxation have been dealt with in the treatises which have in recent years been written on Indian finance. But no book has yet been published in which the history of Indian taxation has been systematically treated. In the present work an attempt has been made to give a connected historical review of the taxes which are at present levied or have at one time or other been levied since the commencement of British rule in this country. Particular stress has been laid on the policy underlying the imposition of each tax and its effect on the taxpayer and the community in general. For this purpose, and also in view of the attention which the principles of Indian taxation are likely to attract in the near future, it has been considered desirable to describe in considerable detail the discussions which took place at the time of introduction, modification, or abolition of the more important among the Indian taxes. Local taxes have not been included in this volume because the author desires to bring out a separate work on the subject.

The author has tried to avail himself of the most reliable sources of information in the preparation of the work. He desires to express his thankfulness to Mr. Sudhir Kumar Lahiri and Mr. Tarapada Das Gupta, M. A. for the valuable assistance rendered by them in seeing the book through the press.

Calcutta, Jan. 2, 1930.

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CHAPTER I

SOME FEATURES OF INDIAN TAXATION

THE past lives in the present and will largely shape the future. The history of Indian taxation is, for this reason, a subject of great interest, for it not merely explains the existing tax-system of the country, but is likely to offer considerable guidance for future reforms. But before we describe in detail the history of the different taxes which are or have been levied in India during the British period of her history, it will perhaps be useful to make a few observations on some of the general features of Indian taxation.

The first subject which claims our attention in this regard is the object of taxation. In India, as in other countries, the main object which is kept in view in the imposition of taxes is the provision of funds to enable the State to perform its duties. But these duties have varied in different countries and at different periods. In India, until recently, a comparatively narrow conception of the functions of the State prevailed. The defence of the country against foreign aggression, the maintenance of internal order, and the acquisition of fresh

territories were the only matters which fell within the sphere of State activity in the early days of the East India Company's rule. It was not until a much later date that sanitation, public works, and education began to engage the attention of the Government, and even then to a very inadequate extent. Social reform is not yet considered in India to be one of the duties of the State.

Besides the fiscal object, the power of imposing taxation is often utilised for the furtherance of other objects,—social, economic, moral, or political. Some economists are of opinion that taxation is one of the eligible methods by which inequalities in wealth may be removed or at least reduced. Such a view has never been accepted in India. In fact, some of the officers of the Government here have, on different occasions, expressly repudiated the suggestion of any sympathy with socialistic doctrines of taxation. For instance, Mr. James Wilson, the first Finance Member of the Government of India, observed : "The lot of men is fixed by thousands of inscrutable causes, and if a Government were to attempt to produce an equality by distributing the incidence of taxation, it would undertake a task, the end of which must be confusion and disappointment to all concerned. No, Sir, it is our duty to adjust our taxes upon a clear and general principle with as much equality as possible, and then to leave to their full and free course all those general principles of

competition and other elements which determine the lot of men.”¹ So also, Mr. Samuel Laing, the successor of Mr. Wilson in the office of Finance Member, when defending his proposal to exclude persons with incomes between Rs. 200 and Rs. 500 from the operation of the Income-tax Bill, said: “I do not put the case for the exemption of these persons on the ground that they are poor, for I have no sympathy with the socialist legislation which would place taxation exclusively on the rich. On the contrary, I believe the poor, as well as the rich, and often even more than the rich, are interested in the support of the State and the maintenance of social order.”² It is not improbable, however, that with the extension of the franchise and the growth of popular government, ideas which are associated with socialist thought will in future influence the Indian tax-system to a greater or less extent.

The encouragement of indigenous industries is another consideration which often influences the taxation policies of many countries. In the early years of British rule in India, the tariff policy of the country was so directed as to foster British industry at the expense of the Indian manufactured products. At a later period, the system of free trade was imposed upon India for purposes

¹ *Proceedings of the Legislative Council of India, 1860.*

² *Financial Statement, 1862.*

other than her own? The farthest limits of this policy were reached when in the eighties of the last century even the customs duties levied for revenue purposes were swept away. In 1910, the financial necessities of the Government compelled it to increase the import duties on certain articles. But the Finance Member not only disclaimed the slightest inclination towards a protective tariff, but expressed the hope that he would not be "charged with framing a *swadeshi* budget." The exigencies of the great European War, however, completely changed the situation; and a policy of discriminating protection originating in financial pressure has now been deliberately adopted to satisfy the popular demand.

Promotion of morality is one of the subsidiary objects sometimes kept in view in some countries. For a long time past, the opium policy of India has been criticised by philanthropists on the ground that the moral aspect of the question had been ignored. But the Government of India has always sought to justify its own action on various grounds. Mr. Samuel Laing declared in 1862 that at the bottom of the opium revenue there was one of those great natural instincts of a large population upon which the English Chancellors of the Exchequer confidently relied for half their revenue. He even blessed the smoking of opium, for he observed: "The Chinese, whose greatest deficiency, as shown by the whole history, religion and literature of the race, is

in the imaginative faculties, resorts to that which stimulates his imagination and makes his sluggish brain see visions and dream dreams. Be this as it may, the fact is certain that, under all circumstances and in all climates, as the Englishman is a drinker of beer, so is the Chinaman a smoker of opium.”¹ About twenty years later, the attitude of the Government of India towards the question was made clear by the then Finance Member, Mr. Evelyn Baring (afterwards Lord Cromer), in these words: “There are two aspects of the question from the point of view of public morality. If, on the one hand, it be urged that it is immoral to obtain a revenue from the use of opium amongst a section of the Chinese community, on the other, it may be replied that to tax the poorer classes in India in order to benefit China, would be a cruel injustice.”² In recent years, however, a more enlightened policy has been adopted by the Government in this regard; and although the controversy has not yet been finally set at rest, it may be said to be on a fair way to a proper solution.

The excise policy of the Government has always been severely condemned by the public opinion of the country. In regard to this question, the standpoint of the Government of India was declared in 1905, when it was observed that the Government

¹ *Proceedings of the Legislative Council of the Governor-General, 1862.*

² *Financial Statement, 1882.*

did not desire to interfere with those who used alcohol in moderation, but their settled policy was to minimise the temptation for those who did not drink and to discourage excess amongst those who did. The most effective way of forwarding this policy was, in their opinion, to make the tax upon liquor as high as possible without stimulating excessive sale and production and without driving people to substitute for alcohol a more baneful form of liquor.¹ Since the advent of the Reforms, however, a considerable change has taken place in the situation. Resolutions have been adopted by some of the legislative councils urging the Government to accept prohibition as the goal of its excise policy, while the popular Ministers in every province are seriously considering the means by which the question may be settled to the satisfaction of all.

The question of Imperial Preference, which is partly economic and partly political, has, on many occasions, come up for consideration in India. But a policy of this sort has never found favour with the public in this country. Early in the present century, the Government of India declared itself definitely against Imperial Preference. A system of preferential duties was, however, introduced in an indirect way in 1919, when a rebate was granted in respect of the duty on leather in the case of exports to Great Britain and other parts of the

¹ Resolution dated the 7th September, 1905.

British Empire. This policy produced unfortunate results and had to be reconsidered. But a similar step has recently been taken in connexion with the grant of protection to the steel industry.

One of the features of the Indian tax-system, which distinguishes it from the system of unitary governments and brings it in some degree into line with those of federations, is that there are here three categories of taxation, namely, central, provincial, and local. The produce of taxes goes into different coffers and is spent by the authorities concerned for their own special objects. The present system, however, is the result of a long course of development. During the first ~~seventy~~ years of British rule, the tax-systems of the Presidencies of Bengal, Madras, and Bombay were practically independent of one another. The Presidency Governments levied their own taxes, subject to the control of the Court of Directors and the India Board. From 1834 to the early sixties, taxation in India was almost exclusively central. It was soon after the assumption of the direct administration of India by the crown that a system of local taxation began to be developed in a systematic form. The decentralisation scheme of 1870 led to the exercise by the Provincial Governments of the power to levy taxes for provincial purposes. Provincial taxation in India had its origin in the need for giving relief to the central exchequer ;

This brings us to the question of the authority under which taxation is levied. The imposition of most of the taxes requires legislative sanction, while in a few cases executive action is sufficient. The land tax was inherited by the British Government from its predecessors, and legislative provision was not found necessary to authorise its collection. The system of permanent settlements which fixed the land revenue assessment in Bengal, Behar, and some parts of Madras and of the Agra province, was established by Regulations of the executive administration. The periodical assessments of land revenue in the rest of the country were also, until recently, made by executive authority, though (the principles of settlement procedure were governed by legislative enactments in some of the provinces.) In 1920, the Parliamentary Joint Committee expressed the opinion that it would be desirable to have the rate of assessment and other important questions relating to periodical settlements determined by legislative enactment. Since then, the question has engaged the attention of the Provincial Governments, and in two provinces legislative measures have already been placed on the statute-book.

In some cases, the executive government is given power by the legislature to impose, or to vary the rate of, a tax. The Sea Customs Act, for instance, authorises the Governor-General in Council to fix tariff values and to exempt goods from pay-

ment of customs duties.¹ Similarly, the Indian Salt Act enables the Governor-General in Council to raise or lower the rates of salt duty within certain limits laid down by the Act. In like manner, registration fees may be altered by the Provincial Governments without the intervention of the legislative councils.

A few words may be said here about the procedure adopted in the matter of tax legislation. The existing procedure in the central legislature² is as follows: (No taxation bill can be introduced except with the sanction of the Governor-General.) According to the strict letter of the law, a taxation bill may be introduced in either chamber, but the convention seems to have been established that the Legislative Assembly is the body to be first approached in a matter of this sort. A taxation bill, like any other bill, must be passed by both the chambers. In case of a difference of opinion, the Governor-General may refer the matter for decision to a joint sitting of the two chambers.³ Where

¹ Sections 22 and 23.

² The constitution and functions of the central legislature of India have undergone many changes since the inception in 1833 of a council for the purpose of law-making. By successive amendments made in 1853, 1861, 1892, 1909 and 1919, the present legislature has been evolved. It now consists of two chambers, namely, the Legislative Assembly and the Council of State. The former may be regarded as the popular chamber, as it has a larger elective element. The central legislature of India is a non-sovereign law-making body, and there are various restrictions on its powers; but, within the limits laid down by the Act of Parliament and the rules framed thereunder, its powers are plenary.

³ The rules and standing orders also provide for joint conferences and joint committees of the two chambers in order to overcome deadlocks. Messages may also be sent from one chamber to the other.

local taxation, though it originated in the desire to meet local requirements out of local resources, received a great impetus from the same cause. In 1920, a separation was made between the resources of the Central and Provincial Governments. The provinces were given authority to deal with certain provincial taxes independently of the control of the Government of India,¹ while the right to legislate in regard to all central taxes and some provincial taxes continued to be vested in the central legislature. The problem of the present moment is how to apportion correctly the resources of the country between the Central Government and the Provincial Governments on the one hand, and between the Provincial Governments and the local bodies on the other.

Under the Scheduled Taxes Rules, the legislative council of a province may, without the previous sanction of the Governor-General, make any law for imposing, for the purpose of the Provincial Government, any of the following taxes:—(i) A tax on land put to uses other than agricultural; (ii) a tax on succession or acquisition by survivorship in a joint family; (iii) a tax on betting or gambling permitted by law; (iv) a tax on advertisements; (v) a tax on amusements; (vi) a tax on any specified luxury; (vii) a registration fee; (viii) a stamp-duty other than duties of which the amount is fixed by Indian legislation.

The legislative council of a province may also, without the previous sanction of the Governor-General, make any law imposing, or authorising any local authority to impose, for the purposes of such local authority, any of the following taxes:—(i) A toll; (ii) a tax on land or land values; (iii) a tax on buildings; (iv) a tax on vehicles or boats; (v) a tax on animals; (vi) a tax on menials or domestic servants; (vii) an octroi; (viii) a terminal tax on goods imported into or exported from a local area, save where such tax is first imposed in a local area in which an octroi was not levied on or before the 6th July, 1917; (ix) a tax on trades, professions and callings; (x) a tax on private markets; (xi) a tax imposed in return for services rendered, such as—(a) a water rate, (b) a lighting rate, (c) a scavenging, sanitary or sewage rate, (d) a drainage tax, (e) fees for the use of markets and other public conveniences.

The Governor-General in Council may, at any time, make an addition to either of the lists of taxes.

either chamber of the Indian legislature refuses leave to introduce, or fails to pass in a form recommended by the Governor-General, any bill, the Governor-General may certify that the passage of the bill is essential for the safety, tranquillity, or interests of British India, and thereupon the bill becomes an Act on signature by the Governor-General. Like any other bill, a taxation bill is subject to disallowance by the Crown. Until 1920, it was the practice to bring forward separate bills for the different taxation proposals of the Government. But since the inauguration of the Reforms, a different procedure has been in vogue. All the taxation measures of the year are now-a-days embodied in a Finance Bill and presented to the legislature at the time of the annual budget.

A provincial legislature¹ has not the power, without the previous sanction of the Governor-General, to pass any law imposing or authorising the imposition of any new tax unless it is a tax which is covered by one of the schedules of the Scheduled Taxes Rules. Nor has it the power to

¹ Till the year 1833, the Presidency Governments of Bengal, Madras, and Bombay possessed the power to frame Regulations. These Regulations had the force of law. But by the Charter Act of 1833 the legislative power was centralised in the Governor-General in Council. The Indian Councils Act of 1861, however, re-established legislative councils in the provinces. In 1892, these councils were expanded in size, and their functions were slightly extended. In 1909, the constitution and functions of the provincial legislative councils were further enlarged. By the Government of India Act, 1919, the councils were placed on a largely elective basis, and some measure of responsible government was established in the provinces.

make any law affecting the customs duties or any other tax or duty for the time being in force and imposed by the authority of the Governor-General in Council for the general purposes of the Government of India. No measure relating to the taxes or revenues of a province may be introduced without the previous sanction of the Governor. The procedure in the legislative council is the same in the case of a taxation bill as in that of any other bill. The Governor may exercise his affirmative power of legislation by certification, unless a taxation bill relates to a transferred subject. A provincial taxation bill requires a double assent, namely, the assent of the Governor-General, in addition to that of the Governor, and is subject to the veto of the Crown. Local taxation is now levied under the authority of the legislative councils of the provinces.

It may be observed in this connexion that only a portion—though a very large portion—of the total resources of the State is provided by means of taxation. The non-tax revenues supply the remainder of the income. Of the non-tax resources of the Central Government, net receipts from railways and tributes from Indian States¹ are the most important. Posts and telegraphs, at one time, yielded a net income to the State, but they have now ceased to be revenue-earning departments. In the pro-

¹ The position of opium is somewhat anomalous.

ences, the chief sources of non-tax revenue are forests, fisheries, and irrigation.

The extent to which it is desirable to have resort to taxation in any country depends upon two considerations, namely, first, the expenditure needed for carrying on the functions of the Government, and, second, the taxable capacity of the people. Both these considerations are of equal importance, and the neglect of either may lead to undesirable consequences. In India, military expenditure absorbs an exceedingly large share of the revenues of the Central Government, while the cost of the ordinary routine work of civil administration is fixed on a scale far too high for a poor country like India to bear. Sir William Hunter pointed out many years ago the difficulty of maintaining a European standard of administration out of an Asiatic scale of revenues. The result of an arrangement of this sort is that, after meeting what is regarded by the Government as essential expenditure, very little is left for activities conducive to the maintenance of the health and strength of the people or the improvement of their material and moral condition.

- The taxable capacity of a people is judged by its wealth and income. But no serious attempt has yet been made to calculate the national wealth or income of India. It is true that estimates have been made by various Government officers and

private individuals¹ at different times, but none of them seem to have been based on reliable data. It is admitted, however, by all that the average income in India is small. This fact sets a definite limit to the amount of revenue which can be raised in the country by means of taxation. In 1868, Sir Richard Temple, the Finance Member, observed that in India there was "not nearly so large a margin to work upon as in England." Sir William Hunter observed in 1880: "Men must have enough to live upon before they can pay taxes. The revenue-yielding powers of a nation are regulated, not by its mere numbers, but by the margin between its national earnings and its requirements for subsistence. It is because this margin is so great in England that the English are the most taxable people in the world. It is because this margin is so small in India that any increase in the revenue involves serious difficulties."

The level of taxation in India has risen largely since Sir William Hunter made these observations, but it is difficult to say whether there has ensued a proportionate improvement in the material

¹ Estimates of *per capita* income in India have been made at different times by, among others, Mr. Dadabhai Naoroji (1871), the Famine Commission of 1878, Mr. William Digby in his *Prosperous British India* (1901), Lord Curzon (1901), and Mr. Findlay Shirras in his *Science of Public Finance* (1925). In more recent years, several other writers have also attempted to estimate the wealth and income of the people of the country.

condition of the people during this period.¹ In the early years of the present century, Lord George Hamilton, then Secretary of State for India, observed that India was "poor, very poor". The late Mr. G. K. Gokhale, one of the ablest of Indian statesmen, remarked with reference to this observation that not only was India very poor, but that the bulk of its population was daily growing poorer under the play of the economic forces which had been brought into existence by British rule.² There are many politicians and economists who hold the same view even at the present day. On the other hand, not a few officers of the Government appear to entertain the opinion that India is making rapid strides on the road to wealth and prosperity.

Closely connected with the question of taxable capacity is that of the burden of taxation. We often come across certain figures in the official publications which purport to show the incidence of taxation on the people of India as a whole or the incidence of certain taxes upon those who pay them. But the data on which these calculations are based are hardly reliable. And even if we assume the correctness of the statistical material, the estimates

¹ The majority of the members of the Indian Economic Enquiry Committee recommend that an enquiry should be made into the economic condition of the people. But Prof. Burnett-Hurst, one of the members, thinks that estimates of national wealth and national income, whether aggregate or *per capita*, would be subject to so many qualifications and limitations that they would not throw light upon the economic condition of the various classes.

² *Debate in the Legislative Council of the Governor-General, 1902.*

can hardly be said to throw much light upon the question of the real burden on the people. The Taxation Enquiry Committee, after emphasising the difficulties of estimating incidence of taxation and pointing out the limited value of figures of averages, arrive at certain conclusions¹ relating to some typical classes.² This question, together with the question of average income and taxable capacity, ought to be fully investigated. Meantime, few will deny that "the poverty of the people lies at the root of the poverty of the Indian Government". A substantial enlargement of the tax-revenues of the Government

¹ The Taxation Enquiry Committee base their conclusions "upon such general knowledge of the comparative incomes and standards of living of classes of the population and such general considerations as to the desirability or the reverse of particular taxes from the point of view of their incidence on particular classes as are available to them". *Report, ch. xiv.*

² Their main conclusions may be summarised as follows: The duty on salt and the customs duties fall, generally speaking, on the whole of India including the Indian States. The burden of taxation on the poorest class, corrected with reference to the price index, has on the whole increased since the beginning of the European War, mainly owing to the increase or new imposition of custom duties on articles of universal consumption. Customs and salt, as well as municipal octroi, press very heavily upon the urban labourers. It is estimated that the incidence of central, provincial, and local taxation per head on this class has become nearly double since 1911-14. The position of the landless agricultural labourers is somewhat different from that of the urban labourers in that they receive lower wages, but consume less imported or excisable goods. They are free of municipal taxes but pay capitation or apportioned taxes in some provinces. The average incidence has, in this case also, increased by 100 per cent. The number of small holders of lands is very large. The lot of this class of persons is a very hard one. They pay, in addition to the land revenue and the cesses, the same taxes as the daily labourers. The condition of peasant proprietors with substantial holdings is much better. The land revenue, being imposed at a flat rate, takes a smaller proportion of their surplus than it does of the small holders. The tax burden on the majority of large landholders rests more lightly than on other classes, and some addition to it is not likely to prove unjust. While general prices have increased by over 100 per cent., the land revenue has increased by only 20 per cent., and the road cess to a very small extent. The village traders escape with a

can take place only if there is a considerable improvement in the economic condition of the people.

(A problem which has sometimes agitated the minds of publicists and financial experts in India is that of uniformity *versus* diversity in taxation.) Considerable differences existed in the methods of taxation of the three Presidencies of Bengal, Madras, and Bombay during the early period of the Company's rule. But with the establishment of a centralised form of administration, the tendency was reversed, and it was accepted as a necessary condition of this system that all taxation should be uniformly and universally applicable to the whole of India. Some administrators protested against such uniformity in view of its practical difficulties. Another objection to uniform taxation was the possible danger involved in a sympathetic combination of all communities in India in opposing the Government on one particular question. Colonel (afterwards Lt.-General) Chesney expressed the view in 1868 that no tax that could be named was suitable to the conditions of the whole country, and urged a radical light share of taxation, but the burden on the small traders in towns is a little heavier. The larger traders in towns generally bear a light burden. The big merchants in the cities have borne the brunt of the new burdens that have been imposed since the War. But even then, their burden is not heavy as compared with the burden on similar classes in other countries. The lower professional class has suffered since the War, more by reason of its comparatively high standard of living and of the fact that its earnings have not kept pace with the rise in prices, than on account of any increase in the incidence of taxation. The contribution of this class to the general taxation of the country is not large. The members of the professional classes of the higher grades pay the same taxes and enjoy the same standard of living as the big merchants. *Report, ch. xiv.*

change in the method of taxation "involving the abandonment of the idea of taxation of universal application and the encouragement of the greatest possible diversity of imposts, adapted to the diverse conditions of the different peoples of India". Colonel Chesney's objections were perhaps valid at the time they were made, but even then only partially. He, however, overlooked the other side of the case. In 1877-78, some of the Provincial Governments were allowed to levy their own license-taxes. But the differences in the rates and methods of imposition led to such an unsatisfactory state of things that, a few years later, it was considered expedient to pass an amending all-India Act in order to introduce some measure of uniformity. The question thus is not free from difficulty. (The best solution of the problem is to be found in an arrangement in which central taxation is uniform, but provincial and local taxation is made to conform to special needs and conditions.)

(The Indian tax-system is based more on considerations of a practical nature than on any ideas of theoretical perfection.) Occasionally, however, we find high officers of the Government discussing financial principles. In 1860, for instance, Mr. James Wilson observed in the course of his budget statement: "In proposing these measures there are three great principles which have guided the

¹ Chesney, *Indian Polity*.

Government in their adoption;—the first is that whatever measures are proposed, they shall at least be based upon perfect equality and justice to every class of the community, alike natives and Europeans, alike official and non-official; the next is that they shall be in conformity with sound financial and commercial policy; and the last is that in this as in all other matters in the Government of India, we will scrupulously endeavour to avoid anything that would offend the religious views and rights of our native fellow-subjects.”¹

(The so-called canons of taxation² were never formally accepted by the Government of India; but some of them have been, either unconsciously or with a deliberate purpose, followed in practice.) The great weakness of the tax-system of the earlier period of British rule was that little effort was made to attain the ideal of justice. So long as an impost did not create discontent or fail to bring sufficient revenue into the coffers of the Government, it was considered an eligible tax, no matter how objectionable its real nature might be. In fact, the taxation of the Company was through-

¹ *Financial Statement, 1860-61.*

² These canons have been adversely criticised by some economists, while others have attempted to substitute sets of maxims somewhat different from those laid down by Adam Smith.

A recent writer suggests the following principles of taxation: (1) The *fundamental* or economic principle is economy. (2) The *ethical* principle is justice or equity. (3) The *political* principle is conscious citizenship. (4) The *administrative* principles are: productivity; certainty; uniformity, convenience, generality. *Vide Jones, Taxation: Yesterday and Tomorrow.*

out extremely partial in its incidence, for while heavy burdens were placed on the poor cultivators and the small artisans, the rich landowners and well-to-do merchants contributed little to the resources of the State. It is true that, towards the end of the Company's rule, some of the vexatious imposts were abolished; but this was done, not because they were unjust, but because they interfered with the trade of the country. (After the assumption of the direct administration of India by the Crown, the first Finance Member of India remarked that the financial policy of the Government stood upon "the firm and immovable basis of strict equality to all alike.") The intention was no doubt there, but it was difficult to translate it into action.

((It was as early as 1789 that Lord Cornwallis professed his adherence to the maxim "that all who enjoy the protection of the State should pay for it in accordance with their means." But the principle of ability did not obtain practical recognition till the outbreak of the European War, when the financial distress of the Government compelled it to adopt a method of graduation in the income-tax.) No attempt has, however, yet been made to apply the principle of ability to the entire tax-system. There was a time when Adam Smith's second canon was almost entirely ignored. Originally, the land-tax and some of the other taxes were fixed for short periods, and sometimes even varied from year to year; while

the assessments depended almost wholly on the discretion of the subordinate officers. Although arbitrariness and uncertainty in the levy of taxes have now substantially diminished, there is still considerable room for improvement, specially in the administration of the land revenue, the income-tax, and customs. (In no country of the world has it been found very easy to satisfy the third canon laid down by the great economist, and it is no wonder that in India the convenience of the taxpayer is not always consulted in the levy of taxes.) As for the fourth canon, the expenses of collection are rather large, and cases of extortion and smuggling are not infrequent.) But as a fairly high standard of honesty is maintained among the officers responsible for the management of taxes, the amount of leakage is not very great. The canon of economy may thus be said to be satisfied in a reasonable measure.

Although the earlier administrators did not trouble themselves over-much with questions relating to theories of taxation, the value of general principles is now being gradually recognised. In 1924, a Committee was appointed by the Government of India, with wide terms of reference.¹ Their task

¹ The terms of reference to the Committee were the following: (1) To examine the manner in which the burden of taxation is distributed at present between the different classes of the population; (2) To consider whether the whole scheme of taxation—Central, Provincial and Local—is equitable and in accordance with economic principles, and if not, in what respect it is defective; (3) To report on the suitability of alternative sources of taxation; (4) To advise as to the machinery required for the imposition, assessment and collection of taxes, old and

was a difficult one, and the Report submitted by the Committee in 1925 was criticised from various points of view. A few of their recommendations have been given effect to, while some others are now under consideration.

Complaints are sometimes heard about the rigidity of the British system of taxation in India. It is pointed out by some well-meaning persons that the pre-British system of taxation, particularly of the land, was more flexible. About half a century ago, this question was discussed at considerable length. A suggestion was made at the time that the cost of administration should be calculated over a period of twenty years, and that taxation should be so adjusted as to allow the annual collections to fluctuate according to the harvests, relaxing, when necessary, the demand for individual years and spreading the deficit over the whole period. But there were two serious objections to the proposal. In the first place, the taxpayer would never know exactly how much he would have to pay in any year, with the inevitable result that the collection of revenue would resolve itself into an annual wrangle between the Government officers and the people. Secondly, while the revenue demand would vary, the expenditure would

new; (5) To prepare rough estimates of the financial effects of the proposals; (6) To include in the enquiry consideration of the land revenue only so far as is necessary for a comprehensive survey of existing conditions."

remain constant, thus leading to serious practical difficulties.¹ A general system of relaxation was thus found impracticable. But whether or not a postponement of the collection of a tax in special circumstances is practicable is a matter which deserves consideration. Remissions and suspensions of the land revenue are permitted on occasions of harvest failure. But if the principle be extended to other taxes, there is the likelihood of a great deal of evasion taking place.

Although land revenue was the most important tax in pre-British India, various other taxes were also levied.² At present the two extremes, namely, the single-tax and a great multiplicity of taxes are both avoided. In the early years of British rule, there were innumerable petty imposts. When these were abolished at a later date, land revenue supplied the bulk of the resources of the State. There was thus an approach to a single-tax system. The growth of expenditure afterwards led to the imposition of various other taxes, and the financial exigencies of the Sepoy Mutiny made the pendulum swing violently in the other direction. Mr. James Wilson expressed the view in 1860: "The wider you can spread the incidence of your taxation, so long as a

¹ Hunter, *India of the Queen*.

² In Kautilaya's *Arthashastra* we find mention of quite a large variety of sources of revenue, such as *sita*, *bhaga*, *bali*, *kara*, *varttani*, *mula*, *vyaji*, *parigha*, *kirpta*, and *atraya*. Manu also gives a fairly long list of the taxes which kings in Ancient India were entitled to impose. During the Mahommedan rule, a considerable number of taxes was levied.

fair proportion is maintained as to the means of different persons, the more just is it as a whole." Two decades later, most of the customs duties were swept away, leaving three or four main taxes to provide the needs of the exchequer. In the course of another decade, however, the policy was reversed. The stress of the European War and its aftermath has in recent years led to a further expansion of the tax-system.

(Modern economists doubt the theoretical soundness of the distinction drawn between direct and indirect taxes. But the differentiation is found useful in practice. Direct taxes, besides the land-tax, were not unknown in pre-British India; in fact, a considerable number of small direct taxes was levied in different parts of the country. These taxes were continued during a part of the administration of the East India Company. But as they were of a crude sort and produced much inconvenience and vexation, it was found desirable gradually to abolish them. Thus, for a while, India enjoyed an almost complete immunity from direct taxation.)

But such immunity was of a short duration. The Sepoy Mutiny was responsible for the re-imposition of direct taxes. Renewed direct taxation, however, made a false start, owing to its having been fashioned on the English model, which introduced a very complex procedure regarding assessment, exemption, and so forth. Frequent changes also took place in name,

form, rate, and incidence. With one object or another, no less than twenty-three Acts were passed on the subject between 1860 and 1886. One reason for this was that the taxes on income were looked upon as a financial reserve to be drawn upon in times of emergency. Besides, some of the earlier Finance Members fought shy of direct taxation under the belief that such taxation was unpopular and ill-suited to the circumstances of the country. Thus (although the equitable nature of direct taxation was recognised, the fear of discontent led the Government to follow a half-hearted and inconsistent policy.) In 1868, Mr. Massey, then Finance Member, referring to the inquisitorial process involved in the assessment of direct taxes, observed: "This process is not very much to the taste of the English people; but it is specially repugnant to the habits and feelings of the people of India". (Gradually, however, the officers of the Government were able to overcome their feelings of reluctance and hesitancy, and in 1886, the income-tax found a permanent place on the statute-book.) The public, particularly the European section of it,¹ took a longer time to reconcile itself to direct taxation, but was obliged ultimately to yield to the inherent justice of the

¹ It is a matter for surprise that as late as 1888, Mr. (afterwards Sir Griffith) Evans, a leading member of the Calcutta bar, observed: "I am strongly impressed with the conviction that indirect taxation must be our mainstay in this country, and that further attempts at direct taxation will cause waste and friction disproportionate to the results." *Debate in the Governor-General's Legislative Council, 1888.*

system. The European War led to a great development of direct taxation, and direct taxes now occupy an important place in the financial system of the country.

Taxation is generally regarded as an evil, for it implies the "subtraction of so much wealth from individual enjoyment or use". Burke's famous dictum 'it is as difficult to tax and please as it is to love and be wise' applies with as much force in India as in other countries. It is, therefore, not without some trepidation of the heart that the Government generally proceeds to adopt measures of fresh taxation in India. While all taxes are unpopular, a tax with which the people are familiar causes less irritation and bitterness than one which is entirely new. It is this psychological fact which accounts for the saying "an old tax is no tax".

Not infrequently, the Government has been faced with the problem of meeting a heavy deficit in its budget. Two conflicting policies have prevailed on such occasions,—one, the policy of reduction of expenditure, and the other, of increase of taxation. The public has, as a rule, preferred the former to the latter alternative. But officers of the Government have differed in their opinions as to the correctness of the policy to be adopted at a particular moment. The more considerate and far-sighted among them have generally advocated retrenchment as the better method of dealing

with the situation. One of the most distinguished representatives of this group was Sir Charles Trevelyan, who wrote in 1860: "Taxes are a portion of the property of the community taken by the Government to defray necessary public expenditure. The Government, therefore, has no right to demand additional taxes unless it can be shown that the object cannot be secured by a reduction of unnecessary expenditure. In other words, the reduction of expenditure is the primary mode of making good a deficiency." A different view of the question was, however, taken by the higher authorities on this occasion, and matters went so far that Sir Charles Trevelyan was recalled from the Governorship of Madras.

When fresh taxes were proposed in 1877-78 to cope with the recurrent famines, a policy of retrenchment was suggested by the representatives of the people. But the suggestion was not heeded. A few years later, another financial difficulty occurred. A policy of reduction of expenditure was again urged, but instead of accepting the proposal, the Government decided to re-levy the income-tax.¹ An acute financial situation was

¹ The Finance Member, Sir Auckland Colvin, said on this occasion: "In public as in private life, the approach of monetary difficulties is the signal for retrenchment; and if we do not at the present moment look to economies to fill the void which threatens us in the coming year, it is not because we agree with those who think economies a pestilent source of extravagance, or because we do not ardently desire them but because they are not in any decisive degree immediately attainable." *Vide Proceedings of the Governor-General's Council, 1886.*

created by the European War of 1914-18, resulting in huge deficits. The expedient of fresh taxation was repeatedly resorted to; but even after levying heavy additional taxes, the Government found it difficult to make ~~its~~ two ends meet. The popular demand for a reduction of expenditure was long resisted, but at last the Government was forced to yield to the pressure of public opinion. A Retrenchment Committee was appointed, and effect was given to some of its recommendations in due course.

It has been justly observed that "the fear of new taxation is often worse than the reality of new taxes". The evil is specially marked where the community is composed largely of ignorant persons. Mr. Samuel Laing was perfectly right when he observed that, in a country like India it was "most undesirable to keep the minds of the people constantly harassed by an indefinite apprehension of fiscal changes". Another Finance Member observed a quarter of a century later: "The small and continual changes, by which in more settled countries the revenue is from time to time adapted to the expenditure, are out of place in Indian finance." As changes always tend to produce a disturbing effect, great caution should be observed in introducing them.

The frequent changes in taxation which took place during the decade following the Sepoy Mutiny created a feeling of uneasiness in the minds of the

people. When an enquiry was addressed to all officers of the Government in 1872, it was found that both the governing and governed classes yearned for rest and settlement. The fact was elicited that what many district officers then most dreaded was change. This was particularly the case in a newly-conquered province like Burma.¹ There was, however, sometimes a tendency towards over-conservatism and too great a readiness to believe that whatever was, was best. The feeling was often prevalent that it was better to endure a known evil than run the risk of applying a remedy. Such a feeling, when carried beyond certain limits, becomes positively mischievous and offers an obstacle to all progress and improvement. A sounder view of the question was taken by Mr. (afterwards Sir James) Westland when he observed: "It is our duty to resist a change as long as we can; but when it is at last forced upon us, it is equally our duty to face it."

Sentiment enters very largely into the disposition of people towards particular taxes. There are some imposts which are opposed to popular feeling, and though they may be of long standing, they do not fail

¹ The Chief Commissioner of Burma observed: "There seems to be an unfortunate tendency in the minds of some of the officers, who have recorded their opinions, to be satisfied with any revenue system which will bear a not altogether unfavourable comparison with the revenue system of His Majesty the King of Burma. There is too great a disposition to argue that so long as the people can pay, and do not complain, it is nobody's business to interfere in their behalf, and that so long as the people are satisfied, it is the duty of the Government to get from them all they can give." *Reports on Taxation, 1872.*

to keep up the sense of dissatisfaction. The capitation tax of Burma is a case in point. Another fact which has to be borne in mind is that taxes levied by an outside authority are always more distasteful than those imposed by the community itself. It was in this view of the matter that Mr. John Shore (afterwards Lord Teignmouth, Governor-General of Bengal,) observed that "the demands of a foreign Government ought certainly to be more moderate than the imposition of native rulers." The feeling of discontent engendered by a new tax appreciably diminishes when it is imposed by the people of a country through an elected assembly. Such procedure also helps to temper the compulsory character of a tax. The slogan "no representation, no taxation" has thus its basis in human psychology as much as in political expediency.

While the imposition of a tax generally causes discontent, its removal, as a rule, gives satisfaction. It is right and proper that taxes levied in periods of distress should be remitted when the finances of the Government are in a prosperous condition. The early years of the twentieth century were years of surplus, and the Government was taken seriously to task for not reducing the level of taxation at the time. Mr. G. K. Gokhale observed in 1902: "The obligation to remit taxation in years of assured surpluses goes, I believe, with the right to demand additional revenues from the people in times of

financial embarrassment. A succession of large surpluses is little conducive to economy and is apt to demoralise even the most conscientious government by the temptation it offers for indulging in extravagant expenditure. This is true of all countries, but it is specially true of countries like India, where public revenues are administered under no sense of responsibility, such as exists in the west, to the governed.”¹

But remission of taxation is not always a desirable object. It is incumbent on the Government, before it decides upon a remission, to examine the financial situation with anxious care, not only in view of the needs of the present moment but also of the future. Instances are not wanting in the financial history of India when, even in times of financial difficulty, taxes were repealed. Commenting on the reduction of the cotton duties in 1877, Mr. Henry Fawcett observed in the House of Commons : “Nothing can be more indefensible than to reduce taxes when there is a deficit, and when consequently every shilling of the taxation remitted necessitates a corresponding addition to the debt.” The real object with which the step was taken was, as we shall see in a later chapter, something different from that of giving relief to the tax-payers.

¹ Mr. Gokhale added : “The apparent paradox of a suffering country and an overflowing treasury stands easily explained and is a clear proof of the fact that the level of national taxation is kept unjustifiably high, even when the Government are in a position to lower that level.” *Proceedings of the Governor-General’s Council, 1902.*

This brings us to the question how far the Government is justified in resorting to loans for meeting its expenditure. There are a few well-established rules in this regard, namely, first, that all recurring expenditure should be met out of revenue; second, that expenditure on remunerative public works may be met out of borrowed funds, and third, that extraordinary non-recurring expenditure, consequent on a war or any other sudden calamity, may be financed, in part at least, by means of loans.¹ In regard to the third proposition, a difference of opinion exists among the modern economists.² Some of them hold that as large a proportion as possible even of non-remunerative emergency expenditure should be met by taxation. The policy of the Government of India in this respect has not been very consistent in the past. On some occasions, expenditure on remunerative public works was met by taxation, while during other periods, as, for instance, the quinquennium following the European War, large sums were

¹ Prof. Pigou observes: "Here purely fiscal considerations suggest that such expenditures, *if financed* by loans, ought, in general, to be financed in such a way that the loans are paid off out of taxes before the need for further similar expenditures is likely to recur. For, if this is not done, there must result an ever-growing debt and, eventually, the need for ever-growing taxes to provide interest upon it, much as would happen if ordinary recurrent expenditures were financed out of loans." He also urges various grounds against the policy of financing wars out of borrowed funds, not the least important of them being that "finance by loans does hit capital, and, through this, the economic fortunes of future generations *somewhat* more hardly than finance by taxes." *A Study in Public Finance*, Pt. III, Ch. I.

² Two of the most distinguished economists of the day, namely, Prof. Pigou and Prof. Seligman hold divergent views on this question.

borrowed to meet deficits in the annual budgets. It is to be earnestly hoped that Finance Ministers of the future will bear in mind the fact that borrowing only "lingers and lingers it out," but does not supply the remedy.

Coming to the machinery of taxation, we find that, until recently, it was a comparatively simple one; which had grown up as the result of administrative experience. But recent developments in taxation and the separation of central from provincial finance have necessitated some important changes. The existing arrangements are as described below. The Central Board of Revenue is responsible for the administration of the most important resources of the Government of India, such as income-tax, customs, and salt. But the Provincial Governments still actually manage the collection of a few of these taxes. Steps are, however, being taken to centralise the arrangements. In the provinces, the land revenue and some of the other taxes are collected by the District Collector, while, in other cases, there are separate staffs for collection and management. There are Boards of Revenue in some provinces, and Financial Commissioners in a few others, for the final control of matters relating to the land revenue. The local taxes are administered by the local bodies concerned. They are collected by the staffs appointed by the local bodies, sometimes with the assistance of Government

officers. The administration of the central and provincial taxes may, on the whole, be regarded as fairly efficient ; but the assessment and collection of local taxes leave much room for improvement in many cases.

(In regard to improvements in the machinery of taxation, this country may well learn many valuable lessons from other countries of the world. The Indian Taxation Enquiry Committee point out in their Report certain tendencies in the tax administration of the leading countries of to-day. These tendencies are : (i) to divorce administration from politics¹, (ii) to entrust administration increasingly to experts, (iii) to centralise control, and (iv) to combine the staffs that deal with cognate subjects. The Committee further make certain suggestions for the improvement of the system. These are summed up thus : "The pivot of the tax administration in the case of the imperial taxes should be the Central Board of Revenue,

¹ Prof. Seligman points out the evils of arbitrary assessments in the United States, and remarks that advance in tax reform is to be sought "rather in the progressive excellence of administrative methods than in the elaboration of new and high sounding ideals." *Essays in Taxation* Ch. XVI.

The Taxation Enquiry Committee quote with approval the following opinion of Sir Josiah Stamp: "My experience shows that good administrative work cannot be done by a staff which is immediately dependent on the electorate and its representatives. It is of the first importance that the staff of a fiscal department should be absolutely independent of local changes of feeling, affections and policy generally. The importance of this cannot be too greatly emphasised, and though it may be difficult to realise in some areas that it is a cardinal principle, I am more convinced of this than of anything in the realm of taxation and fiscal affairs."

directing separate but co-ordinated staffs to deal with the income-tax, customs, and salt. In the case of provincial taxes, there is no similar central head, but the Collector should be the district head of the staffs responsible for land revenue, excise, registration, taxes on transactions, and fees. The pivot of administration in the case of local bodies should be the executive officer, who might be a lent officer of the district staff, and who should be in touch, in the administration of the taxes, with certain provincial and imperial officers. Finally, the Collector should act as a liaison officer between the imperial and provincial, and between the imperial and local departments, and he or one of his assistants should also be the appellate authority in all cases of appeals against the assessments to local taxes, except where provision is made for appeal to a court"¹.)

It remains now to consider the effect of taxation. This depends very largely upon the motives which underlie the levy of taxes. Kalidasa, one of the greatest poets of Ancient India, when eulogising the great qualities of King Dilipa, observes: "It was only for the good of his subjects that he collected taxes from them, just as the sun draws moisture from the earth only to give it back a thousand-fold."²

¹ *Report, Ch. XVII.*

² *Kalidasa, Raghuvaransa.*

With this view may be compared the theory of some modern economists that taxation, judiciously applied, "returns in a fertilising shower"; in other words, wealth becomes more fruitful in the public exchequer than in the pockets of the people. In this view of the matter, (taxation, instead of being a necessary evil, is a necessary good.) But in order that tax-payers may be able to appreciate this standpoint, the benefit derived from the payment of taxes must be made patent to them. One drawback of the present system is that the control exercised by the people over the way in which taxes are spent is exceedingly limited.¹ There is also another difficulty. A considerable proportion of the resources of the State goes out of the country without

¹ There have always been some enlightened men among the administrators in India who have advocated that control over matters of taxation and expenditure should be vested in the people. Sir Charles Trevelyan, for instance, said in 1873: "Give them the raising and the spending of their own money, and the motive will be supplied, and life and reality will be imparted to the whole system. All would act under a real personal responsibility under the eye of those who would be familiar with all the details, and would have the strongest possible interest in maintaining a vigilant control over them." *Vide Evidence before the Select Committee of Parliament, 1873.* Some advance, it is true, has been made since Sir Charles Trevelyan made these observations; but popular control over taxation and expenditure is even at the present day far less than what was urged by him over half a century ago.

Under the provisions of the Government of India Act, the Secretary of State in Council still remains the sole authority vested with the right of sanctioning expenditure out of Indian revenues. Considerable relaxation of his powers has, however, been made by rules framed under the Act, particularly in regard to the transferred departments in the provinces. The right of voting certain portions of their respective budgets has been conferred on the central legislature as well as the provincial legislative councils. But this right is hedged in by various restrictions, while the executive, both central and provincial, retains large powers of appropriation.

a corresponding direct return. A distinguished administrator justly remarked many years ago :
“Taxes spent in the country from which they are raised are totally different in their effect from taxes raised in one country and spent in another”.¹)

¹ Wingate, *Our Financial Relations with India*, Ch. IV.

CHAPTER II

LICENSE TAXES

DURING the rule of the East India Company, certain direct taxes on trades and professions existed in different parts of the country.¹ But most of them had been abolished before the Company's administration came to an end. The extreme financial embarrassment caused by the Sepoy Mutiny, however, compelled the Government of India to re-impose direct taxation. As a deficit of 684 lakhs was anticipated in the budget estimates for the year 1859-60, a Bill for licensing trades and professions in India was introduced on the 13th August, 1859, by Mr. (afterwards Sir Henry) Harington, then a temporary member of the Governor-General's Executive Council. Section I of the Bill repealed the laws in Madras relating to *moturfa*. Section II required a license to be taken out for carrying on any trade or exercising any profession. Under Section VIII assesses were divided into ten classes, it being provided that there should be paid by the persons to whom such licenses were granted sums

¹ For a detailed account of these taxes see Banerjea, *Indian Finance in the Days of the Company*.

varying from Rs. 2 to Rs. 2,000 according to the class to which they belonged.¹ The Collector was empowered to determine under what class persons should be assessed and to appoint *panchayats* to aid him in making such assessments. Bankers only were to come under the first two classes. A penalty was to be paid for not taking out the license. Section XX declared that persons holding office or employment not under the Government were to be deemed persons carrying on trade or engaged in professions. Sections XXI and XXII provided that the Bill was not to apply to persons holding office under the Government, or to workmen for hire, or to cultivators of land.

In moving the first reading of the Bill, Mr. Harington said that it was not unnatural that such a tax should give rise to a good deal of difference of opinion. Suggestions had been made in different quarters for the imposition of an income-tax, a succession duty, a house tax, or a duty on tobacco. The first two suggestions would, in Mr. Harington's opinion, involve serious practical difficulties, while

¹ Persons to whom licenses were to be granted were assessed as follows :—

Under Class	I	...	Rs. 2,000	yearly
"	"	II	...	Rs. 1,000 "
"	"	III	...	Rs. 500 "
"	"	IV	...	Rs. 250 "
"	"	V	...	Rs. 100 "
"	"	VI	...	Rs. 50 "
"	"	VII	...	Rs. 25 "
"	"	VIII	...	Rs. 10 "
"	"	IX	...	Rs. 5 "
"	"	X	...	Rs. 2 "

the other two required further inquiry and fuller consideration. He observed that one great argument in favour of a license-tax was that, in so far as Indian traders were concerned, it introduced no new principle but merely revived one of their own modes of taxation. With regard to the objection that a vexatious enquiry would be needed into the profits or circumstances of every trader or professional man, Mr. Harington said that nothing of the kind was intended. It was proposed that the tax should be light, and being light, there would be little objection to its being fixed in a somewhat arbitrary manner. He referred to Adam Smith for support to his contention that in a light tax a considerable degree of irregularity might be allowed. He argued further that the extreme inequality and uncertainty of assessment would be compensated by its extreme moderation. On the question of incidence, Mr. Harington observed that, although the license fee would, in the first instance, be paid by the person taking out the license, the burden would eventually fall on the customers.¹

The second reading of the Bill was taken up on the 27th August. On this occasion, Mr. Harington

¹ Mr. Harington observed further that, as the tax would be spread over the entire population in proportion to each man's expenditure, it would scarcely be felt. The rich man, he added, who was clothed in purple and fine linen, and fared sumptuously every day, would pay comparatively largely, and the poor man would pay very little; this would be quite right and proper, and seemed to meet in a large degree the objection that the Bill would operate unequally. *Vide Proceedings of the Legislative Council, 1859.*

added three higher classes to the schedule, namely, Rs. 5,000, Rs. 4,000 and Rs. 3,000. The reason urged by him was that it was generally felt that the higher rates might fairly be paid by the larger bankers and traders without their being unduly taxed, or taxed out of proportion to the lower classes with reference to the extent of their trade or business. A few other alterations were also made in the Bill.

The debate which took place on the occasion of the second reading of the Bill is of very great interest as throwing a flood of light on the procedure of the Legislative Council of those days. The Bill was strongly opposed by Sir Barnes Peacock, Chief Justice of Bengal, who was in the Chair¹ when its second reading was moved. He objected to the wide power left to the Collector in the matter of assessment, and pointed out that there was nothing in the Bill to declare that the amount of assessment should have reference to the profits. He showed that there were various anomalies in the Bill. In the opinion of the Chief Justice, it was wrong that officers of the Government should be altogether exempted from the operation of the Bill. "Why", asked he, "should the Chief Justice be exempted? Why should he not pay his 2,000 rupees a year, as well as any one else?" The contention that the Council had not the power to tax the high officers because their

¹ Sir Barnes Peacock was the Vice-President of the Council and, in the absence of the Governor-General, he presided.

salaries had been fixed by Parliament, did not seem to him to be valid. His principle was, he said, that all should be taxed equally and fairly. Sir Barnes Peacock further objected to the exemption of landholders under the Permanent Settlement.² Lastly, he entered a vigorous protest against the manner in which the Bill had been sought to be rushed through the Council.³

¹ The Chief Justice added that, even supposing that statutory salaries could not be taxed, he should not feel himself justified in taking advantage of such objection, and, whether assessed or not, would willingly pay the tax on his own salary. He should feel it his bounden duty as a man of honour to do so, and not to claim any exemption whilst others around him were taxed. But he should not feel inclined to pay unless others were compelled to do the same. *Proceedings of the Legislative Council of India, 1859.*

² He admitted that it would be unfair to tell the zemindars that a particular tax was to be imposed upon them, and not upon others. But when the profits of official and professional labour were going to be taxed generally, he did not see according to what principle of justice they only could be exempted from taxation. The Chief Justice added that, if the Government were to throw on the zemindars a particular burden, they would be guilty of a breach of faith. He had written a Minute sometime ago, in which he had stated that it was contrary to principle to say that proprietors of estates which they held permanently should be compelled, at their own expense, to keep up a certain number of police officers and chaukidars according to the value of their estates. But to say that zemindars would not be included in a general income-tax was, in his view, going a step too far.

³ The observations made by the Chief Justice on this subject are exceedingly interesting. He said that when the expenditure of the Government exceeded its income and the Council was called upon to create a tax to make good the deficiency, the Council had a right to ask what deficiency had arisen, how it had occurred, and what measures were proposed to meet such deficiency. If the executive Government asked the Council to impose a tax, surely it was incumbent on them to show the Council why the tax was wanted, and the Council would then be in a position to know what it ought to do. Was it to be supposed, he asked, that this Council was bound to pass every Act that the Government might think fit to bring before it, and an Act too which the mover himself had admitted was founded on no principle? Were they to act independently in the exercise of the important functions vested in them, or were they to become mere registrars of the decrees of the Government? For what purpose were they assembled in the Chamber? Were they to sit there as mere machines in the hands of the executive Government? He further

Mr. A. Sconce, who represented the Government of Bengal, also took exception to many of the provisions of the Bill. Mr. Justice Sir Charles Jackson thought that the Council had a right to complain of the manner in which the financial measures of the Government were brought forward. He thought that, after the levy of quite a large number of additional taxes under the Customs Act, the Bombay Abkari Act, the Stamp Act, and the new Bombay Excise Act, and the raising of the duty on opium without the aid of the Council, the time had come for putting a stop to piecemeal legislation. Mr. Harington, in the course of his reply to the criticisms levelled against the Bill, pointed out that the Chief Justice himself had said that the Government was precluded from taking away, by any means, any part of the rents or profits of the Bengal Zemindars.¹ He further said that if the Bill was passed, it would not prevent any member, who

declared that so long as he had the honour of a seat in the Council, he, for one, would claim the right to exercise, within those walls, a free and independent judgment, and abstain from giving any vote except after mature deliberation and according to the dictates of his own conscience. *Vide Proceedings of the Legislative Council of India, 1859.*

¹ Mr. Harington quoted the following passage from Sir Barnes Peacock's Minute :

"The same principle which prevents an augmentation of the assessment equally precludes the taxation of the owners in respect of the rent or produce of their estates; such taxation must necessarily prevent them from enjoying exclusively the profits of their own good management and industry." But it was unfair to charge him with inconsistency, for the Minute had been written upon the question then before the Government, namely, as to the right of the Government to impose upon the landholders exclusively an additional burden in respect of their lands, by compelling them to maintain a police force. *Proceedings of the Legislative Council of India, 1859.*

thought proper, from introducing a Bill for imposing a general income-tax.

After a great deal of discussion, the Bill was read a second time. The House then resolved itself into a Committee. At this stage, many alterations were made in the Bill, one of the most important of which was the deletion of the clause relating to the total exemption of Government officers and the substitution for it of a provision that all military as well as civil officers should pay license-tax, at the rate of 3 per cent., on their salaries. The exemption of those officers whose salaries had been fixed by Parliament was retained, but it was explained to the Council that steps would be taken to obtain from Parliament legal authority for the extension of the measure to them. Another alteration was that the taxable minimum was fixed at Rs. 100. The Bill was then referred to a Select Committee.

The Provincial Governments as well as some of the most experienced officers in the different provinces were invited to offer their opinions on the Bill "fully and freely." Nearly all the officers who were consulted spoke of it as certain to be extremely unpopular. They alluded to the "alarm", "uneasiness", "distrust", "discontent", "dissatisfaction", or "disaffection" which was likely to result from it.¹ Some

¹ That the Government of India itself apprehended trouble was clear from the letter addressed to the Provincial Governments in which they

of the provincial rulers acquiesced in the measure, though not without reluctance and protest. But the Government of Madras was very firm in its opposition to the Bill. Sir Charles Trevelyan, then Governor of the Presidency, urged various objections against the Bill.¹ In his opinion, the fact that the Bill had no foundation in Indian experience was a serious drawback of the measure. He also thought that the tax would prove a very heavy burden on the people. Sir Charles Trevelyan took particular exception to the proposed exemption in favour of persons whose salaries were fixed by Parliament.² Further, he expressed the view that the financial exigency could be met, "not only with safety, but with great public advantage, by reduction of expenditure, combined with the issue of a sound paper currency, and some temporary help from loans. The

were asked to "take into consideration the steps which, as a matter of precaution, it may be expedient to adopt with the view of preventing any opposition to the law". It was further observed in the letter: "It will, doubtless, be proper, in particular localities, that the executive authorities should be furnished with the means of promptly suppressing any attempt at open and violent disturbance, though the Governor-General in Council would earnestly hope that no occasion may arise for making use of such means". *Letter dated the 14th September, 1859.*

¹ Sir Charles Trevelyan wrote: "It is an old observation that, while the people of this country are extremely patient under long-established grievances, they are always ready to rise against any new imposition. This feeling is different from the popular opposition to additional taxation in England. A wide gulf has always been fixed between the people of India and their rulers....Unfortunately, small progress has been made, under our regime, in bringing about the desired approximation. In some respects, it is worse than it was." *Minute dated the 1st December, 1859.*

² Sir Charles remarked in this connexion: "In saying that I should not avail myself of this privilege, if all other classes of public officers were taxed, I am only expressing the plain duty which belongs to my position under such circumstances."

members of the Madras Council also condemned the measure. One of them, namely, Mr. W. A. Morehead, remarked that the Bill was "in its provisions unequal, offensive, and impracticable."¹

A number of petitions was presented to the Council against the Trades and Professions Bill.² These were referred to the Select Committee. There was also a strong opposition to the measure in the press. The London correspondent of the *Friend of India* wrote: "They (certain of the leading papers) have reprobated, in no measured terms, the exemption of servants of Government which it was sought to establish. That project has been defeated, but the odium of having proposed it sticks to the Government, and all the water in the river cannot wash out the stain. Public confidence can never again be placed in men who proposed to exempt themselves from taxation, to which they were ready to subject all other classes."³ At a meeting of the

¹ *Minute dated the 8th December, 1859.*

² The Bengal Chamber of Commerce, the Calcutta Trades Association, and various other bodies presented petitions against the Bill. The residents of Calcutta, Bombay, and Madras also protested against the measure. The Indigo Planters' Association prayed that the Bill should not be proceeded with, and urged that the mover be asked to substitute, if necessary, a project of taxation which would press equally on all classes of persons.

³ He wrote further: "Nor has it failed to be noticed, to the damage of the Governor-General unjustly, that both in the original and in the amended proposition his own personal interests have been held sacred. You know that one act of meanness does more to destroy a man's reputation than a dozen acts of despotism, and it is to be hoped that this anomaly will be fully and satisfactorily cleared up". *Proceedings of the Legislative Council of India, 1859.*

Council held on the 3rd December, 1859,¹ Sir James Outram and Mr. Harington replied to these attacks. The Bill, as amended in the Select Committee, was re-published.

The financial exigency was, however, very pressing. Pending, therefore, the adoption of comprehensive financial measures by the Legislative Council, steps were taken in some of the provinces to obtain an addition to the resources of the Government. In the Punjab, the Governor-General sanctioned certain taxes proposed by the Lieutenant-Governor. The basis of these was the scale of license duties originally proposed in the Legislative Council, which in effect amounted to an income-tax of three per cent. on all incomes below Rs. 2,000. It was found that there was an apprehension in many places that the assessment of these duties would lead to inquisitorial proceedings, and the Government showed its readiness to make concessions. The city of Amritsar offered to contribute a sum equivalent to that which might be estimated to accrue from the trade-tax by trebling the town duties already levied for municipal purposes, rather than submit to the appraisalment of private fortunes. This offer was accepted by the Government, and other large cities in the province were also allowed to com-

¹ It was at this meeting that Mr. James Wilson first took his seat as the Financial Member of the Governor-General's Council.

pound for the tax by raising an equal revenue by means of town duties. The town duties were not raised to so high a pitch as to interfere with trade. In the smaller towns and in villages, the trade tax took effect. In most of the districts, the assessment was of a very rough sort. The whole agricultural population was made to contribute at the rate of three per cent. on their incomes, without claiming for the scheme any refined equality or universal applicability.¹

A tax on trades and professions was also levied in Oudh in 1859. The principle on which the scheme was based was to take 3 per cent. on incomes, and after roughly estimating the amount thus due from the rateable inhabitants of each village or town, to leave the distribution to the people themselves. In *talukas*, this work was mainly entrusted to the *talukdars*, who zealously co-operated in the work and were expected to prevent an undue share of the burden being thrown on the poorer classes to the advantage of the rich. With the exception of the city of Lucknow, no difficulty was experienced, either in the distribution of the assessment or in the collection of the tax. In that city, some discontent and recusance were manifested. Appeals against assessments were very few, and those preferred did

¹ *Moral and Material Progress Report, 1859-60.*

not relate to the nature of the tax.¹ In consequence of the imposition of this tax, the octroi duties were abolished, which had operated as a restriction on trade.²

The legality of these impositions was questioned in the legislature in 1860. The Chief Justice of the Supreme Court of Calcutta, presiding over the Legislative Council of India, observed that no law could be passed except by the Council, and it seemed to him impossible to conceive how the Chief Commissioner of Oudh or the Lieutenant-Governor of the Punjab could impose any tax, either with or without the assent of the Governor-General. He was equally at a loss to comprehend how the Chief Commissioner of Oudh could adopt and enforce within the province a measure for taxing the people in a lump sum. He had been informed that the Lieutenant-Governor of the Punjab was also levying a tax in a similar way. At Simla there was what was called a town duty. These measures were defended on the ground that they were based, to a great extent, upon the Bill brought in by the member

¹ *Moral and Material Progress Report, 1859-60.* The Chief Commissioner of Oudh reported that the wealthy mercantile classes were always those who most objected to being called on to contribute to the expenses of the State, though they endeavoured "to conceal their selfishness under their mask of sympathy for the poor." He further asserted that expressions of discontent had mainly arisen "from the delay in introducing a similar system of taxation in the North-Western Provinces."

² The collection of octroi duties was now confined to large towns, where it was necessary to defray the cost of the special police. Octroi duties only existed as a substitute for the house cess which was general in the older provinces.

for the North-Western Provinces for licensing trades and professions. But Sir Barnes Peacock said that, although the principle of the Bill had been accepted when it had been read a second time, it could not be regarded as law as it had not been read a third time, nor had it received the Governor-General's assent. Ultimately, it was decided to insert an indemnity clause in the Income-Tax Bill of 1860 to legalise the collections which had been made in the Punjab and in Oudh.¹

In the meantime, Mr. James Wilson had been sent out to India, charged with the duty of placing the financial system of the country on a sound basis. Immediately after taking his seat as the Finance Member of the Government of India, he directed his attention to the question of additional taxation. On the occasion of presenting the Financial Statement, he expressed the view that the objects embraced in the Bill introduced by Sir Henry Harington could be best achieved if they were dealt with in two separate Bills, namely, a License-tax Bill and an Income-tax Bill. He proposed that a small license duty should be imposed upon traders of all classes, high and low, without any attempt at graduation. In a great majority of cases, this duty would operate rather as a registration tax, and only on the lowest classes, who would be exempted from the income-tax by reason of the smallness of

¹ *Proceedings of the Legislative Council of India, 1860.*

their incomes, would it be really felt as a tax. The license duty was to consist of three rates, namely, first, one rupee a year on artisans, including weavers, leather workers, &c., but excluding the agricultural and menial classes in village communities; second, four rupees a year on retail shop-keepers and small manufacturers, who worked for local retail sale; and; third, ten rupees annually on wholesale traders, bankers, manufacturers, and professional men. These rates, that is to say, at one, four, and ten rupees, were to be uniform, and to apply to all persons of each class without any discrimination as to income or extent of business. The licenses were to be taken out at the beginning of each year. No time-limit was fixed in the License-tax Bill.

The Bill for the Licensing of Arts, Trades and Professions was read a first time on the 4th March, 1860, along with the Income-tax Bill. When the second reading of the Bill was moved, Mr. A. Sconce, member for Bengal, pointed out the practical difficulties to which the Bill was likely to lead. He said that he had no objection to a system of specific licenses, but it seemed to him that "the adoption of any arbitrary, indeterminate, and unnecessary scheme was altogether unworthy of the Council". It would, in his view, amount to a double income-tax. Sir Mordant Wells confessed that he entertained much the same objections as those raised by Mr. Sconce. Sir Barnes Peacock observed that

he failed to understand the object of the Bill. If the real object was to get money, he thought that it could be attained in a much less offensive mode than by putting a first-class merchant on the same footing as a pawn-broker or a pedlar. He also failed to see why the Bill should omit to tax a civil servant or a judge, or a member of council.¹ The Bill was referred to a Select Committee,² where it was discussed at considerable length, and was then ordered to be re-published for general information. No further action was taken with regard to it at the time. The Income-tax Bill was passed.

Mr. Wilson died before the end of the year. In the following year, Mr. Samuel Laing expressed the opinion that the license-tax was ready to his hand as a means of extinguishing the deficit. But he felt reluctant to proceed with it until he could combine it with an amendment of the Income-tax Act, "so as to make the united measure one of relief and satisfaction to India, rather than of oppression and burden". Mr. Laing regarded a graduated license-tax as a better mode of taxing the capital and trade of the country than an income-tax. But instead

¹ *Proceedings of the Legislative Council of India, 1860.*

The Chief Justice added that the Bill exempted a landlord or fund-holder, not because he had done anything for the benefit of society, but because he happened to be the son of a particular father, from whom he inherited property, while the professional man, who lived by his own industry, would be obliged to pay. It appeared to Sir Barnes Peacock that this was "taxing the bees and allowing the drones to escape."

² This Bill and the Income-tax Bill were referred to the same Select Committee.

of imposing it in a crude form as a separate measure, he decided to keep it in reserve till more opportune times. In July, 1861, however, during Mr. Laing's temporary absence from India, the License-tax Bill was passed. By this Act (XVIII of 1861) a duty of one, two, or three rupees was imposed on persons engaged in any art, trade, or dealing. This Act was to have effect for five years. But as the financial position of the Government improved soon afterwards, collections under the Act were suspended during the last quarter of the financial year. The Act itself was repealed in 1862. The license-tax affected 5,000,000 persons. Its abolition gave satisfaction to all classes of the community.

The Government of India was again faced with deficits a few years later.¹ In view of the fact that the people of India were not at that time subjected to any direct tax, except the land tax, and also that indirect taxation did not reach the large classes of the population engaged in lucrative occupations and trades, Mr. Massey, the Finance Member, proposed a license-tax in 1867. He described the measure as one "of an exceedingly moderate character". It started at the point at which the income-tax originally commenced, namely,

¹ In 1866, Sir John Lawrence proposed to renew the income-tax; but he was unable to obtain the concurrence of his Council. *Vide Temple, Lord Lawrence.*

Rs. 200 yearly, and terminated at Rs. 10,000. It was divided into five classes, the maximum assessment, that is, the assessment on the lowest estimated income of each class, being 2 per cent. Joint-stock companies were placed in a separate class. Thus the tax upon the lowest class, which included incomes ranging from Rs. 200 to Rs. 500 yearly, would be Rs. 4; the highest payment by any person or partnership business would be Rs. 200 a year; while the maximum amount payable by a joint-stock company would be Rs. 2,000.

There was no general exemption for public servants. But military officers, under the rank of field officers, drawing pay and allowance not exceeding Rs. 6,000 per annum, were not subject to payment of the tax. Non-commissioned and police officers were also exempted, as well as subordinate civil servants, drawing less than Rs. 1,000 yearly. There was, further, a clause empowering the Governor-General in Council to exempt from payment any person who might be able to substantiate a claim to such exemption, and to suspend the operation of the Act in any part of India where, for local reasons, it might not be just or expedient to enforce it.¹

¹ By an order of the Government of India, all Christian missionaries and Hindu priests were exempted from this tax, so far as the religious character of their profession was concerned. The enforcement of the tax on professional courtezans and female dancers and singers was also prohibited. Special exemptions were authorised in certain parts of the country where civilization was backward, or in consideration of the

The produce of the tax was estimated at £500,000 only. The Finance Member admitted that double or treble the amount might be obtained by a more comprehensive scheme of direct taxation. But he thought that the license-tax did not stand in the way of an income-tax or take up the ground which an income-tax would cover. He added that the Government, without giving a definite pledge, did not propose that the license-tax should form a permanent source of imperial revenue, and that he intended, after a year, to transfer it to Provincial Governments.

This measure met with some opposition, which came chiefly from the European community. The Bill, however, was passed by the Governor-General's Council and became Act XXI of 1867. The British merchants held protest meetings, and approached the Secretary of State urging him to disallow the Bill.¹ This unreasonable request, however, was not acceded to.

In the following year, the Finance Member in-

preciousness of the trade carried on there. During the cyclone of 1867 the operation of the tax was suspended in the Presidency Division of Bengal on account of the great damage caused by it. Persons living on the rents of their own houses were also exempted from this tax. *Vide Moral and Material Progress Report, 1867-68.*

¹ The Governor-General, Sir John Lawrence, condemned this attitude on the part of the European community, and wrote to the Secretary of State: "If the license-tax is vetoed, I cannot conceal from myself the conviction that all taxation which can affect, in any material degree, the non-official English community, will be impracticable. So far as their voices go, they will approve of no tax of the kind. They desire that all taxation should fall on the natives, and more specially on the poorer classes". *Vide Bosworth Smith, Life of Lord Lawrence, Ch. XIII.*

formed the Council that the license-tax had been financially successful. He pointed out that it had yielded nearly 30 per cent. more than the amount estimated, and that it had been collected at a very small cost. As for its alleged vexatious and oppressive character, he remarked that the small number of appeals preferred against it disproved the suggestion. In his opinion, the tax, after the first ebullition of resistance had subsided, was collected with as much ease as any other tax. The Government, however, he said, was not disposed to close its ears against the voice of public opinion, and was willing to give its best consideration to suggestions regarding other sources of revenue. Three substitutes had been suggested by the Bengal Chamber of Commerce, the most influential of the associations of British merchants, namely, an increase of the salt duties, the levy of a tobacco tax, and the imposition of a succession tax. As for the first, Mr. Massey observed that the salt tax was in effect a poll-tax upon the masses of the population; besides, increased salt duties were likely to diminish consumption. As an enhancement of these duties would fall heavily on the poorer classes, it was incumbent on the Government to enquire whether other classes contributed their share to the resources of the State. The equalisation of salt duties was not in itself undesirable, but little increase in revenue was to be obtained by adding a

few annas to the salt duties of Madras and Bombay. A tax on tobacco was out of the question, because it would be extremely oppressive in its incidence, would be collected at an enormous cost, and would fall mainly upon the classes which paid the salt duty. Lastly, in the opinion of the Finance Member, many of the more serious objections which had been urged against the income-tax applied with at least equal force to a succession tax. There was the impossibility of making fair assessments, a difficulty which was avoided in a license-tax. Then, again, as the Finance Member pointed out, the novelty and, therefore, the unpopularity of a succession tax would certainly be greater than that of an income-tax or a license-tax. He thought that the fact that the succession tax would be paid once for all, and at the time most convenient to the payer, pointed in reality to one of its most serious defects, namely, that the tax would fall on capital, instead of on income.

The Finance Member also rejected the idea of reviving the income-tax. He, therefore, proposed to retain the license-tax, but in a modified form. He admitted that the tax, in its then existing form, was open to criticism and was capable of material improvement. The principle upon which the license-tax was based was that of a rough income-tax.¹ It

¹ As Mr. Massey pointed out, this tax resembled very much the excise license-taxes which had existed in England before the levy of the income-tax and which had gone on during the operation of the income-tax and still continued.

was not defensible on the ground of strict equity of assessment ; but its chief merit lay in the lightness of its mean incidence. As the professions and trades contributed nothing to the public revenues, a tax on these was justifiable. Mr. Massey, therefore, introduced a Bill repealing the then existing law and substituting provisions which, in his view, would be less objectionable. This measure imposed a license-tax, varying from Rs. 8 to Rs. 6,400 on persons exercising professions or trades, whose annual profits exceeded 500 rupees. The mean incidence of the tax was not much more than $1\frac{1}{2}$ per cent. It ceased to fall on the lowest class of the population with the minimum now raised. The services were to be taxed all round upon their salaries at 1 per cent. The amount expected to be realised from the amended tax was £500,000. The Bill, as it was ultimately passed, transformed the license-tax into a certificate-tax.

In spite of additional taxation, the financial difficulty continued in the following year, and the Government was unwilling to appear again before the public with a deficit in the budget. It was, therefore, decided to convert the certificate-tax into an income-tax. Act IX of 1869 was passed to give effect to the conversion.

In 1871, after the introduction of Lord Mayo's scheme of provincial finance, a License Bill was placed before the Governor-General's Council for

imposition in the North-Western Provinces and Oudh. This Bill was one of the measures intended to supplement the incomes assigned to the Provincial Governments under the new system. It was proposed that the tax would be levied only on certain specified trades and dealings. Artisans were excluded from the operation of the Bill. Trades and dealings were divided in the Bill into three classes charged respectively with six, four, and two rupees a year. The measure was welcomed by Mr. John Strachey, who described it as "the very best Bill of the kind that had come before the Council." He said further: "We had, of late years, over and over again, had so-called license-taxes and certificate-taxes, which had been imposed on the mercantile classes. But all these Bills, whatever they might have been called, had been in reality income-taxes in disguise. This Bill was nothing of the kind." The Bill, however, was subsequently withdrawn, and it never became law.

The license-tax reappeared a few years later as one of the "famine taxes". During the decade 1868 to 1877, three severe famines occurred in different parts of the country. After the famine of 1874 in Northern Bengal, the Government of Lord Northbrook declared that such calamities could no longer be treated as abnormal or exceptional, and that sound financial principles required that due provision should be made by the State for meeting them. In

the opinion of the Governor-General, an attempt to find the resources needed for the purpose merely by borrowing, without a simultaneous increase of income, would be financially ruinous. He, therefore, came to the conclusion that it was necessary to secure, in prosperous times, a substantial surplus of revenue over expenditure, in addition to the margin needed for the ordinary requirements of the administration. Lord Northbrook argued that, if this surplus were devoted to the reduction of debt, or the prevention of an increase of debt, or the construction of reproductive public works in years of ordinary prosperity, there would be no objection to the charges on account of famine being met out of borrowed funds. The Secretary of State agreed with the Government of India in the view that the periodical occurrence of famine ought to enter into the calculation of the Government at the time of making provision for its ordinary wants from year to year, and that such a surplus should be provided in each year as would make a sensible impression on the debt in times of famine.

In 1877, Sir John Strachey estimated the yearly average cost of famines in loss of revenue and actual expenditure at £1,500,000. The Government of India thought any reduction of expenditure to be impracticable. The other alternative which presented itself to it was additional taxation. The form which this fresh taxation ought to take was

carefully examined. Several methods of taxation, such as a tax on tobacco, succession duties, and taxes on marriage expenses, were considered; but they were all rejected. The question of re-imposing the income-tax was also given a serious consideration, but this course was thought to be both impolitic and unjust at the moment. It was, therefore, ultimately decided to raise the required sum partly by imposing an additional burden on agriculturists, and partly by levying license-taxes on traders and artisans.

License-taxes were imposed in nearly the whole of British India in the years 1877-78. Acts of the Indian legislature were passed for some of the provinces, while provincial measures were enacted for the others. These Acts differed in some of the details, but in matters of importance they were similar in character. It was estimated that the total yield of the various license-taxes to the Government of India would be about £700,000, after meeting charges of collection and allowing a margin to the Provincial Governments.

License-taxes were imposed in the Punjab, the North-Western Provinces, and Oudh by an Act of the Governor-General in Council. The Northern India License Bill was introduced in December, 1877.¹ It met with a mild form of opposition. When the Finance Member moved that the Bill be

¹ This Bill became law as Act VIII of 1877.

referred to a Select Committee, Maharaja Jatindra Mohan Tagore suggested that the operation of the Bill might be limited to a definite period of two or three years, in the hope that greater economy in military expenditure would render the retention of these taxes unnecessary. He also argued that the money to be raised by taxation should be formed into a separate fund with a separate account, so that the people might have an opportunity of knowing what portion of it was applied to the repayment of previous famine loans, and what portion was spent on the construction of famine insurance works. Although some other alterations were made in the Bill by the Select Committee, neither of these two suggestions was acceptable to the Government. In regard to the second proposal, the Finance Member, during the final stages of the Bill, observed that to create a separate fund "would be to make a perfectly arbitrary and artificial distinction between a small part of the outlay, say $1\frac{1}{2}$ millions, and the larger part, say three millions, on works in themselves not really distinguishable in their character or objects." "Such a division," he added, "would be not only useless but mischievous, and could not practically be maintained." The motion that the Bill be passed was carried in the Council without a division.

The tax-payers were, for the purpose of assess-

¹ *Proceedings of the Governor-General's Council, 1877.*

ment, divided in this Act, according to their presumed incomes, into three classes. The first class was subdivided into four grades, licensees paying Rs. 500, Rs. 200, Rs. 150, and Rs. 100 respectively, according to the grade in which they were placed. The second class consisted of four grades, the fees payable being Rs. 75, Rs. 50, Rs. 25, and Rs. 10 respectively. The third class consisted of three grades, the fees being respectively Rs. 5, Rs. 2, and Re. 1.¹ Every person falling under any of the heads specified in the schedule annexed to the Act and carrying on his trade or dealing in any district situated in these territories, was compelled to take out a license, for which a fee was payable. Although no taxable minimum was fixed in the Act itself, each Provincial Government was given the power to exempt from the operation of the Act any persons whose annual incomes were less than such sum as the Provincial Government might fix in that behalf.

This license-tax was thus, in effect, as defined by

¹ The Collector was to prepare an annual list of persons to be licensed under this Act. It was also the duty of the Collector to determine under which of the classes and grades mentioned in the schedule a licensee should be charged.

The first class consisted of registered companies, bankers, money-lenders, owners of cotton screws, shop-keepers selling European goods, hotel-keepers, wholesale dealers, dealers in precious stones, sugar manufacturers or refiners, indigo manufacturers, and tea manufacturers. Cloth sellers, metal vessel sellers, chaudhuris, contractors, printers and publishers, commission agents, brokers, money-changers, dealers in gold and silver lace, druggists, retail dealers in grain, timber merchants, woollen and silk manufacturers, auctioneers, etc., fell into the second class. The third class was composed of artisans, traders, and dealers not specified above, and of persons falling under any head mentioned in class I or class II, whose annual earnings were not so large as to warrant their assessment in either of those classes.

Sir John Strachey, "a limited income-tax assessed on a system of classification according to approximate income." The sum realised in the North-Western Provinces in the year 1878-79 was £132,640, and that in Oudh, £20,460. The total number of persons assessed in the whole province was 150,669, or 4.9 per cent. of the population. Some alterations were made in the law by Act II of 1878.

The Bengal License-tax Bill was introduced in the provincial legislature.¹ It was passed on the 14th February, 1878. The Act did not apply to cultivators or to landholders receiving rent in kind. No person, whose annual earnings were less than Rs. 100, was required to take out a license. The provisions of the Act applicable to the town of Calcutta were somewhat different from those applicable to the districts. Outside the city of Calcutta,

¹ In presenting the Report of the Select Committee on this Bill on the 9th February, 1878, Mr. (afterwards Sir) Alexander Mackenzie observed that he could understand and even sympathise with those who grumbled at the measure, but he thought it was not sufficient to condemn the measure to say that it was not a license-tax but an income-tax. He added: "When men say that income-tax in India is a hateful measure, they mean '*the* income-tax', technically so called and known, embodied in certain repealed enactments of the Indian Statute Book, by which direct perquisition was made into the precise amount of a man's profits from every source derived, and under which the amount he had to pay was a strict percentage on his total income. The tax now proposed is not '*the* income-tax' or anything like it. The bogey style of argument has only to be looked at to make it disappear. I frankly admit, per contra, that the tax provided for in the Bill is not a license tax in the European acceptation of the term. A license tax properly so called prohibits the carrying on of any occupation, unless the tax for it is paid and admits of no exemption. This is a tax upon the trading and industrial wealth of Bengal, operating by means of a system of licenses, and limited ultimately, as regards individual licensees, by consideration of the amount of their trade income".

licenses were to be taken out for the exercise of trades, dealings, and industries; in Calcutta, licenses were made necessary not only for these but also for certain callings, such as those of accountants, auditors, and surveyors. In both cases, licensees were divided into six classes, some of the classes being again sub-divided into grades.¹ The maximum fee payable in Calcutta as well as in the districts was Rs. 500, while the minimum in both

¹ Fees for licenses applicable throughout Bengal, except the town of Calcutta, were fixed as follows :—

Class I—Joint-stock company, banker, wholesale merchant, dealer, commission agent, or manufacturer, money-lender, ship-owner, mill-owner, screw-owner, —

First grade	...	Rs. 500
Second „	...	„ 200

Class II—Every person adjudged by the Collector to be a licensee of this class

„ III—	„	„	100
„ IV—	„	„	50
„ V—	„	„	20
„ VI—	„	„	5
„ VI—	First grade	...	2
„ „	Second „	...	1

Fees for licenses applicable only in the town of Calcutta were as follows :—

Class I—Joint-stock company; banker, shroff, or banyan; wholesale merchant, dealer, commission agent, or manufacturer; builder; contractor, carrying company; owner or farmer of *hats* and bazars; owner of cotton, jute, hide or other screws; ship-owner, dock-owner, or owner of *chauks*, auctioneer,—first grade Rs. 500; second grade, Rs. 200.

Class II—Broker or *dalal* employed in the sale or purchase of imported or exported goods, landed property, securities, bills of exchange, freight, etc., owner or lessee of a place of amusement; wholesale *bepari*;—Rs. 100.

Class III—Professional accountant, auditor, appraiser, surveyor, mill-owner, etc.—Rs. 50.

Class IV—Manufacturer of aerated waters, dealer in gold or silver, or building materials, stevedore, etc.—Rs. 25.

Class V—Brazier, coppersmith, die-sinker, engraver, etc.—Rs. 12.

Class VI—Every person carrying on any trade, dealing, or industry not charged under any of the foregoing classes,—first grade, Rs. 5; second grade, Rs. 2; third grade, Re. 1.

cases was Re. 1. Licensees were exempted from payment of the house cess under the Road Cess and the Public Works Cess Acts.

The total demand of the tax in the province for the year 1878-79 was £473,494, but the actual collections amounted to only £208,516. Remissions amounted to £143,964, including £2,540 allowed as refunds. This great discrepancy between the demand and the realisation was due in part to the nature of the procedure adopted under the Act. The assessing officers, not being allowed to make any precise enquiry into income, were compelled to settle, on general grounds, the classes in which the assessee should, in the first instance, be placed, leaving them to object. Outside Calcutta, there was, on an average, one assessee to every 71 persons, and the cost of collection was 12·1 per cent. of the demand. In the city of Calcutta, the number of assessments was 32,833, of which 6,600 had to be cancelled as unrealisable. The tax caused much discontent, and gave rise to considerable agitation.

In the Madras Presidency, a license-tax was imposed on all trades, dealings, and industries under Act III of 1878 of the local legislature. The tax was leviable on all incomes above 200 rupees, agricultural and professional incomes being exempt. The licensees were divided into twelve classes according to their income. The maximum annual fee payable by a licensee was Rs. 800, and the

minimum, Rs. 4.¹ The total collections for the year amounted to £80,000, of which £14,000 was raised in the municipalities. The tax was unpopular from its very nature, and the working of the Act gave some amount of trouble.

License fees were levied in the Bombay Presidency under Act III (Bombay Council) of 1878. The Act did not apply to agriculturists. The Government was given power to exempt from the operation of the Act (a) any local area, or any person or class of persons, and (b) any person whose net annual earnings were less than such sum as the Government might, from time to time, prescribe. The taxable minimum was fixed by the Government at

¹ Fees payable annually by the different classes of licensees were fixed as follows:—

Class	I—Persons whose incomes were Rs. 40,000 and upwards,	Rs. 800
"	II— " " " 35,000 and upwards, but less than Rs. 40,000,	700
"	III— " " " Rs. 30,000 and upwards, but less than Rs. 35,000.	600
"	IV— " " " Rs. 25,000 and upwards, but less than Rs. 30,000.	500
"	V— " " " Rs. 20,000 and upwards, but less than Rs. 25,000.	400
"	VI— " " " Rs. 15,000 and upwards, but less than Rs. 20,000.	300
"	VII— " " " Rs. 10,000 and upwards, but less than Rs. 15,000.	200
"	VIII— " " " Rs. 5,000 and upwards, but less than Rs. 10,000.	100
"	IX— " " " Rs. 2,500 and upwards, but less than Rs. 5,000.	50
"	X— " " " Rs. 1,250 and upwards, but less than Rs. 2,500.	25
"	XI— " " " Rs. 500 and upwards, but less than Rs. 1,250.	10
"	XII— " " " where more than Rs. 200, but less than Rs. 500.	4

Rs. 100. The licensees were divided under the Act into fifteen classes.¹ The maximum fee payable by a licensee was Rs. 200, and the minimum, Rs. 2. Fees levied during the first year produced a gross revenue of £249,066. The cost of collection was £5,425, and refunds amounted to £9,492. There were altogether 425,799 individual assessments. The taxable minimum was Rs.100.

In the Central Provinces, the license-tax was not imposed, the continuance of the old *pandhri* tax being regarded as its equivalent. The limit of assessable income in the case of this tax was Rs. 150.

During the first year of their operation, the administration of the license-taxes disclosed many defects. On the whole, the Acts could not be said to have been administered equally. In some parts of the country, as much revenue as the Government had a right to expect was realised; but in others, the case was just the reverse. While there was severity of assessment in some areas, in others, persons who should have been taxed escaped pay-

¹ Licensees under this Act were: Companies registered under the Indian Companies Act, 1866; bankers; commission agents; brokers; manufacturers; contractors; hotel-keepers; money-changers; owners of ships or boats; letters-out of conveyances; horses or cattle; owners of conveyances, horses or cattle, plying for hire; and all persons carrying on trades, dealings, or industries of any kind whatsoever.

Fees payable by persons required to take out licenses under this Act were as follows:—

Class	I, Rs. 200;	II, Rs. 150;	III, Rs. 100;	IV, Rs. 80;
"	V, Rs. 60;	VI, Rs. 40;	VII, Rs. 30;	VIII, Rs. 25;
"	IX, Rs. 20;	X, Rs. 15;	XI, Rs. 10;	XII, Rs. 7;
"	XIII, Rs. 5;	XIV, Rs. 3;	XV, Rs. 2.	

ment. The taxable minimum was considered generally to be high.

In the course of the year 1879-80, the Bengal license-tax was modified by an order of the Government of India, which enjoined the exemption of all incomes below Rs. 250 per annum. This measure curtailed nearly one-third of the demand, and removed from the list of assesseees 579,674 out of 740,432 persons assessed at the commencement of the year. It led, naturally, to some abatement of the feeling of discontent. The gross collections amounted to £151,559, of which Calcutta contributed £30,069. In the North-Western Provinces and Oudh, the number of licenses granted was 195,902. Considerable labour was involved in the working of the tax, the principal source of the difficulty being the assessment of the numerous small incomes of the third class. In the Madras Presidency, the operation of the License Act was suspended during the last quarter of the year, in anticipation of a modification of the Act. The total collections amounted to £80,643. License fees levied in the Bombay Presidency produced a revenue of £242,981 in 1879-80. The total number of persons assessed was 403,199. The incidence per head thus came to about 12·5 shillings. In the Central Provinces, no change was made during the year in the mode of imposing the local tax called *pandhri* on non-agriculturists.

The financial position of the Government having improved to some extent, it was considered desirable in 1880 to afford relief to the poorest classes from the burden of the license-tax. A Bill to amend the License Acts was, therefore, introduced in the Governor-General's Legislative Council. This Bill sought, among other things, to make an equitable adjustment of taxation by bringing within its scope the professional classes. It was, however, withdrawn, and a new Bill was substituted. This was a comparatively small measure. It made a redistribution in the classes and grades of licensees. But the most important provision of this Bill was the raising of the taxable minimum to Rs. 500. The effect of this change was to restrict the operation of the tax to persons in the enjoyment of fairly substantial incomes. Objections, however, were once more raised to the principles of the tax. The anomaly was pointed out that while the trader, earning a little over Rs. 40 a month, would have to bear his share of the tax, the professional and salaried classes, earning much larger amounts, would not be required to pay anything. Doubts were also expressed as to the necessity of retaining the tax. The Finance Member, Sir Auckland Colvin, did not seriously dispute the anomalous nature of the imposition, but he thought that an extension of the tax to other classes was not called for at that moment. The Governor-General, Lord Lytton,

admitted that the limited direct tax was "not strictly scientific or completely logical," but he took no steps to remove its defects. The Bill was passed without any material alterations.

In the course of the year, the Governor-General addressed a confidential circular to the heads of the Provincial Governments, with a view to obtaining their opinions as to the desirability of maintaining the license taxes. The Duke of Buckingham, Governor of Madras, and his colleagues were of opinion that the tax, though suitable for municipal purposes, was objectionable as an imperial resource, owing to the defective nature of the staff available in the districts for its assessment and collection. The Government of Bombay was disposed to prefer another form of direct taxation to the license-tax. The Lieutenant-Governor of Bengal remarked that the tax could never be popular, but it was a necessary evil. With these exceptions, there was unanimity of opinion on the following points, namely, (1) that the doubt and uncertainty produced on the minds of the people by frequent changes in the mode of taxation were greater evils than the taxes themselves, and that, therefore, any hasty change was much to be deprecated ; (2) that any objections which originally existed on account of the pressure of the license-tax on the poorer classes had been met by raising the minimum assessable income to Rs. 500 ; (3) that the people

were becoming accustomed to the tax, and that the method of its assessment and collection had been much improved.

The license-tax at this time yielded an annual net income of a little over half a million sterling, and this sum was paid by 228,447 persons. In regard to the justice of imposing some tax upon the trading classes of the community, there could be no difference of opinion. Major Baring, the Finance Member, went so far as to declare that the fact that these classes, who perhaps more than any others, had benefited by British rule in India, paid so little, had long been recognised as "a blot upon the Indian fiscal system." He did not deny that there were some practical objections to direct taxation, which perhaps applied to a somewhat greater extent in India than elsewhere. But the question to be decided was the degree of urgency to be attached to these objections. In the Finance Member's opinion, only a small number of people would be benefited by the repeal of the tax, but the mass of the tax-payers would obtain no relief ; while, on the other hand, the general financial position would be weakened. He admitted, however, that the defects and inconsistencies of the tax ought to be removed.

Many of the inconsistencies, as pointed out by the Finance Member, were glaring. Thus, except in the Madras Presidency, a summary license-tax was levied throughout the greater part of India.

In Madras, the tax approached, in some respects, nearest to an income-tax. Again, everywhere except in the Bombay Presidency, the maximum fee leviable was Rs. 500; in Bombay, it was Rs. 200. In Northern India, there were two classes, subdivided into eight grades. In Bengal, there were six classes; in Madras, eight; and in Bombay, eleven. In British Burma and Assam, the tax was not levied at all. And not only were there great inequalities in its incidence in the various provinces, but it was open also to two very serious objections, namely, that in respect of those classes which were taxed, it fell with disproportionate hardship on the less wealthy, and that other classes which might justly be called upon to pay the tax, were altogether exempt. The license-tax thus, in its then existing form, could not be incorporated into the permanent fiscal system of the country. But frequent changes, as Major Baring rightly observed, tended to exercise a baneful effect upon the minds of the tax-payers;¹ and it was thought desirable that whatever changes were to be made should be final.

¹ Major Baring said in this connexion: "Fixity of policy has been conspicuous by its absence. In the last 22 years no less than 23 Acts of the Legislature have been passed in which successive Governments have either rung the changes on the various expedients for imposing direct taxes, or have for the time being adopted a policy opposed to any direct taxation whatsoever. It was impossible under such a procedure that any system of direct taxation should take root in the country. It was certain that these frequent changes would keep alive rather than allay the unpopularity originally attendant on the imposition of any direct tax. The practical result of the system which has been followed has been that the fundamental principle, that the tax which each individual is bound to pay ought to be certain and not

The raising of the taxable minimum afforded considerable relief to large numbers of people in both the Presidencies of Bombay and Madras. No changes took place in Bengal during the year 1880-81, either in the nature of assessment of the tax or in its incidence. Out of the number of assesseees on the list, one in every three objected. This was scarcely satisfactory, though it was an improvement on the previous year, when objections had come from 62 per cent. of the assesseees. Thirty-nine per cent. of the objections were successful, thus proving the administration to have been defective. The gross demand for the year 1881-82 was £187,804, and the amount realised was £143,915. The net collections in the North-Western Provinces and Oudh amounted to £116,315. The number of objections was very large. The total number of assesseees was 49,129. Of this number, no less than 22,189 were taxed as professional money-lenders, 5,415 as retail dealers in grain, and 4,003 as sugar manufacturers. The demand on account of the license-tax in the Punjab for 1881-82 was £43,984, and the collections amounted to £43,252. The average incidence of the tax was Rs. 23-3 as. per 1,000. In Madras, the collections amounted to £47,700. In Bombay, the raising of the taxable minimum in 1880 to Rs. 500

arbitrary, has been violated. Frequent changes have rendered it difficult for the tax-payers to ascertain the true amount due from them and have facilitated arbitrary and illegal exactions on the part of the tax-gatherer." *Proceedings of the Governor-General's Council, 1880.*

relieved 11/13ths of the people taxed, and did away with a large proportion of the complaints against the tax. One in every three hundred of the population now paid the tax in this province, and the incidence on the tax-payers was Rs. 24½ per head, being highest in Bombay city, where it amounted to Rs. 39. The net collections were £124,089.

No alterations were made in the tax in the three following years. The average rate of the tax was equivalent to about 1½ per cent. on the income of those who paid the tax. The total receipts amounted in 1884-85 to £496,873, of which Bengal contributed £146,486; Bombay, £122,498; and the North-Western Provinces and Oudh, £116,507. The year 1885-86 was the last year in which the license-taxes were levied.¹ These were assessed on about 250,000 persons and the total yield was £485,271. At the end of the year, the license-taxes were transformed into an income-tax collected from sources other than agriculture.

¹ The state of popular feeling in Bengal regarding the license-tax in the year 1885-86 may be gathered from the following extracts: The Commissioner of the Presidency Division reported: "Those who pay the tax dislike it, but as they have been accustomed to it for some years, they pay it with less grumbling, though it continues to be distasteful." The Commissioner of Burdwan wrote: "The tax is not popular, but those who pay it have accepted it as an inevitable burden." The Commissioner of the Chittagong Division wrote: "The outcry against the license-tax has almost died away, not because the people have learnt to like it, but because they must pay it. The tax is, therefore, now paid in regularly and without friction, the people submitting to it as a necessity which they cannot avoid." Other Government officers also expressed similar views.

The license-taxes levied in 1877-78 had a longer lease of life than any of the direct taxes imposed since the termination of the Company's rule. The opposition originally encountered by these imposts had considerably subsided by the time of their abolition. The license-taxes were a very incomplete and imperfect form of direct taxation. But while they were unsatisfactory in many respects, they prepared the way for the permanent adoption of an income-tax which was to be more equitable in character and less open to criticism. Besides, the experience gained in the administration of the license-taxes helped to reduce to a minimum the difficulty of working the income-tax.

CHAPTER III

INCOME-TAX

MR. JAMES WILSON'S financial statement of 1860 marks the commencement of a new chapter in the financial history of the country. This was the first occasion on which a budget was presented to the Indian legislature for discussion. (In the course of a forceful address Mr. Wilson surveyed the financial situation in India, laying stress on the fact that the suppression of the Mutiny had entailed very heavy expenditure and made a large addition to the public debt.) He then outlined the measures which he considered necessary to secure the solvency of the Government. He placed before the Council several proposals for additional taxation, the most important of which were contained in two Bills,—one seeking to impose a license-duty and the other an income-tax.¹ The two measures were supplementary to each other, and their burden was expected to fall on different classes of the population.

In the Income-tax Bill there were two rates, namely, a two per cent. rate on incomes ranging

¹ The latter measure was entitled "An Act for imposing Duties on Profits arising from Property, Professions, Trades and Offices."

from Rs. 200 to Rs. 500, and a four per cent. rate on incomes above Rs. 500. Of the latter, 3 per cent. was to be collected for the imperial treasury, and one per cent. for local purposes.¹ No tax was to be levied on incomes below Rs. 200. The Finance Member defended so low a taxable minimum on the ground that a wide incidence of taxation tended to secure greater justice. As the security of the Government, Mr. Wilson argued, extended to all classes, they must all contribute to the public exchequer. He, however, drew a distinction between the wealthy and the less well-to-do. Therefore, incomes up to Rs. 500 were, in his scheme, to be taxed at a somewhat lower rate.

The Income-tax Bill provided that a separate account should be kept of the collections in respect of the one per cent. duty, which should be allocated to the Provincial Governments to be applied, according to their discretion, for the construction of roads, canals and other productive works.² The Bill contained four schedules: No. 1 included incomes

¹ Sec. III of the Act ran in part thus: "There shall also be collected and paid, under the rules contained in this Act, for the purposes hereinafter mentioned and described as roads, canals, or other reproductive public works, for and in respect of the property and profits mentioned in the said several four schedules respectively, the further yearly duty of one rupee for every hundred rupees of the amount thereof."

² Sec. CXIII of Act XXXIII of 1860. In regard to the appropriation of this portion of the tax, Mr. Wilson said that the municipalities, where they existed, would have a voice. In defending this provision, the Finance Member observed that its object was to help the improvement of localities, and while the charge would be small, the benefit to be derived from such a contribution might be very great.

from lands and houses ; No. 2, incomes from trades and professions ;¹ No. 3, incomes from public funds ; No. 4, incomes from public salaries. There were in the Bill some provisions for exemption. All government property, salaries of military, naval and police officers of the inferior ranks, and travelling allowances of public officers were excluded from assessment. Raiyats and other persons actually engaged in the cultivation of lands were not chargeable unless the full annual value of such lands amounted at least to Rs. 6,000 per annum. Deductions were allowed on account of repairs of houses and on insurance policies. Lastly, the Provincial Governments were given the power to exempt property used for charitable or religious purposes.

A claim for exemption was put forward on behalf of landholders, especially those under the Permanent Settlement. The Finance Member considered this

He cited in this connexion the example of the United States, where a property tax was collected in every State and applied in part to general and in part to local and municipal purposes. *Financial Statement, 1860-61.*

¹ Schedule No. 2 consisted of four categories of income, namely, "For and in respect of the annual profits arising from any person residing in India from any kind of property whatever, whether situate in India or elsewhere ; and for and in respect of the annual profits arising from any person residing in India from any profession, trade or employment, whether the same shall be carried on in India or elsewhere ; and for and in respect of the annual profits arising from any person whatever, whether a subject of Her Majesty or not, although not resident in India, from any property whatever in India, or any profession, trade, or employment carried on within India ; and for and in respect of all interest of money, annuities, and other annual profits arising from any person residing in India, and accruing and payable in India to any person, whether residing in India or not, not charged by virtue of any other Schedule of this Act".

claim to be groundless. He also dismissed as worthless the demand for exemption made on behalf of the fundholder. The people of Bombay and Madras urged that, as the financial difficulties had been occasioned by the Mutiny which had taken place in Upper India, those provinces ought not to be made liable for its consequences. Mr. Wilson strongly deprecated this attitude. "The bane of India", he observed, "has been these sectional principles and pretensions. Let us see an end to them, and feel that we are all one for weal or for woe".¹

The Finance Member proposed to make the operation of the Bill as simple as possible. The zemindars would be assessed at one-half of the revenue they paid to the Government as their profits in respect of land. All the safeguards which existed in the income-tax law of England were inserted in the Indian Income-tax Bill. The general provision for assessing profits was the same as in the English law, namely, that voluntary returns were to be made by traders to the Collector or the Commissioner² to his satisfaction. All inquisitorial

¹ *Financial Statement, 1860-61.*

² The duties imposed by this Act were to be under the direction and management of the Governor-General of India in Council, the several Governors, Lieutenant-Governors, and Chief Commissioners. The revenue divisions and districts were to be made use of for the purposes of this Act, but the Presidency towns and stations in the Straits Settlements were to be regarded as separate districts. The Collector of land revenue was entrusted with the execution of the Act in the districts. In the Presidency towns, not less than six Commissioners were to be appointed by the Provincial Governments, of whom not less than two were to be persons not in the service of the Government.

practices were to be prevented,¹ and the necessity of exhibiting accounts and books was to be avoided so far as possible. Further, it was provided that the assessment might be made by *panchayats* in such areas as the Government might think fit to prescribe. In order to avoid the annoyance of annual assessments, power was given to the Commissioner or the Collector to compound the tax for a fixed sum for the whole period of five years or for a shorter period.

The Income-tax Bill was read a first time on the 4th March, 1860.² The Bill met with a hostile reception at the hands of the public, and petitions from various quarters were presented urging its withdrawal.³ But a few persons expressed their approval of the measure. Among these was Maharaja Mahtab Chand of Burdwan. In a letter addressed by him to Mr. James Wilson, he expressed his willingness to contribute his share to the public

¹ If, however, the Collector or the Commissioner was dissatisfied with any return, the Act gave him the power to surcharge such person in such sum as he might think fit. Sec. LIV.

² Mr. Wilson cited this Bill as an instance of the Government's policy to deal equally with all classes of the Queen's subjects; for it was proposed that the whole public service, from the Governor-General down to the youngest civilian, should "contribute by an income-tax, equally levied on all to the exigencies of the State."—*Proceedings of the Legislative Council, 1860.*

³ These emanated, among others, from the British Indian Association, the landholders of Dacca, the clerks employed in the Government and other offices, the landholders and raiyats of Eastern Bengal, and the proprietors of permanently settled estates in Bengal. At a meeting of the inhabitants of Madras, presided over by the Sheriff, Mr. H. Nelson, a protest was recorded against the Bill.

necessities in the emergency which had occurred; and though some other landholders had claimed exemption from the tax, he was emphatic in the opinion that the tax was an equitable one.¹ The Finance Member naturally welcomed this support to his scheme of taxation, but the importance which he seemed to attach to this letter was surely much greater than it deserved. Amongst Europeans, there was at first a tendency to support the measure; but after a time a marked change took place in the opinion of this community.

The second reading of the Bill was taken up on the 14th April. In the course of the speech delivered by Mr. Wilson on this occasion, he replied to the various objections which had been raised against the Bill. Urging the need for additional resources, he argued that the deficiency could not be made good by retrenchment in expenditure. He also pointed out that the substitutes suggested were less

¹ This view was expressed in a letter to Mr. James Wilson from the Maharaja Bahadur. The following extract from this letter forms interesting reading: "Permit me, Sir, most respectfully to assure you that the immediate cause for this expression of my opinion is the attempt which has been made to oppose your admirable system of taxation—this opposition being founded upon the false assumption that it is a breach of the perpetual settlement.

"No doubt that at the time the settlement was made it was considered as sufficient for the exigencies of those days, but I cannot find anything in the terms of the settlement to convince me that the zemindars of India have for ever been exempted from contributing to assist the Government when they incur unavoidable expenses in preserving property, life, the honour, and all that is dear to them, of those very zemindars. Sir, I, as the greatest zemindar of Bengal, disclaim all such exemptions. I am willing to submit most cheerfully to your wise system of taxation which places this unavoidable impost equally on all classes". *Vide Proceedings of the Legislative Council of India, 1860.*

suitable than the income-tax. One objection to the tax was embodied in a petition from the clerks in the public and other offices. Their prayer was that, in place of a uniform rate upon all incomes above the taxable minimum, there should be a graduated scale, beginning with 1 per cent. upon lower incomes and going up to 6 per cent. upon higher incomes. To this reasonable suggestion Mr. Wilson's reply was that it was "no part of the functions of fiscal arrangements to equalise the conditions of men." He added: "But this at least we may say in favour of an income-tax which cannot be said in favour of any other tax, that the incidence falls upon each person in the exact proportion to his means".¹ The principle of progression was thus brushed aside by the Finance Member.

Another objection to the measure was the novelty of the tax. It was also averred that an income-tax was distasteful and repugnant to the feelings of the people. To this Mr. Wilson replied that there was considerable difference of opinion on this question, and that some officers had expressed a view favourable to it. Before concluding, he referred to the most cordial and unanimous support which he had received from all officers of the Government, with one single exception, namely, Sir Charles Trevelyan, Governor of

¹ *Proceedings of the Legislative Council of India, 1860.*

Madras.¹ Though there were various difficulties, Mr. Wilson did not hesitate to persevere in a measure which, in his opinion, was based on "equitable, broad and intelligent principles", and calculated to promote "the lasting good of the country."

The details of the Bill were considered at great length when the Council resolved itself into a Committee. The question of the exemption of landholders under the Permanent Settlement was again discussed. Mr. A. Sconce observed that the clear purport of Regulation I of 1793, which legalised the settlement of estates in Bengal, was that the re-assessment of these estates was for ever barred, but the law did not guarantee that the landholders should never be called upon to aid in the relief of the future necessities of the Government, by contributing according to their means or incomes.² He argued, further, by referring to the first sentence of Regulation XIX of 1793,³ that the right to revenue from land was inherent in the State

¹ "The opposition in that case", said Mr. Wilson, "has assumed a character which, I will venture to say, has no parallel in Indian history". As has already been noticed, it was Sir Charles Trevelyan's opposition to Mr. Wilson's measures of taxation and the publication of letters addressed by him in this connexion to the Government of India that led to his recall.

² Mr. Sconce asked the question, "Is the revenue assessed a tax in the sense that it is a deduction charged upon the profits or gains of zemindars diminishing their gains to the same extent, or is it levied in virtue of a substantive and paramount title vested in the State?" The law of 1793, he thought, left no doubt on this point.

³ It runs as follows: "By the ancient law of the country the ruling power is entitled to a certain proportion of the produce of every *bigha* of land, demandable in money or kind, according to local custom"

and was not a deduction by way of a tax from the profits of the landholders. He added that the same fact was brought out in a still stronger light in Regulation VIII of 1793, the 75th section of which provided that the assessment should be so regulated as to leave to the proprietors a provision for themselves and their families equal to about ten per cent. of the amount of their contribution to the Government. Mr. Wilson quoted extracts from the Minutes of Lord Cornwallis and Sir John Shore to prove that it was not their intention to exempt the zemindars from a scheme of taxation which would reach others. Nor, in his view, were the holders of rent-free tenures absolutely free from liability in respect of the general taxation of the country.

Several members of the Council expressed the hope that the income-tax would not be a permanent measure. Mr. H. B. Harington, member for the North-Western Provinces, observed that in England almost all those who had written or spoken on the subject, although they all admitted that, in a case of emergency, an income-tax was perfectly justified and might be unavoidable, were of opinion that it should be given up as soon as possible, and indirect taxation reverted to. The objections to an income-tax were, Mr. Harington thought, aggravated in India by the character of the agency which was employed to carry it out.

The Bill was carefully considered in the Select

Committee; and although its essential features remained unchanged, considerable improvements were made in its details.¹ The third reading of the Bill was taken up on the 21st July, 1860. On this occasion, Mr. Wilson expressed his satisfaction at the fact that a Bill containing so many sections as this should have passed the Council not only unchanged in its main provisions, but without a single division, from first to last, having taken place. In concluding the debate on the Bill, Sir Barnes Peacock observed that it had his entire approval. He also concurred in all that had been said by the Finance Member regarding the justice of taxing landholders under the Permanent Settlement.²

The Income-tax Bill was passed by the Council on the 24th July, 1860, and it received the assent

¹ The modifications were as follows: (1) The original Bill proposed to assess the zemindars under the periodical system of settlement at one-half of the government *jama*; the Select Committee reduced it to one-third. (2) In the matter of double taxation, it was decided to exempt incomes from foreign funds, except so far as such incomes might be brought into India. (3) The same rule was applied to income derived from other property, such as lands, houses, or investments in England or any foreign country. (4) Pensions of persons resident in India and drawn from the Secretary of State were exempted. (5) With regard to commercial profits, the same rule was to be pursued as nearly as possible. (6) All officers in the army and the navy were to be charged whose incomes and emoluments were not less than those of a captain in the army.

² With reference to the assertion which had been made that his opinion now was different from that expressed in a previous Minute, the Chief Justice explained that his opinions on the two occasions were entirely consistent with each other. The Minute was written on the subject of taxing zemindars and zemindars alone for the propose of maintaining *chaukidars*; this was an exceptional measure, and the Government would be violating the promise they had made at the time of the Permanent Settlement. The income-tax was a general tax affecting the whole country, from which the zemindars could not reasonably claim exemption. *Vide Proceedings of the Legislative Council of India, 1860.*

of the Governor-General on the same day. It was to continue in force for a period of five years. Some minor modifications were introduced by Act XXXIX of 1860¹ with the object of remedying the defects which had come to light since the passing of the Income-tax Act. The law, as amended, came into force in September, 1860. The yield during the financial year 1860-61 was rather small.

In the following year, Mr. Samuel Laing, the successor of Mr. Wilson, described the income-tax as "a failure". He admitted that it laid down a great and just principle, namely, that (the capital and the trade of India, as well as her land, should contribute, in a fair proportion, towards the support of the State. From that principle no Government, he believed, would ever recede. He thought so far as fixed and certain incomes were concerned, which could be ascertained without prying into people's private affairs, there was no fairer mode of levying a tax than by a percentage on these amounts. But as for trading and professional incomes, or incomes which could not be ascertained without calling for complicated returns and instituting private enquiries, some fixed scale of assessment under a graduated license-tax, was, in his opinion, a better mode of applying the principle. He held the view that it was a fatal objection to the income-tax that it

¹ This Bill was sponsored by Sir Bartle Frere in the absence, owing to illness, of Mr. James Wilson.

conducted to extensive demoralisation by holding out a premium to fraud. Besides, its inevitable tendency was to embark the Government in a constant struggle with a large section of its subjects,—“a struggle carried on by vexatious interference and inquisition on the one hand, and by evasion and chicanery on the other”.¹ Lastly, he was of the opinion that India was no place for such a tax going as low as £20 a year. But the financial condition of the country did not permit him to amend this portion of the tax on the occasion, although he hoped before long to be able to do so.

A few months later, a temporary Act was passed to continue the then existing assessments under the income-tax for one year. At the time of the presentation of the Budget for 1862-63, Mr. Laing expressed the opinion that, if the income-tax were being imposed for the first time, he should have had no hesitation in recommending that it should be converted into a tax on the principle of Mr. Harington's Bill, and made over to the Provincial Governments. He said further that, if the income-tax were to be perpetual, he would rather see it transformed into a local tax than continued as an imperial tax. But the one paramount consideration was whether the income-tax was to be looked upon as a permanent or as a temporary measure. On this point Mr. Laing

¹ *Proceedings of the Legislative Council of the Governor-General, 1861.*

himself had no doubt. The tax had been imposed for a limited term, and it was necessary at all hazards to keep faith with the people of India by not prolonging it. He said that while the abolition of the tax was the great object of his endeavours, it was not possible to carry it out on this occasion, as only a small surplus was anticipated in the budget.

But the Finance Member proposed certain measures which were calculated to alleviate materially the pressure of the tax. In the first place, the temporary Act of the previous year was renewed, dispensing with all further returns and enquiries for the next three years. Secondly, all incomes between Rs. 500 and Rs. 200 were exempted, not on the ground that such payers were poor,¹ but on two other grounds, namely, first, that while the number of persons who paid the lower rate of 2 per cent. was two-thirds of the total number of income-tax payers, the money they paid amounted to only one-fifth of the whole preceeds; and secondly, that the cost of collection of this portion of the tax was very large, which might be taken as an index to the annoyance and oppression it caused.² As the op-

¹ Mr. Laing was no believer in socialism which was, in his opinion, destructive of social order; and it was the middle and working classes who, he thought, would in the long run, "suffer most from the seductions of the political demagogues and from the sickly sentimentality of injudicious philanthropists."

² "A tax", said Mr. Laing, "which affects 600,100 persons, to produce £350,000 gross, of which at least £100,000 is absorbed by cost of collec-

position to the income-tax had emanated chiefly from the European community, Mr. Laing made an earnest appeal to its intelligence and public spirit. "I do not believe", he said, "in ignorant impatience of taxation on the part of educated gentlemen like the great majority of official and non-official Europeans in India, when they are fairly dealt with. On the contrary, I am convinced that, however strongly they may feel the natural desire of every body to escape his own peculiar burden, they will be satisfied with the assurance that the Government is sincerely desirous not to perpetuate the income-tax, and with the pledge given for the future by the remissions already made."¹

From the 1st August, 1863, the four per cent. rate was reduced to three per cent. Before the expiry of the Income-tax Act, the question whether it should be continued or not was discussed in the Executive Council of the Governor-General. The Finance Member, Sir Charles Trevelyan, was strongly opposed to the renewal of the Act. He thought that,

tion, is condemned by the mere statement of figures". "But the numbers alone", he added, "do not adequately represent the real relief, for it is beyond all question that men of property and intelligence can defend themselves against mistakes or attempts at extortion by native officials, far better than the class who just come within the limit of the 2 per cent. assessment".—*Financial Statement, 1862-63.*

¹ The Finance Member said further : "The prosperity of India is their prosperity, and I am much mistaken in their intelligence and right feeling, if they are disposed to use the dog-in-the-manger argument, that because we cannot afford to relieve them, 600,000 of our fellow-subjects of the humbler classes shall, for the sake of £250,000 which we do not want, be kept under the bondage of an unpopular tax."

provided proper economy was observed, the other sources of revenue would suffice for the expenses of administration. One of the greatest objections to the income-tax, in his opinion, was that it might "induce a relaxation of the habit of economy."¹ The Governor-General, Sir John Lawrence, on the other hand, thought that, in the then existing financial situation of the Government, it was inexpedient to allow the tax to lapse. But he failed to secure the assent of the Council to his proposal to continue the income-tax.² He, therefore, recorded his protest in a Minute in which he observed as follows: "It has been my earnest desire ever since the income-tax was established that I might see the day when it would be fairly given up. And of course, the circumstance that it would conduce to the credit of my administration if it be now allowed to lapse has not diminished this wish. But I view with apprehension the loss of this source of income under present circumstances."³ It is very

¹ Sir Charles said in the Legislative Council: "The disposition will always be to spend up to an income-tax. In order to prevent, I will not say profuseness, but a feeling of indifference about the spending of public money, there must be a sense that we are dealing with limited funds. The resources still to be derived from a judicious frugality are extremely important."—*Minute dated the 30th March, 1865.*

² Bosworth Smith says that the Council had come round reluctantly to the conclusion that the income-tax must be retained for another year; but that on the day before the promulgation of the budget, it was found at a meeting of the Council that Sir Charles Trevelyan had returned to his old hate, and that all the members of the Council present, except the Governor-General himself, had "harked back with him".—*Life of Lord Lawrence, Ch. XIII.*

³ Sir John Lawrence himself had written to Sir Charles Wood, on May 29, 1864: "I am myself very strongly opposed to further taxation.

easy to give up a tax, but it is still more difficult to revive it.”¹

The Governor-General might, of course, have overruled his Council,² but he shrank from the step lest he should hurt the feelings of Sir Charles Trevelyan. The Council decided to impose certain export duties as a substitute for the income-tax. These, however, were disallowed by the Secretary of

We now hardly make the two ends meet. Our expenses are yearly increasing, and will increase. We have not a sufficient income for improvements, and a considerable slice of our revenue, as you know well, is uncertain. In August, 1865 the income-tax must cease. We must, as soon as practicable, provide for this loss. I greatly deprecate additional taxation; for I know the complications which are likely to ensue. The minds of the natives are unsettled. It is far better to reduce expenditure than to increase taxation. I have always advocated this policy as you know”. *Vide R. B. Smith, Life of Lord Lawrence, Ch. XII.*

¹ Sir John Lawrence wrote further: “If therefore the income-tax is renewed, or, in other words, if a new income-tax is passed, it will be as completely additional taxation as if it were a succession tax or any other tax. The case is even stronger than this; for we are under a moral obligation not to renew the income-tax except in the event of imperative necessity. This point is put with perfect correctness in Mr. Laing’s financial statement for 1862-63”.

Two years later, Sir John Lawrence wrote to Sir Stafford Northcote: “The English community have objected to the income-tax. It was mainly through their influence that it was not continued in 1865-66. It was mainly in deference to their wishes that the license-tax was adopted this year in preference to an income-tax. The English community almost universally lend their influence in favour of increased expenditure of various kinds. But when it comes to taxation to meet the extra cost, they resist their share of the burthen”.—Letter dated the 28th March, quoted in Bosworth Smith, *Life of Lord Lawrence*.

² Mr. H. B. Harington and Mr. W. Grey, members of the Executive Council, wrote a joint Minute in which they observed as follows: “The Minute on the record by the Governor-General renders it necessary that we should state the considerations which led us to think it right that the income-tax should not be re-imposed. In coming to this conclusion we are chiefly influenced by a belief that the Government had pledged its faith to the people that the tax should not be re-imposed unless the financial condition of the country should be such as to make the imposition of such a tax an imperative necessity.”—*Minute dated the 13th April, 1865.*

State. On the 31st July, 1865, the provisions of the Income-tax Act of 1860 expired.

The figures relating to the proceeds of the income-tax and the persons assessed to it are interesting. In the first official year of its imposition, the collections amounted to £1,100,000. In 1861-62, the income-tax (together with the license-tax) produced £2,000,000. In the three following years, the collections were £1,900,000, £1,500,000, and £1,300,000.¹ The net receipts from the different provinces in the last complete year of its enforcement were as follows: Bengal, £385,005;² North-Western Provinces, £169,059; Oudh,³ £29,754; Punjab, £52,280; Central Provinces,⁴ £29,868; Hyderabad Assigned Districts, £1,248; British Burma,⁵ £13,095; Madras, £147,867;

¹ The tax was in force during only one quarter of the year 1865-66, and the receipts amounted to £671,900.

² In the province of Bengal, the number of persons assessed in 1860-61 and 1861-62 was a little over 250,000, and the amounts realised in these years were £187,786 and £635,585 respectively. In 1862-63, on the passing of the Act exempting incomes under £50, the number of persons assessed fell to 64,677, while the receipts amounted to £629,197. In the two following years, the persons paying the tax numbered 59,927 and 53,773 respectively, and the receipts were £478,392 and £385,905. The total receipts during the four years in Bengal amounted to about a million and a half pounds sterling. The cost of collecting the tax was about 3½ per cent. on the collections in Calcutta and the suburbs, and nearly 9 per cent. in the remainder of the province. The moral obligation to furnish trustworthy statements was generally evaded, and only 6 per cent. of the payers were taxed on the returns made by themselves, while the amount of surcharge was 300 per cent.

³ The charges were only £288, or less than 1 per cent.

⁴ The number of persons taxed in the Central Provinces was about 5,000, and 98 per cent. of the demand was realised during the year.

⁵ It is worthy of note that so great was the repugnance felt for the tax that many of the Chinese withdrew to the Straits Settlements in order to avoid it.

Bombay,¹ £337,250. Bengal was thus the largest contributor among the provinces, with Bombay as a good second.

On the occasion of the presentation of the budget for 1865-66, Sir Charles Trevelyan described the income-tax as "a potent but imperfect fiscal machine," which should be regarded as "the great financial reserve of the country." It was laid on the shelf "complete in all its gear, ready to be reimposed in case of any new emergency".²

It was not long before such an emergency arose. No sooner had the income-tax expired than did its resuscitation in another form become necessary. In 1867, the financial difficulties of the Government of India compelled it to impose a license-tax.³ This tax having lasted for a year, Mr. Massey resisted all demand for its repeal, and continued it in an improved form as a certificate-tax. But this change

¹ A report submitted by the Income-tax Commissioners, on the working of the Act for four years in the island of Bombay, showed that, at any rate in the Presidency towns, this was by no means a difficult mode of taxation. The assessment in the first year amounted to only £92,500, when the rate was at 4 per cent; but in 1864-65, although the tax had in the meantime been reduced to 3 per cent., the realisations amounted to about nearly four times that amount. The prosperity of the community in the latter year no doubt contributed largely to this result, but a great deal was due to the improved means of ascertaining what was really the amount assessable, and to the taxpayers having become better acquainted with the obligations imposed upon them.—*Moral and Material Progress Report, 1865-66.*

² *Financial Statement, 1865-66.*

³ Sir John Lawrence had himself been in favour of an income-tax rather than a license-tax, and had written to the Secretary of State, Lord Cranborne, to that effect. The mode in which the License-tax Bill was carried was objectionable, for it was introduced and passed at one and the same sitting.

did not solve the financial difficulty; and in 1869, another deficit, the fourth in succession, was apprehended. Sir Richard Temple, therefore, proposed to convert the certificate-tax into an income-tax. In explaining the provisions of the Bill, he observed that as the principle of the certificate-tax was in fact that of an income-tax on particular classes, the substitution of an income-tax proper would practically not much alter the demand on those who paid the certificate-tax. The effect of the change would be virtually to extend the tax to those classes which had previously been exempt. The tax would thus apply equally and justly to all classes alike without any distinction. The principle of rough assessment, avoiding individual assessments and inquisitorial processes, was to be kept up. The mean incidence of the certificate-tax, namely, 1 per cent. on profits, was also to be maintained. The minimum limit of income—Rs. 500 per annum—was to be observed in the case of the income-tax. Officers of the Government, drawing salaries below Rs. 1,000 and above Rs. 500, were to be taxed at 1 per cent. It was calculated that not more than 150,000 persons would be assessed to this income-tax, or, in other words, the tax would hardly touch one in a thousand. "In short," observed Sir Richard Temple, "our hope is that by eschewing change in respect to those who now pay a direct tax; by refraining from demand for returns; by removing the measure from any

contact with the poorer and more ignorant classes, we shall keep it comparatively free from much of the unpopularity which attached to the income-tax and, as it were, rob the measure of its sting".¹

In answer to the suggestion that some other means might have been devised for improving the resources of the Government, Sir Richard Temple said that they had over and over again thought of every tax that had been suggested, and found that some insuperable economic objection or other was apparent in the case of each one of them, the income-tax alone remaining comparatively free from objection, "as hampering no particular trade and fettering no particular industry". Besides, experience had shown that they could not afford altogether to dispense with direct taxation. He, however, refused to accept the suggestion to raise the rate to 2 per cent., because he thought that the 1 per cent. rate was sufficient, and that it was not desirable to trench more than was absolutely necessary upon the chief fiscal reserve of the Government. The Finance Member appealed to the fundholder, the landholder,² the house-owner, and the European

¹ *Financial Statement, 1869-70.*

² "The landholders", he said, "especially the zemindars under the Permanent Settlement, convinced from long experience of the inviolable faith kept with them by the State, cannot regard this measure with any distrust, but will submit to the law, if it shall be enacted, with that loyalty which befits gentlemen of accumulating wealth and liberal education, recollecting that the question of their liability was settled long ago, and that in each cycle of years the progress of Bengal—with its staple profitably exported to England, its net-work of water communications, its patient and thriving peasantry—enhances their debt of grati-

community for aid in bearing the burden of the tax, and concluded with the expression of the hope that every person, European or Indian, would "appreciate the justice of taxing all classes without exception". Though some objections were made against the Bill, it was passed.¹

The income-tax imposed by Act IX of 1869 came into force from the 1st April of that year. It was levied at the rate of 1 per cent. on all incomes and profits from Rs. 500 per annum and upwards. It fell on the landed classes as much as on the other classes of the population. Persons subject to the income-tax of 1869-70 were divided into five grades. Grade I, being the lowest, included those whose annual incomes ranged from Rs. 500 to Rs. 1,000, while grade V, the highest, consisted of those whose incomes amounted to Rs. 1,00,000 or more a year.² The rate was subsequently enhanced by Act XXIII of 1869 to 2 per cent. for the second half of the financial year. The financial results of the Acts of 1869 were satisfactory.

In 1870, a deficit of a million and a third sterling

tude towards the Government under whose sway their property has been vastly benefited".

¹ The Maharaja of Jaipur, a member of the Legislative Council, said that, "in his opinion, of all modes of direct taxation the income-tax was most unsuited to this country, as it was most opposed to the feelings of the people". This opinion of a ruler of an Indian State was quoted in 1873 with approval by Lord Northbrook as that of a friendly neighbour, who himself was not affected by the tax, nor were his subjects.

² The total number of persons assessed to the income-tax in Bengal in 1869 was 182,779. The total collections in this province amounted to £373,146, about £107,000 being derived from the lowest, and about £62,000 from the highest, incomes. The collections in Calcutta alone amounted to £102,000.

being apprehended, recourse to further taxation became unavoidable. The Finance Member proposed to raise the income-tax to 6 pies in the rupee, or about $3\frac{1}{8}$ per cent. On this occasion, the rate was not fixed, as heretofore, as a percentage of the income. The system of rough assessment by classes was dispensed with on the ground that, while it worked well when the rate of duty was low, it would not work satisfactorily with a higher rate. Individual assessments were now substituted, and the submission of compulsory returns of income by taxpayers became essential. As to the duration of the new income-tax, the Finance Member declined to make any promise whatsoever. He, however, expressed the hope that the tax would not last beyond that year at the rate of 6 pies in the rupee; but he made it clear that the realisation of such hope would be dependent on circumstances.

The probable yield of the tax was estimated at Rs. 2,180,000, but the actual revenue from this source fell somewhat short of the expected amount. The income-tax of 1870-71 did not thus yield a sum commensurate with the increase in the rate. In Bengal, for instance, there was a decrease in the number of assesseees as compared with that of the previous year, though the result was favourable in comparison with other years. There is no doubt that the people had been over-taxed under the Acts of 1869, and there was naturally a disposition

towards leniency of assessment in 1870-71.¹ Another cause of the falling-off was a deterioration in the circumstances of some of the tax-paying classes. A third cause was perhaps to be found in a certain amount of passive resistance engendered by the unpopularity of the tax.

The enforcement of the provisions of the Income-tax Acts of 1869 and 1870 led to many cases of oppression.² In Bengal alone, relief outside the law had to be given in 994 cases in 1869-70 and in 478 in 1870-71. The general view even among officials was that the rate was too high and that the limit of exemption was too low.

Mr. A. Money wrote: "There was a belief at the beginning of the year that the tax was the result of a temporary pressure for money, and would cease with the year. The assessors seem generally to have held this opinion, and to have impressed it on the people. Partly for this reason, and partly because to dispute a small assessment involved more trouble and expense than the demand was worth, a very large number of assesses paid, without objection, assessments to which they were not legally liable. Many a man with an income under 500 rupees, could afford to pay 6 rupees, that is, could pay that amount without any great privation, and thousands did so pay on no other grounds. When, however, the supposed possession of an income of 500 rupees produced a demand of Rs. 19-8 under the tax of 1870-71, all those who were really not liable came forward with objections and got exempted." And further: "The disclosure of the large number of illegal assessments made during the previous year, the outcry in the press when some such cases which occurred near Calcutta came to light, the fear of blame, the trouble consequent on a second enquiry into a case to which the Government's or the Board's attention had been called, the honest wish not to repeat the errors of the previous year, the heavy incidence of the tax, so heavy that on incomes of a little over 500 rupees its operation was necessarily attended with suffering and privation, all these causes combined to turn the scale during 1870-71 generally in favour of the assesses. I do not think this is to be regretted. The feeling against the tax at the beginning of the year was so strong that I am confident it is better for the Government, in a political sense, to have realised less than it was entitled to at the full rate, than to have given occasion for any increase of that feeling." — *Minute on the Income-tax Administration Report for 1870-71.* |

² The Finance Member, however, thought that the number of cases of oppression was small.—*Financial Statement*, 171-72.

The Government of the North-Western Provinces thought that the assessable income of 500 rupees was a source of maladministration.¹ "No one," they said, "with an income of less than 1,000 rupees ever keeps regular accounts. There are no data on which assessments on the lower incomes can be made by subordinates, or controlled, had they the time to control them, by their superiors." Mr. A. Money, member of the Bengal Board of Revenue in charge of Income-tax, was even more emphatic. In his Minute on the Income-tax Administration Report for 1870-71 he wrote: "At the bottom of the misery and pain in these cases, of which there were hundreds, lie two or three facts; one, the inexpediency, as I take it, of extending the tax to incomes so small, that if, in regard to them, under such a rate as $3\frac{1}{8}$ per cent. the assessor makes a mistake, the result is something very like ruin to the assessee; another, the error of making over the power of punishment to a court which cannot look at the merits". The Government of Bengal concurred in this view.

The actual work of assessment was not in many

¹ Mr. Money was not sure whether the word 'oppression'—which was vague—could be used with regard to these cases of hardship, but he gave instances of gross injustice caused by the operation of the Act. He added: "Under the operation of the law, the magistrates became blind instruments of punishment. If, then, by cases of oppression are meant cases of wrong assessment, in which, either with or without the magistrate's assistance, the demand, or the realisable portion of it, has been collected, it is clear from the figures I have already given that such cases under the operation of the Acts of 1869 were very numerous."—*Parliamentary Paper No. 289 of 1872*.

cases done at all well. In Bengal, the operation of the succeeding year showed that a very large number of persons were assessed under the Acts of 1869 who were not assessable. Sir George Campbell, in a Minute on the Income-Tax Report for 1869-70, pointed out certain startling results. For instance, there were no lawyers in the highest class, while the next highest class included 58 ministers of religion, 17 legal practitioners, and no medical men, which led the Lieutenant-Governor to remark sarcastically that "religion was more lucrative than law after all".¹ But the most surprising fact was that the most numerous class of income-tax payers consisted of cultivators, of whom no less than 34,375 were assessed to the tax in Bengal, as distinguished from 25,483 proprietors and sub-proprietors. Undoubtedly, the cultivators were over-assessed as compared with the other classes, and Sir George Campbell was perfectly justified in remarking that he should have expected that, "in this country of very small holdings, cultivators would have been almost entirely free of income-tax instead of being the most numerous class assessed".²

The misery of the poor man was increased in the ignorant parts of the country, where the landholder's burden was transferred to the shoulders of the

¹ *Parliamentary Paper 289 of 1872.*

² "These seem," observed Sir George Campbell rightly, "to lead to a singular inversion of our preconceived ideas".

raiyat. The mode of assessment was also very unsatisfactory. Under Mr. Wilson's Act, every man was called upon by a general notification to give in returns of his income. If he failed to do so, he could not complain of the subsequent action taken against him. But under the Income-tax Acts of 1869 and 1870 the initiative rested with the Government office, and it was scarcely equitable that, owing to the Collector's omission to serve a notice during the previous year, a man should at one and the same time be called upon to pay the entire tax for the current year. Such delay not only deprived the taxpayer of his legal right to pay in instalments, but the cumulative demand invested it with additional severity.

Another defect of the system was to be found in the great disparity and variation in the assessment of some districts. The yield was not the largest in the districts around Calcutta, which had the greatest advantages by way of roads, railways, commerce, education, and all that was known as civilisation, but in the inaccessible and non-Regulation district of Manbhum. The arbitrary character of the assessments was further proved by the fact that, out of 90,784 objections filed, more than 50,000, were successful.

There was an even more serious evil. The changes from year to year were, to use the words of a high officer of the Government, "like the effects of

a kaleidoscope". At each turn of the legislative machine, he observed, the districts altered their relative positions, and occupied new places, according to the character and proclivities of the assessors or collectors whom chance or the Government might give them.

In 1871-72, the opinions of the provincial rulers and of other officers of the Government were invited on the nature of the income-tax. The Lieutenant-Governor of the North-Western Provinces wrote that he did not object to the main principle of the income-tax. "But", he added, "it may be questioned whether the tax should be resorted to as a means of squaring the accounts of the year, its rate and reach varying with the amount of the annual deficit or the prospects of the coming revenue. It would be wise and more statesmanlike, in dealing with a people so impatient of inquisition, so suspicious of change, and so difficult to reach by our explanations, to make the tax precise and unvarying both in its reach and in the conditions of its assessment".¹

¹ The Offg. Collector of Ghazipur wrote: "The chief cause why the tax is at the same time unproductive, unpopular and unequal is the very high rate of the minimum assessment and the defective nature of the means available to us for ascertaining actual incomes.... The tax is disliked not only by the persons who ultimately pay it, but also by those who after assessment obtain remission at last with considerable trouble, and also by those who are actually never assessed but who expend considerable sums in fees to *pargana* and village accountants and other subordinate officials to save themselves from being mentioned." The Collector of Azamgarh wrote: "The task of assessing the income-tax, therefore, cannot be looked upon in any other light than that of an odious one; for while highly invidious to the people, it is equally unsatisfactory to oneself. The more I see of the working of the income-

The Lieutenant-Governor of the Punjab said that, in his opinion, the income-tax, in its modified form, did not give rise to any general discontent in the province. It fell on a very small percentage of the population. The agricultural classes were practically exempted altogether, the tax being paid by the inhabitants of cities and officers in the service of the Government. The collection of the tax had been carefully supervised, and the number of complaints was few. The novelty of the tax appeared to the Lieutenant-Governor to be the chief reason for any dislike felt for it, but this feeling was growing less year by year. The uncertainty of the rate at which the income-tax was levied and the frequent changes in the administrative procedure were further reasons for its unpopularity.

In 1871, the financial position of the Government having improved, it was decided to lower the rate of assessment from 6 pies in the rupee (or $3\frac{1}{8}$ per cent.) to 2 pies in the rupee (or a fraction over 1 per cent.), and to raise the minimum income liable to assessment to Rs. 750. Sir Richard Temple explained to the Council that the retention of this small tax was indispensable, as without it they would have to produce a budget with a deficit. He also pointed out that the rate to which the

tax year by year the more I feel convinced of the utter hopelessness of expecting to ascertain with any degree of accuracy what a native's income is."—*Parliamentary Paper 289 of 1872.*

tax was now reduced was the lowest at which it had ever been levied in India, and indeed the lowest at which it could be levied, if retained at all. The Finance Member expressed his satisfaction at being able to relieve, by the reduction, 240,000 persons heretofore taxed. It had been in respect of the small incomes below Rs. 750 that complaints of over-assessment, exaction, or vexation, had mainly arisen, and the pressure of the tax had fallen heavily upon these small incomes.¹ He added that the policy of the Government with regard to the income and license taxes had been to extend, from time to time, the exemption more and more among the poorer classes liable to assessment. No limit of duration was fixed in the Bill which was introduced to give effect to these amendments.

In the Legislative Council, individual members of the Government of India expressed their own views on the question whether the tax should be permanently maintained or not, and a great deal of divergence was observable in their remarks. The Government collectively, however, abstained from expressing any opinion on the subject. Lord Mayo refused to be drawn into the controversy. But he felt it his duty to record his opinion that a feeling of discontent existed among every class, European as

¹ Sir Richard Temple added that while the rate remained low as in 1867-68 and 1868-69, these complaints were not perceptible at all or were much less rife; and no doubt the inherent difficulties of the case had been aggravated by the increased rates.

well as Indian, on account of the constant increase of taxation which had been going on for years, and expressed his belief that "the continuance of that feeling was a political danger, the magnitude of which could hardly be over-estimated". The reduction in the rate and the raising of the taxable minimum failed to give satisfaction to the members of the Council, who urged the entire abolition of the tax. The Income-tax Amendment Bill was, however, passed in spite of strong opposition.¹

During the years 1871-73, the Indian income-tax engaged the attention of the Select Committee of Parliament, when considerable divergence of opinion was exhibited on the question. Three former Finance Members² of India, namely, Mr. Samuel Laing, Sir Charles Trevelyan, and Mr. W. N. Massey, expressed themselves as strongly opposed to the tax. Lord Northbrook, who was shortly afterwards to be sent out to India as Viceroy, also gave his opinion against it, the main ground of his objection being that it was essential for the safe government of India that taxes, if they could not always be in accordance with the feelings of the

¹ *Proceedings of the Legislative Council, dated the 17th March, 1871.*

² Mr. Samuel Laing thought that the income-tax was about "as bad and obnoxious a mode of raising revenue as it was possible to imagine in a country" like India. Sir Charles Trevelyan held the income-tax to be "totally unsuited to the character and habits of the natives of India, and singularly odious to them." Mr. W. N. Massey, having pointed out the objections to the maintenance of the tax, even at a low rate, said that "nothing on earth should induce him to hold office in India as the Finance Minister if the condition imposed on him was the maintenance of an income-tax as an ordinary source of revenue."

people, "should not altogether be opposed to them".¹

In the budget estimates for 1872-73, a small deficit was apprehended if the income-tax was to be given up. It was decided, therefore, to continue the tax for a year longer as a provisional arrangement. But it was understood that the question of abandoning it or maintaining it as an integral part of the financial system would be considered by the Government after the arrival in India of the newly-appointed Governor-General. The taxable minimum was now raised to Rs. 1,000. Thus the income-tax lost a part of its objectionable character by being confined to comparatively high incomes. The tax was estimated to produce a gross return of £585,100 in 1872-73.²

In 1873, Lord Northbrook, after reviewing the entire financial situation of the country found that, without re-imposing the income-tax, there would probably be a surplus of from £200,000 to £300,000 in the budget for 1873-74. He took into account the opinion of Europeans as well as Indians, both official and non-official, and came to the conclusion that the re-imposition of the income-tax was unnecessary and inexpedient.³ He thought that the opportunity which the prosperous condition of the

¹ *Vide answer to Q. 7474, Select Committee, 1872.*

² This was distributed as follows : land, £160,674 ; houses, £15,211 ; employment, private, £34,876 ; employment, Government, £103,567 ; commerce, £237,750 ; funds, £23,796 ; miscellaneous, £9,226.

³ *Minute of the Governor-General, dated the 14th April, 1873.*

finances afforded at this time of reducing the pressure of taxation was a great political advantage, and that no single act could produce so salutary a political effect over the whole of India as the announcement that the Government had determined not to re-impose the income-tax.¹ A Resolution was, therefore, published announcing the withdrawal of the income-tax. The Finance Member, Sir Richard Temple, however, wrote an elaborate Minute intimating his dissent from the Resolution. He expressed the opinion that the income-tax was just as suited to India as to England, and that he could not contemplate its remission until the Government was able to produce a budget estimate with a surplus of one million and a half at the least. He objected to the relinquishment of the tax on the ground that it would be injurious to the stability of the finances, to the administration of the public service, and to the welfare of the general community. With regard to the last point, he observed : "As recently levied, it is essentially the one tax which falls on the rich. It helped in some degree to redress the balance which, in India, inclines too much in favour of the richer and more influential classes, and too much against the poor. It also helped to distribute the burden of taxation between the various industries, interests, and

¹ *Minute of the Governor-General, dated the 14th April, 1873.*

classes in the country. Its relinquishment deprives the Government of the means of mitigating taxation which falls unduly upon the poor, or which either injures trade and industry, or might at any moment prove detrimental to those interests".¹

Mr. B. H. Ellis, another member of the Executive Council of the Governor-General, also wrote a Minute expressing in emphatic terms his dissent from the Resolution. He held the view that an income-tax, levied at a light rate, and affecting only the upper classes, was specially suited to India, and its maintenance was a source of great financial strength. He concluded his Minute with these words: "I repeat, then, that the income-tax has been removed without due cause, and that its removal has weakened the financial resources of the country. We have, moreover, lost the opportunity of so dealing with the salt duties as to effect a great administrative and fiscal reform by getting rid of the customs line in the British territory, and at the same time giving relief to the poorer classes of a large part of India, and placing the finances on a sounder basis by furnishing an additional reserve in time of need. We have crippled our means of

¹ *Minute dated the 2nd April, 1873.*

Sir Richard Temple concluded his Minute with these words: "I maintain, firstly, that we cannot financially afford to dispense with the tax; secondly, that if we could afford any remission of taxation, preference ought to be given to other imposts before the income-tax; and, thirdly, that, even if these imposts had been reduced or remitted, still the income-tax ought to be retained, with a limited incidence and at a light rate, as a part of the ordinary fiscal system of India."

aiding the Local Governments...I regret greatly the course that has been resolved on, and I beg to record my protest against it".¹ On the other hand, Major-General H. W. Norman supported the decision of the Governor-General, and urged seven reasons in favour of it. With regard to the argument that the income-tax alone of all taxes reached the rich, he thought that this was not strictly or entirely true. "The tax", he wrote, "pressed on many who are not rich, and many who are well-to-do are affected already by other taxes. The landholder, for instance, pays the land-tax, and the European who, however, is rarely rich, pays customs duty on very many necessary articles of consumption. So far, however, as the abolition of the tax exempts the rich native traders from taxation, I regret it, and if any substitution could be devised as respects this class, it would be advantageous."² A policy of racial discrimination in the matter of taxation such as was suggested by this gallant officer deserves severe condemnation.

When the question reached the Secretary of State, it was placed before the Council of India. Neither the Duke of Argyll nor any member of his Council was satisfied that there were substantial grounds

¹ *Minute dated the 31st March, 1873.*

Lord Napier of Magdala was also in favour of the retention of the tax.

² *Minute dated the 2nd April, 1873.* Mr. (afterwards Sir Stuart) Bayley, who subsequently rose to the position of Lieutenant-Governor of Bengal, also sided with the Governor-General.

for the abolition of the income-tax. But, in view of the fact that the circumstances attending the income-tax of 1869-73 were exceptional, they gave their reluctant assent to the withdrawal of the tax.¹

Five years later, direct taxation was again levied, this time in the form of license-taxes. These taxes lasted till the year 1885-86. During the period of their continuance they were often assailed as unsatisfactory and unfair in incidence. In 1880, for instance, when the License Act Amendment Bill was before the Legislative Council, Maharaja Jatindra Mohan Tagore said that he failed to understand why the burden of the direct tax should not be distributed over all sections of the commu-

¹ The Duke of Argyll wrote: "After full consideration of the whole subject in Council, I do not see that any conclusive objection has been shown to the policy of an income-tax in India, a subordinate element in a general system of finance. On the contrary, it appears to me that it is better calculated than any other tax which has yet been proposed to reach the wealthy mercantile and trading classes, and to counter-balance the much heavier pressure of some other taxes on the less wealthy portion of the community. I am aware that opinions have been confidently expressed as to the unsuitability of the tax to the people of India, and it is certainly possible that direct taxes which were in reality much more objectionable, but which were common under native systems, would even now from long familiarity be less disliked. These, however, we have wisely abolished. In substituting an amended form of direct taxation, we must be liable to encounter some not unnatural opposition. But too much account need not be taken of a feeling which would probably subside.

"It is certain, however, that special objection had arisen to the tax in connexion with the raising of its amount in the middle of the year 1869-70, and its further increase in 1870-71, and this opposition was encouraged by the fact that in each of the years 1870-71 and 1871-72 the result of the finances was a surplus of so considerable an amount as to suggest that the tax was not called for in order to produce a sufficient excess of income over expenditure. In such circumstances, the policy of an income-tax, assessed in a manner as little objectionable as possible, and steadily maintained at a low fixed rate (except under extraordinary emergencies) could not perhaps be considered under favourable conditions".—*Despatch dated the 6th August, 1873.*

nity. Sir Alexander Arbuthnot also spoke of the incompleteness and inequality involved in the license-tax, and pointed out that the real remedy lay in reverting to a light income-tax with a high taxable minimum. The Governor-General said on this occasion that no form of direct taxation, short of an income-tax, could be wholly free from objection, and gave the broad hint that in the event of a deficit occurring in the budget in future, an income-tax would be levied. And it was not long before such an eventuality occurred.

In 1886, the Government of India was faced with a very difficult financial situation, owing chiefly to a considerable increase in military expenditure and a rapid and continuous fall in the rate of exchange. Four courses were now open to the Government which might enable it to balance income and expenditure. The first was economy. Although the Finance Member, Sir Auckland Colvin, did not lightly set aside this possibility, yet he felt that there were practical difficulties in the way of enforcing it. The second course was borrowing.¹ This was rejected on the ground that the best way out of pecuniary difficulties was not to add to them. To call upon the Provincial Governments for aid was the third alter-

¹ In this connexion Sir Auckland Colvin remarked: "We have been told that, if economy is a good dog, borrowing is better. A passed master in the art of meeting pecuniary obligations, whose authority as we know, is unimpeachable, was obliged at last to confess that he could get no remedy against this consumption of the purse."—*Proceedings of the Governor-General's Legislative Council, 1886.*

native. While not entirely rejecting this expedient, the Finance Member thought that as this was the fourth year of the provincial contracts, such a step was hardly desirable. Besides, what was needed was as much an increase of existing revenues as a re-partition of those already available. The last resource thus was additional taxation. This, again, gave rise to the question of direct *versus* indirect taxation. In the opinion of the Finance Member, resort to indirect taxation was undesirable. An addition to the salt duty could not be thought of, as it would increase the burden on the poorest sections of the community. The re-imposition of the import duties had been urged in some quarters. But Sir Auckland Colvin rejected the proposal on the ground that, while such a measure would be popular with the class on whom the burden would not fall, it would add to the burden on the masses of the people, who were the chief consumers, and whose income at the best was barely sufficient to afford them the sustenance necessary to support life, living, as they did, "upon the barest necessities of life."¹

After carefully considering the various aspects of the question, the Government came to the conclu-

¹ "It is always popular", added the Finance Member, "to pass obligations on to other people; but it is a kind of popularity which no Government anxious for the equitable adjustment of the burdens to be imposed upon tax-payers can possibly wish to acquire. Nor would it be possible to escape the difficulty of the local industries." In the concluding portion of his speech, Sir Auckland Colvin justified the imposition of the tax. He said: "In the necessities of the time; in the interests of all classes of the community; in the present incidence of our Indian taxa-

sion that additional taxation was inevitable and that such taxation should be direct. It is interesting to note in this connexion that this decision of the Government had behind it the support of the Indian National Congress¹ which, during its first session held in 1885, had passed a resolution recommending, in default of other expedients, the extension of the license-tax to those members of the community who had hitherto enjoyed an undeserved immunity from the visit of the tax-collector. The Government had also by this time become fully convinced that those classes in the country which derived the greatest benefit from the administration, by reason of the security afforded by it, contributed the least towards its maintenance. It was, in fact, strange that the upper and the upper middle classes enjoyed the greatest immunity from taxation. Sir Auckland Colvin rightly remarked : "Efforts have, indeed, at various times, been made to remedy this scandal, for scandal it is of the greatest magnitude, when the poorest are called upon to pay heavily for the support of the Government, and the wealthier classes are exempted; but from one cause or another

tion; in the legitimate and necessary result of the financial policy pursued by our predecessors; in the admissions of those who oppose an income-tax, will be found the justification of the measure which I have now the honour to ask your Lordship to allow me to introduce."
—*Proceedings of the Governor-General's Legislative Council, 1886.*

¹ This attitude of the Indian National Congress, composed though it was of men belonging mainly to the learned professions, sufficiently justified its claim to represent the entire Indian population, including the poorest classes.

the measure has not been carried out, except for short and broken periods of time".¹

There was another important point which arose in this connexion. As a result of the fiscal policy under which a large portion of the indirect revenues ceased, a permanent system of direct taxation proved to be unavoidable. The direct taxation which the Government had imposed in previous years was in a very incomplete form and was open to severe criticism. The license-tax was unsatisfactory in many respects. Besides, its yield was insufficient for the needs of the Government. As it was neither desirable nor possible to do away with direct taxation altogether, it now became absolutely necessary to place the system of direct taxation on an equitable as well as a remunerative basis.

The Income-tax Bill which the Finance Member introduced in 1886 was in many respects different from similar measures which had previously been placed on the legislative anvil. As the Finance Member pointed out, it was built upon the foundations laid nine years ago for the license-tax, and was not an introduction, but an enlargement,—an extension and equalisation,—of direct taxation. It left the then existing license-tax undisturbed in the case of the lowest classes of income, except so far as it added professions and offices to trades and dealings.

¹ *Proceedings of the Legislative Council of the Governor-General, 1886.*

The combined scheme was expected to affect not more than 300,000 persons, officials included, out of the whole population of British India. One of the main features of the tax was that incomes of Rs. 500 a year or less were exempt, while those between Rs. 500 and Rs. 2,000 were assessed at less than the full rate. The principle of graduation was thus recognised ; but the Government was not prepared to give effect to it in any appreciable degree. Incomes were placed by the Act in four categories,—salaries and pensions in Part I, profits of companies in Part II, interest on securities in Part III, and income from other sources in Part IV. Incomes in Parts I and III were to pay 5 pies¹ in the rupee if they amounted to Rs. 2,000 or more a year, otherwise 4 pies² in the rupee.³ In the case of Part II, the rate was 5 pies in the rupee throughout. In Part IV, the rate was 5 pies per rupee for incomes of Rs. 2,000 or more ; between that amount and the untaxed minimum, there was a graded scale,—incomes up to Rs. 750 paying Rs. 10, those above Rs. 750 and up to Rs. 1,000 paying Rs. 15, and so on up to a tax of Rs. 42 for incomes between Rs. 1,750 and Rs. 2,000.⁴ Incomes derived from land were excluded from the

¹ That is to say, approximately $2\frac{1}{4}$ per cent.

² Or approximately 2 per cent.

³ The Finance Member, following the precedent of 1870, thought it more convenient, for purposes of calculation and assessment, to take so many pies in the rupee rather than a percentage.

⁴ *Moral and Material Progress (Decennial) Report, 1901-2.*

operation of the Bill.¹ Most of the objections which had been urged against the previous Income-tax Bills were eliminated from this measure.

The Bill did not meet with any serious opposition in the legislature. It was accepted as a necessity, but nevertheless was criticised from various stand-points by members of the Council. Dr. (afterwards Sir William) Hunter said that, while an income-tax was equitable in its character, it might prove most oppressive in its incidence. He urged the deduction of payments for life insurance or deferred annuities from the assessable income, which was particularly necessary in the case of professional men, "whose brains were their sole stock-in-trade". Mr. Richard Steel, a representative of the European mercantile community, thought that direct taxation was less suited to the country than indirect, but as the choice lay between the license-tax and the income-tax, he unhesitatingly preferred the latter.² Mr. Griffith Evans, a leading lawyer of Calcutta, expressed the view that an income-tax in India was not the powerful instrument which an income-tax

¹ This was done because this income-tax was really an expansion of the license-taxes. When the license-taxes were levied in 1877-78 on the trading and professional classes, cesses were simultaneously levied on the landed classes.

² He laid down certain principles. These were : "The first principle of a proper system of taxation is that it should be fair in its incidence, and the second that no unnecessary wastage should be involved in its collection. Besides these, it is obvious that the form of taxation should cause no unnecessary oppression or irritation, and should be framed in accordance with the wishes and even the prejudices of the people." Judged by this standard, Mr. Steel thought, direct taxation was less suited to this country than indirect taxation.

in England was, nor an instrument suited to the country or easily worked. He, therefore, thought that it could not be trusted to meet the deficit which threatened constantly to arise from the fall in the value of silver.

Some members of the Legislative Council warned the Government that in its working the tax was likely to cause much difficulty, and might give rise to practical injustice. Mr. (afterwards Raja) Peary Mohan Mukherji asked for a pledge as to the duration of the tax, but the Finance Member refused to give any, and observed: "If the principle is sound, it is unreasonable and inconsistent to promise that its application shall be of limited duration. If it is good for to-day, it is good for to-morrow and thereafter. So that I must decline to give any such pledge as I am asked for, nor would it be of any value if I gave it. No pledge can bind my successor, who must be guided by the exigencies of the day on which he is called upon to administer our finances". Another non-official member, Mr. V. N. Mandlik regretted that the cotton duties had not been re-imposed, and implored the Government not to insert the income-tax in the budget as an ordinary source of revenue, for he thought that it pressed hard on the honest and that its effects were demoralising.

The Select Committee altered the Bill in several respects. The principal modifications were the following: First, houses of persons engaged in the

pursuit of agriculture were exempted; secondly, life insurance premiums or deferred annuities, to the extent of one-sixth of the total income of a person, were excluded from the computation of the amount of income liable to the tax; thirdly, the special exemption of Government servants with salaries under Rs. 100 per month was omitted; but the other exceptions were retained as in the original Bill.¹

In the course of the debate on the Bill, the Governor-General, Lord Dufferin, pointed out that while the other classes of the population bore their due shares of the burden of taxation, lawyers doctors, members of the other learned professions, officers of the Government and other persons occupying an analogous status, and gentlemen at large paid little or nothing. "Now, surely", he observed, "this cannot be right, and to such an anomaly it is no answer to say that direct taxation is repugnant to oriental customs. Justice is the inhabitant neither of the East nor of the West. She admits no geographical limits to her supremacy, her throne is on high, and sooner or later, in spite of

¹ The following sources of income were exempted: (a) any rent or revenue derived from land used for agricultural purposes; (b) any income derived from agriculture; (c) buildings owned and occupied by cultivators or receivers of rent or revenue; (d) profits of shipping companies incorporated or registered out of British India; (e) income derived from property employed for religious or public charitable purposes; (f) income of a member of the joint family or of a company when the family or company itself was taxed; (g) income devoted to provident fund purposes to the extent of one-sixth of the total income of a person; (h) interest on stock; (i) salaries of officers in the Army not receiving more than 500 rupees a month; (j) the income of any person whose total income from all sources was less than Rs. 500.

prejudice or custom, she never fails to vindicate her title to the respect and veneration of mankind. It is then in the name of justice that we propose the imposition of the tax, and we feel assured that every fair and right-thinking man in the country, no matter how his private interests may be affected by our action, will recognise that no other course was open to us". The Governor-General emphasised the fact that the Government had carefully eliminated from the Bill everything that had rendered former measures of the kind odious and obnoxious. He added: "In fact, our project is merely an expansion of the license-tax. The license-tax is a one-storeyed house, and on the top of it we are putting up a second storey, but the order of architecture in both will be the same; and as the foundations of the one have stood the test of time and of popular criticism, so I trust will the walls of the other possess the same solid characteristics."¹

During the final stages of the discussion of the Bill, Mr. Peary Mohan Mukherji suggested the collection of the tax in quarterly instalments; but the suggestion was not accepted by the Government. He also moved several amendments to the Bill. The first was to limit the duration of the measure to one year; the second, to raise the taxable minimum from Rs. 500 to Rs. 1,000; the third, to exempt buildings occupied by owners thereof from the oper-

¹ *Proceedings of the Governor-General's Council, 1886.*

ation of the tax. All these amendments were negatived. The Bill was then passed, as amended, without a division.¹

The actual net collection of the income-tax in the year 1886-87 amounted to Rs. 1,27,75,100. The increase of the yield of this tax over that of the license-tax was Rs. 80,47,410. The percentage of total collections was 26 in Bengal, 24 in Bombay, 17 in the North-Western Provinces and Oudh, 11 in Madras, 8 in the Punjab, 3 in the Central Provinces, and $1\frac{1}{2}$ in Assam, while the remaining $9\frac{1}{2}$ per cent. was derived from the collections in Ajmere and Coorg and from officers serving immediately under the Government of India. Thus the two first-named provinces together furnished just one-half of the total revenue. The towns of Calcutta and Bombay contributed very largely to the result, being 50·4 and 50·6 per cent. respectively of the provincial yield. The collections from these two cities, therefore, formed more than one-fourth of the whole amount collected in India. The number of persons assessed was 1 in 37 in these two cities, and 1 in 80 in Madras City; 1 in 311 in the Bombay Presidency, apart from the capital; 1 in 555 in the Punjab, 1 in 602 in the North-Western Provinces; 1 in 655 in the Madras Presidency outside the chief town; 1 in 811 in Assam; 1 in 853 in Bengal, excluding

¹ This Act repealed the Northern India License Acts, 1878, the Indian License Acts Amendment Act, 1880, and the Acts of the Provincial Legislative Councils relating to the license-tax.

Calcutta; 1 in 866 in Oudh; and 1 in 1,136 in the Central Provinces. On the persons assessed the incidence of the tax was 22 rupees in Bengal (excluding Calcutta) and in the Punjab; 23 rupees in Madras and Bombay (excluding the capital); 24 rupees in Oudh, 28 rupees in the North-Western Provinces; 29 rupees in the Central Provinces and Assam; and as for the great cities, 62 rupees in Madras, 68 rupees in Bombay and 82 rupees in Calcutta.¹

About 30 per cent. of the amount collected was charged on salaries and pensions (three-fourths of those paying in the schedule being Government servants). There were 774 companies, paying an average of Rs. 964, whose contributions were less than 6 per cent. of the total proceeds. Rather more than 5 per cent. was derived from interest on securities. The remaining 59 per cent. was obtained from other sources of income, one-third of those assessed in this schedule being money-lenders paying about 24 rupees each on the average, and nine-tenths of the whole number being assessed on incomes of Rs. 2,000 or less.² On this occasion, the method of working was more satisfactory than on previous occasions. The assessments in respect of the fourth schedule (that is, miscellaneous sources of income), were, on objection, reduced by 19

¹ *Moral and Material Progress Report, 1886-87.*

² *Ibid.*

per cent., and the number of persons absolved from taxation, by 11 per cent. Excluding the portion of the tax derived from interest on securities, 90 per cent. of persons assessed had incomes below Rs. 2,000, and they paid nearly Rs. 50,00,000 or 38 per cent. of the total amount collected. Persons with incomes between Rs. 1,000 and Rs. 750 numbered 13 per cent., and paid only 6 per cent. of the total revenues; while those between Rs. 750 and Rs. 500 numbered 51 per cent., and paid 15 per cent. of the whole amount. The number of persons taxed on incomes exceeding Rs. 10,000 was 6,926, of whom 3,350 were Government servants. 338 assessments exceeded Rs. 50,000, of which 102 were assessed at over Rs. 1,00,000 and paid 7 per cent. of the whole sum collected; the latter class included 37 companies, paying Rs. 6,39,010.¹

The arrangements for assessing and collecting the tax were rendered somewhat smoother in 1887-88, and there was a slight increase in the net receipts. Objections were promptly heard in that year; and in only less than $\frac{1}{2}$ per cent. of the assessments was

¹ The following comparison between the Indian income-tax of this period and that levied in the United Kingdom is interesting: "The taxable minimum of income is lower than in the United Kingdom; but the average of earnings and of the cost of living is also much lower in India. The total assessment represents, in round numbers, a taxable income of Rs. 64 millions from securities, companies, trades and professions; and this total, though not in all respects comparable, is small by the side of the total annual value of 377 millions assessed to income-tax under Schedules C. D. & E. of the British Act during the year 1888. The contrast is the more marked because the population of British India is more than five times as great as that of the United Kingdom."—*Moral and Material Progress Report, 1889-90.*

it necessary to have recourse to a sale of the property of defaulters. In the following year, the exemption from income-tax which hitherto, for administrative reasons, had applied to Lower Burma, ceased. It was not, however, extended to Upper Burma. The tax legally applied to the whole of Lower Burma, but it was decided that assessment and collection would be made only in selected towns and centres of trade.

No changes were made in the system during the decade 1892-93 to 1901-2. Objections against assessments continued to be made in all the provinces, and in a fair proportion of cases, they were allowed. The work of assessment, however, continued to present great difficulties. To meet these, official agency was, in some cases, reinforced, as in the United Provinces, by unofficial assessors. In Burma, headmen were employed for doing the work of assessment, and were granted a commission of 3 per cent. on their collections. As a matter of fact, there was, very often, a tendency to fix the assessment too high rather than too low. But this practice was discouraged by the Provincial Governments, whose desire was to obtain accurate assessments, and to keep down the number of appeals.¹ The cost of collection in the districts was small, as the work was done for the most part by the existing agency. In the

¹ *Moral and Material Progress (Decennial) Report, 1901-2.*

towns, however, the collection charges were considerable. As in previous years, Bengal and Bombay stood out in 1901-2 far above the other provinces, the contributions of the two cities of Calcutta and Bombay being very large.

(During the years 1898-99 to 1902-3, there accrued to the Government large annual surpluses, which were due mainly to the appreciation of the rupee. Therefore, in 1903, the Government decided, among other measures of remission of taxation, to raise the taxable minimum from Rs. 500 to Rs. 1,000) Mr. G. K. Gokhale and other non-official members of the Governor-General's Legislative Council had urged such a measure for some years past, on the ground that persons of small means whose incomes ranged from Rs. 500 to Rs. 1,000 could ill afford to pay the tax. This raising of the taxable limit gave great satisfaction to the poorer middle class.¹ It is worthy of note that the exemption of incomes between Rs. 5,000 and Rs. 1,000, while it reduced the number of assesses by more than

¹ Sir Edward Law observed on the occasion of the annual budget debate: "As regards the raising of the limit of exemption of the income-tax, we believe that the tax on incomes under a thousand rupees is, in the main, paid by petty traders, by clerks in commercial and Government offices, and by pensioners, who, small as is the present impost, feel it to be a severe burden. We are very glad to relieve a generally highly deserving class of the community of this burden, which weighs particularly heavily on widows and orphans in receipts of small pensions barely sufficing for the necessities of life. Moreover, we have reason to fear that it is in the lower categories of incomes that hardship is perhaps felt in the matter of inquisitorial proceedings on the part of assessors, who, possibly, sometimes fix assessments at unjustifiably high rates, and we hope that by raising the limit of taxation to greatly reduce and simplify the work of assessment".

a half, produced a comparatively slight effect on the total revenue.¹

In the following year, the income-tax became once more the subject of criticism in the legislature. (Dr. (afterwards Sir) Asutosh Mookerjee, a non-official member of the Council, suggested the abolition of the tax, and urged various grounds in favour of his proposal.) Although the arguments advanced by Dr. Mookerjee against some of the details of the system were quite valid, his condemnation of the principle of the tax was hardly convincing.² He was, however, on very firm ground when

¹ The total gross receipts for the year 1902-3 were £1,403,492, while in 1903-4 they amounted to £1,206,845. In 1911-12, that is, at the close of the decade, the income-tax yielded £1,652,878. The largest proportionate increase was in Burma. The increase was partly due to the extension of the area of assessment. The growth of revenue in the Presidency towns was the main factor in the increase which occurred in Bengal and Bombay. In 1902-3, the proceeds of the tax in Calcutta, amounted to £193,268, while in 1911-12, these were £236,109. The contribution of Bombay increased during the decade from £144,838 to £241,419.

² The grounds were: first, the tax was imposed at a time of great financial exigency, which had passed away; second, the income-tax was looked upon by every nation as a great financial reserve, which might be drawn upon in times of emergency, and as there was no emergency at the time, it might be put aside; third, if the revenue from income-tax continued to be raised even after the emergency was over, it was merged in the ordinary revenues of the Empire, and at last it would become difficult to abolish the tax without greatly dislocating the balance sheet; fourth, taxation was usually resorted to at a time when the Government found itself face to face with a sudden and grave financial difficulty, in order to enable it to balance revenue with expenditure; but to retain a tax so imposed side by side with a large surplus appeared to be contrary to all sound principles of finance, and liable ultimately to encourage extravagance; fifth, evasion was so entirely the rule that forms and returns were declared to be perfectly useless, and surcharge, or in other words, arbitrary assessments, made almost at random, had been universally necessary to attain anything like a decent financial result; sixth, the assessment proceedings were of an inquisitorial character, and led to oppression and corruption, necessarily rendering the tax most unpopular; seventh, it violated one of the primary canons

he made his alternative proposal. If the income-tax, with all its defects, was to be retained, he suggested the method of a graduated tax. He pointed out that one uniform rate under Rs. 2,000 and another for all incomes above Rs. 5,000 caused great deal of hardship to many middle class men. The vision of the Government was, however, too narrow to allow it to entertain such a sound and reasonable proposal at the time. The Income-tax Act was applied to Berar in 1904. In 1905, it was extended to the whole of Lower Burma.

(The number of persons assessed to income-tax in India was very small, in proportion to the population till 1903, and after that date it was much smaller.) The number of assesseees, including companies in 1902-3 was about 526,000 or less than 23 in 10,000 of the population; in 1910-11, the number was about 270,000 or 11 in 10,000. A classification of incomes assessed to the tax showed that nearly two-thirds of these were below Rs. 2,000 in 1902-3. But the proportion of the higher incomes tended to increase during the decade ending 1911-12.¹

of taxation handed down from the days of Adam Smith, namely, that all persons should contribute as nearly as possible in proportion to their respective abilities, for the Indian income-tax was extremely unequal in its incidence.—*Vide Proceedings of the Governor-General's Council, 1904.*

¹ The total number of incomes (including "profits of companies") in the highest class, that is, over one lakh, increased from 239 in 1902-3 to 363 in 1910-11.

Of the incomes assessed under Part I—salaries and pensions,—about one-half was paid by the Government, and these included the great bulk

(No changes of importance took place till the year 1916.) In that year, the financial distress caused by the European War compelled the Government to impose additional taxation. One of the measures adopted to cope with the difficulty was an increase in the rate of the income-tax.) All the then existing exemptions were left untouched. Nor was the taxation of persons whose incomes were less than Rs. 5,000, altered. But above this limit, (the tax was enhanced in the following manner : (i) incomes from Rs. 5,000 to Rs. 9,999 were to pay 6 pies in the rupee ; (ii) incomes from Rs. 10,000 to Rs. 24,999 were to pay 9 pies per rupee ; and (iii) incomes of Rs. 25,000 and upwards, 1 anna in the rupee. A definite, though not full, effect was thus given to the principle of graduation. This increase of taxation was expected to bring an additional revenue of £900,000.)

In 1917, the Indian Income-tax Act of 1886 was amended, with the object of improving the machinery so as to avoid the leakage which was taking place.) The rule regarding the submission of returns of income was made more strict. (On

of the highest salaries. Under Part II, cotton spinning and weaving, banking, mining, railway and jutespinning and weaving companies made the largest contributions. Under Part IV, bankers and money-lenders constituted more than a third of the total number of assesseees, and contributed in almost as large a proportion to the receipts. Commerce and trade accounted altogether for three-quarters, or more, of the assesseees, and of the receipts under Part IV, the professions provided about 13,000 assesseees, about two-thirds of whom were attorneys and pleaders.—*Moral and Material Progress (Decennial) Report, 1911-12.*

this occasion, the ordinary income-tax was supplemented by a super-tax on the largest incomes such as had been in force in England for several years previously.) The rates of the ordinary income-tax were left unchanged; but people having incomes in excess of Rs. 50,000 per annum were called upon to pay super-tax in addition. The bulk of the then existing assesseees were thus left alone, and the burden was laid on the shoulders of the rich who were best able to bear it, and many of whom had made large profits in consequence of the war. The super-tax receipts were all required for central purposes, and they were placed under a special sub-head, which was entirely central. (The rates were: in respect of (1) the first fifty thousand rupees of taxable income—one anna in the rupee; (2) the next fifty thousand rupees of taxable income—one and a half anna in the rupee; (3) the next fifty thousand rupees of taxable income—two annas in the rupee; (4) the next fifty thousand rupees of taxable income—two and a half annas in the rupee; and (5) all taxable incomes over two lakhs of rupees—three annas in the rupee

Mr. (afterwards Sir) B. N. Sarmā, then a non-official member of the Council, proposed an amendment to the Bill to the effect that the super-tax should be in force for the duration of the war and for six months thereafter. This amendment was not accepted by the Government, and it fell

through. Objections were also made to some of the details of the Bill. One non-official member, curiously enough, objected to the principle of graduation on the ground that it was likely to "check industrial enterprise" and "cut at the root of saving".¹

(In 1918, the Government of India introduced a Bill to consolidate and amend the law relating to income-tax.) The aim of the Bill, as pointed out by the Finance Member, was to remedy certain defects in the machinery of assessment provided by the existing Act. Such defects had resulted "in unequal assessment of persons of equal means" and in loss of Government revenue. (The most important proposals were three in number. First, Section 4 of the Bill provided that, in determining the rate at which the income-tax was to be levied, the aggregate of an assessee's taxable income from all sources, including agricultural income, should be taken into consideration. Secondly, in regard to the period with reference to which the assessment was to be made, the income of the preceding year, and not of the current year, was now to be taken as the basis. Thirdly, Section 32 of the Bill was intended to enable the Government of India to tax the Indian profits of foreign firms which had previously escaped taxation.)

The first of these proposals gave rise to much

¹ *Proceedings of the Indian Legislative Council, 1917.*

controversy. The Finance Member, Sir William Meyer, defended it on the ground that it was an anomaly that an income derived from more sources than one should pay tax at a lower rate than an income of equal amount but derived from one source only. He also observed that it was not fair for the wealthy landlord to pay the tax at rates "intended only for the poor".

The main ground of objection of those non-official members of the Council who opposed this provision of the Bill was that its effect would be to tax agricultural incomes in an indirect way. Maharaja Sir Manindra Chandra Nandi opposed the section on the ground that it was likely "to contravene the very spirit of Lord Cornwallis's understanding with the owners of permanently-settled estates". The existing exemption of all agricultural incomes was, in his view, "based on solemn pledges for well over a quarter of a century".¹ Pandit Madan Mohan Malaviya thought that this was not the right way to proceed about the business of raising the rate of taxation; nor was it proper to bring forward a proposal for taxation without any justification being presented for it.² Mr. B. N. Sarma, on the other hand,

¹ Evidently this is a misprint; the speaker perhaps intended to say "a century and a quarter."

² Several other members also opposed Section 4 of the Bill. Sir Gangadhar Chitanavis spoke of the resentment felt by "loyal citizens", who had been ever ready to do what they could during the war and on

supported the principle of the Bill, and, in so doing, observed: "Graduated income-tax proceeds on the principle that a man who has a superabundance should give to the State a little more out of his excess than his unfortunate brother. Once this principle is accepted, I cannot see how we can escape from the conclusion that whether income is derived from agriculture, from commerce, or from any other source, it ought to be included within the total aggregate assessable income for the purpose of the graduated income-tax." Sir William Meyer pointed out that there could be no question of a breach of faith, as the first Income-tax Act of 1860 had "deliberately taxed all landed profits."

At a later stage of the Bill, Mr. Sitanath Roy, a rich landholder, moved an amendment with a view to excluding agricultural income from the computation of the rate of tax. He spoke of the Government's proposal as merely the thin end of the wedge, and expressed the apprehension that it was a prelude to a tax on landed incomes. This amendment was supported by many non-official members of the Council, including Mr. (afterwards Sir) Surendranath Banerjea. But it was opposed by men of an

other occasions. Mian (afterwards Sir) Mahomed Shafi also opposed it.—*Proceedings of the Indian Legislative Council, 1918.*

¹ Sir William Meyer observed on this occasion: "An Income-tax Bill always calls forth what some theologians call a rational love of self. In some cases voiced in to-day's speeches, I might even call it irrational."—*Proceedings of the Indian Legislative Council, 1918.*

advanced school of thought like Mr. Srinivasa Sastri, Mr. M. A. Jinnah, Dr. Tej Bahadur Sapru, and Mr. B. N. Sarma. The official whip was not cracked at the time of division, with the result that the amendment was carried, thirteen officials, including the Commander-in-Chief, recording their votes in favour of it.¹ Thus ended a strange episode in the history of debates in the Indian legislature.

It is not perhaps altogether idle to speculate on the causes which brought about the defeat of the Finance Member on this occasion. Though the proposal had been sanctioned by the Government, it did not show any keenness in the matter. The amount expected to be realised from the proposed alteration in the law was not large, and this was probably one of the reasons for the apathy displayed by the official members. But a more important reason was their disinclination to provoke any discontent among the "loyal" section of the people during the most serious stages of the war. An impartial critic cannot help observing in this connexion that, however desirable might be the proposal in its essence, the method adopted by Sir William Meyer was hardly correct. He ought to have proceeded in a more direct and straightforward way to accomplish his object. If this

¹ Five non-official Indian members voted against the amendment. They were: Sir Dinshaw Wacha, Mr. Srinivasa Sastri, Dr. Tej Bahadur Sapru, Mr. M. A. Jinnah, and Mr. B. N. Sarma.

had been done, he might have secured the support of a large section of the enlightened public of the country.

The first post-war financial measure was one of remission of taxation. In 1919, the minimum of taxable income was raised from Rs. 1,000 to Rs. 2,000.) This proposal did not require any defence, for it was universally recognised that there was no class which had been so heavily hit by the enormous rise in the cost of living as people with small fixed incomes.

In the same year, the Finance Member introduced the Excess Profits Duty Bill, the object of which was to raise money for meeting the cost of the measures proposed to give effect to the Resolution of the Indian Legislative Council of the 10th September, 1918.) By this Resolution the members of the Council had agreed that India should take a greater share, than she had so far done, of the burden of military charges of the war incurred by Great Britain. The Bill applied, with certain large exceptions, to business enterprises in India, returning profits exceeding Rs. 30,000 during the year. The main exemptions were: agriculture, salaried employments, professions, income depending on the personal skill of the earner, and concerns which were already paying excess profits duty in England. The average profits of four years, that is to say, two years before and two years since the

commencement of the war, were to be taken as the standard. Any sum by which the ascertained profits of the year exceeded that standard was to be treated as excess profits, and the Government would demand one-half of that sum. The Bill provided for an appeal, and one of its important provisions was the setting up of special tribunals for dealing with questions of general importance. The excess profits duty and the super-tax would not both be levied on the same individual or firm, but the Government proposed to take whichever was greater.

Anticipating the criticism that such a measure should not be brought forward after the termination of the war, the Finance Member, Sir James Meston, replied that war was an evil the consequences of which remained after the cessation of hostilities, and that those consequences had to be paid for by means of taxation. He gave the assurance that the Government was prepared to make all possible allowances for hard cases, and to correct the valuations with the help of business men.¹

This Bill gave rise to a storm of opposition on the part of the community engaged in business. Two of the representatives of commercial interests, however, took an enlightened view of the situation and made their own position clear by stating that their personal views were not in accord with the views of

¹ *Proceedings of the Indian Legislative Council, 19th February, 1919.*

their constituents. Mr. Malcolm Hogg observed: "Few, I think, will deny the inherent justice of the underlying principle of the Bill, namely, that those to whom circumstances arising out of the war have brought exceptional profits should contribute a portion of those profits to the cost of the war. It is when we come to try and embody this principle in legislation that difficulties arise". He added that, in England, an excess profits duty had been accepted as a necessary war evil, and it would have been similarly accepted in India if it had been introduced at an earlier stage. Mr. Ironside thought that the Bill was largely the outcome of the wrong financial policy of the past, and urged that steps be taken to avoid thoughtless expenditure and to ensure economy in the spending departments.¹

(The excess profits duty was not continued in the following year. In March, 1920, the Government introduced a Super-tax Amendment Bill.) The main purpose of this Bill was to substitute a super-tax at a flat rate of one anna on the income of companies for the then existing rates which ranged from one anna to three annas on individual profits. In other words, a new form of super-tax similar to the 'corporation tax' levied in other countries, was to be substituted for a portion of the super-tax. It was estimated to bring in about 2 crores and 20

¹ *Proceedings of the Indian Legislative Council, 1920.*

lakhs, that is to say, 44 lakhs more than the replaced portion of the super-tax. The super-tax on individuals, unregistered firms, and Hindu undivided joint families was continued as before.

When the report of the Select Committee on the Bill came up for discussion, Mr. B. N. Sarma moved an amendment with the object of giving relief to Hindu joint families by raising the minimum of exemption from Rs. 50,000 to Rs. 75,000.¹ Sir Fazulbhoy Currimbhoy moved another amendment, namely, "Where the income of an individual or a company assessed to super-tax under this Act includes a dividend paid by a company assessed during the year, the said assessment shall be reduced by the amount of tax payable on the dividend at the rate of one anna in the rupee". His main point was that the proposal of the Government involved the payment of super-tax twice over. Mr. W. N. Crum, a representative of the British commercial community, supported this amendment. The Finance Member, Sir Malcolm Hailey, however, did not agree with the view, and refused to accept the amendment. He said: "Are we really and effectually taxing twice over?"

¹ Mr. Sarma, in the course of his speech on the amendment, observed: "Ever since the introduction of Super-tax Bills into this Council, there has been a lively controversy going on as to whether Hindu undivided families have not unnecessarily suffered by reason of the theory that, for legal purposes, the undivided Hindu family should be treated as a unit, and that some relief should be given to the Hindu families so that the hardship which has been caused may not be so great as it is at present."
—*Proceedings of the Indian Legislative Council, 1920.*

What we are putting on now is a form of taxation well known in many countries of Europe as a corporation tax. It is considered justifiable to tax a corporation, partly because it enjoys the use of what may be called public capital, but even more because its shareholders enjoy protection against liabilities incurred, up to the amount of their shares. The company is, therefore, taxed definitely as a corporation, and that taxation may very justifiably be regarded almost as one of the working expenses of the company. The super-tax we place on the shareholder afterwards is really an individual tax". He also controverted the opinion that the tax was likely to prove prejudicial to industrial interests or Indian interests.¹

(In 1921, the Government of India, faced with another deficit, found itself obliged to have recourse to additional taxation.) Besides other measures of taxation, an increase in the rates of income-tax and super-tax was decided upon. With regard to the former, it was considered undesirable to raise the rates of tax on the smaller incomes. (But the rates on the upper grades were so increased as to work up to a maximum of sixteen pies instead of twelve pies. At the same time, the rates on the higher grades of income liable to super-tax were so

¹ *Proceedings of the Indian Legislative Council, 1920.*

raised as to work up to a maximum of four annas in the rupee on any excess over $3\frac{1}{2}$ lakhs.¹

¹ The following schedule was substituted for the schedule to the Indian Income-tax Act, 1918:

	Rate
When the taxable income is less than Rs. 2,000	nil
When the taxable income is Rs. 2,000 or upwards and—	
(i) the total income is less than Rs. 5,000	Five pies in the Rupee.
(ii) the total income is Rs. 5,000 or upwards, but is less than Rs. 10,000	Six pies.
(iii) the total income is Rs. 10,000 or upwards, but is less than Rs. 20,000	Nine pies.
(iv) the total income is Rs. 20,000 or upwards, but is less than Rs. 30,000	One anna.
(v) the total income is Rs. 30,000 or upwards, but is less than Rs. 40,000	One anna and two pies.
(vi) the total income is Rs. 40,000 or upwards	One anna and four pies.

The Super-tax schedule was amended as follows :

- (1) In respect of the first lakh of rupees of taxable income—
 - (a) in the case of a Hindu undivided family
 - (i) in respect of the first seventy-five thousand rupees of taxable income Nil
 - (ii) in respect of the next twenty-five thousand rupees of taxable income One anna in the rupee.
 - (b) In all other cases—
 - (i) in respect of the first fifty thousand rupees of taxable income Nil
 - (ii) in respect of the next fifty thousand One anna in the rupee.
- (2) In respect of the first fifty thousand rupees of taxable income over one lakh of rupees One and a half annas in the rupee.
- (3) In respect of the next fifty thousand Two annas.
- (4) In respect of the next fifty thousand Two and a half annas.
- (5) In respect of the next fifty thousand Three annas.
- (6) In respect of the next fifty thousand Three and a half annas.
- (7) In respect of all taxable income over three and a half lakhs of rupees Four annas in the rupee.

The financial difficulty of the Government of India continued in the following year, and it was found necessary once more to levy additional taxation. It was consequently decided, among other measures, to make a further call on the payers of income-tax and super-tax. The Government did not effect any alteration in the rate of tax payable by persons whose incomes were Rs. 30,000 or less a year. But the rate on incomes between Rs. 30,000 and Rs. 40,000 was raised from fourteen to fifteen pies, and that on incomes above Rs. 40,000 from sixteen to eighteen pies. At the same time, the higher rates of the super-tax were re-graded, working up to the highest rate of six annas as against the then existing highest rate of four annas. The combined maximum of the two taxes was thus fixed at five and a half annas.¹ These two measures,

¹ The actual rates were as follows:—

INCOME-TAX

A. In the case of every individual, every unregistered firm, and every undivided Hindu family—

	Rate
(1) When the total income is less than Rs. 2,000	Nil
(2) When the total income is Rs. 2,000 or upwards, but is less than Rs. 5,000.	Five pies in the rupee.
(3) When the total income is Rs. 5,000 or upwards, but is less than Rs. 10,000	Six pies in the rupee.
(4) When the total income is Rs. 10,000 or upwards, but is less than Rs. 20,000	Nine pies in the rupee.
(5) When the total income is Rs. 20,000 or upwards, but is less than Rs. 30,000	One anna in the rupee.

taken together, were estimated to produce an extra revenue of 2½ crores. There was practically no opposition to this particular clause of the Finance Bill in the legislature, although the opinion was expressed that the financial necessity for the imposition of additional taxation had arisen, not from any attempt on the part of the Government to secure the social or economic development of the country, but from an erroneous and extravagant

	Rate.
(6) When the total income is Rs. 30,000 or upwards, but is less than Rs. 40,000	One anna and three pies in the rupee.
(7) When the total income is Rs. 40,000 or upwards	One anna and six pies in the rupee.
B. In the case of every company, and every registered firm, whatever its total income	One anna and six pies in the rupee.

SUPER-TAX

In respect of excess over fifty thousand rupees of total income:—

	Rate.
(1) In the case of every company	One anna in the rupee.
(2) In the case of every Hindu undivided family—	
(i) in respect of the first twenty-five thousand rupees of the excess	Nil
(ii) for every rupee of the next twenty-five thousand rupees of such excess	One anna in the rupee.
(b) in the case of every individual and every unregistered firm, for every rupee of the first fifty thousand rupees of such excess	One anna in the rupee.
(c) in the case of every individual, every unregistered firm and every Hindu undivided family—	
(i) for every rupee of the second fifty thousand rupees of such excess,	One and a half anna in the rupee.

policy, both civil and military¹. The rates of income-tax and super-tax have not been altered since 1922.

It was in the course of the year 1922 that the law relating to taxes on income was consolidated and placed on a more satisfactory basis. The increasing weight of taxation led to a demand for more accurate assessment and, to meet this demand, a complete revision of the previous Acts was found necessary. (The provisions of Act XI of 1922 were largely based on the recommendations of the All-

	Rate.
(ii) for every rupee of the next fifty thousand rupees of such excess, . . .	Two annas in the rupee.
(iii) for every rupee of the next fifty thousand rupees of such excess, . . .	Two and a half annas in the rupee.
(iv) for every rupee of the next fifty thousand rupees of such excess, . . .	Three annas in the rupee.
(v) for every rupee of the next fifty thousand rupees of such excess, . . .	Three and a half annas in the rupee.
(vi) for every rupee of the next fifty thousand rupees of such excess, . . .	Four annas in the rupee.
(vii) for every rupee of the next fifty thousand rupees of such excess, . . .	Four and a half annas in the rupee.
(viii) for every rupee of the next fifty thousand rupees of such excess, . . .	Five annas in the rupee.
(ix) for every rupee of the next fifty thousand rupees of such excess, . . .	Five and a half annas in the rupee.
(x) for every rupee of the remainder of the excess,	Six annas in the rupee.

¹ One member of the Legislative Assembly, however, considered it necessary to voice "the rich man's grievance," and expressed the view that the effect of the proposed increase of the income-tax would be "to kill the desire on the part of the capitalists of the country to enter into industrial and commercial enterprises."—*Proceedings of the Indian Legislative Assembly, dated the 22nd March, 1922*,

India Income-tax Committee which had been appointed in 1921 to consider questions relating to the taxation of income.¹ The principal changes introduced by this Act were as follows: (1) The income of the previous year was made the basis of assessment, and the adjustment system was abolished. (2) It was made clear that the tax would be chargeable not necessarily on "income" calculated on actual receipts and expenditure, but on the "income, profits or gains" as set out and defined in the Act. It was also made clear that no uniform method of accounting was prescribed for all taxpayers, and that every taxpayer might, as far as possible, adopt such form and system of accounting as was best suited for his purposes. (3) The distinction between 'taxable income' and 'total income' which had been adopted in 1918, was abandoned, and the Act provided that the 'total income' of an assessee should determine his liability to the tax as well as the rate at which the tax should be assessed. (4) No account was to be taken of any income derived from a Hindu undivided family by an individual member of the family in determining the rate at which that individual member should pay income-tax on his separate income. (5) The Act provided that a loss under one head

¹ The Government of India appointed in 1920 committees consisting of officials and non-officials in each province. The All-India Committee was appointed after the Reports of the Provincial Committees had been submitted.

of income might be charged against profits under another. (6) In cases in which there had been a change in the proprietorship of a business, it was provided that the liability for payment of the tax based on the income of the preceding year should attach to the business itself. (7) The organisation of the department was completely changed. The Act prescribed that the head of the income-tax department in a province should be known as the Commissioner of Income-tax, the appellate authority as the Assistant Commissioner of Income-tax, and the assessing authority as the Income-tax Officer. A Board of Inland Revenue was created which was to be the highest authority in regard to income-tax, and to which the Government of India was empowered to delegate its authority under the Act. The appointment of the departmental staff was transferred from the hands of the provincial Governments to those of the Central Government. (8) The Act made it obligatory on the Commissioner of Income-tax to refer a case to the High Court on the application of an assessee. (9) The provisions relating to the disclosure of particulars regarding income-tax assessments were made more stringent. (10) The Act made it obligatory on all employers, including private employers, to collect income-tax at the time of payment of salaries. (11) Wider powers were given to assessing officers

in regard to returns, documents, etc. (12) The procedure relating to refunds was simplified. (13) The Act provided for relief from double taxation.¹)

It should be noted here that neither the Act itself nor its schedules contained any provisions relating to the rates of taxation, which were left to be determined by the annual Finance Act. The Income-tax Act, 1922 merely regulated the basis, the methods, and the machinery of assessment, and was thus a purely administrative measure.² The passing of this Act was followed by the creation of an expert staff for the department.

The different aspects of the question of taxation of income were considered at considerable length by the Taxation Enquiry Committee³ of 1924-25. Their investigations disclosed certain defects in the system which are discussed below.

The present basis of assessment is, as has already been noticed, the income for the previous year, as compared with the average of three years which is the basis in England. This is open to the serious objection that while profits are taxed in every year

¹ *Vide Statement of Objects and Reasons relating to the Income-tax Bill, 1922*; also Sundaram, *The Law of Income-tax in India*.

² This Act, as Mr. Sundaram points out, also marks the first step in the disengagement of the Provincial Governments from the administration of central subjects.

³ The Committee was presided over by Sir Charles Todhunter, and the other members were Maharajadhiraj Sir Bijoy Chand Mahtab of Burdwan, Sir Percy Thompson, Sardar Jogendra Singh, Dr. R. P. Paranjpye, and Dr. L. K. Hyder. Mr. B. Rama Rau acted as Secretary.

in which a profit is made, no provision is made for the setting off of losses against profits of subsequent years. The system leads to injustice and hardship, and the Taxation Enquiry Committee are right in proposing that a loss sustained in any one year should be allowed to be set off against the profits in the next subsequent year.

Under the existing law, the charge of income-tax extends to all income which accrues or is received in British India, but it does not extend to income which accrues abroad and is not received in British India.) Moreover, the profits of a business accruing outside British India are not chargeable if they are brought into British India after the lapse of three years. This involves a loss of revenue to the State. The Committee doubt whether the loss of income is very great and they are afraid that administrative difficulties would arise if a change were made. They, therefore, express themselves in favour of leaving things as at present. But Dr. Paranjpye dissents from the view.

In order to determine the liability of non-residents, four classes of cases have to be considered, namely, that of persons drawing in other countries pensions and leave salaries earned in India, that of persons resident out of India who draw interest on the sterling debt of India, that of non-resident firms which have agents or branches in India, and that of owners of shipping resident in other

countries who do business with India. A cognate question is that of refunds to non-resident assesses whose incomes from Indian sources are liable to a rate less than the maximum.)

In the first class of cases, the Committee think that the claims of domicile should prevail.) But Dr. Paranjpye holds the view that leave salaries of persons employed in India should be regarded as having accrued in India, and, therefore, should be liable to income-tax. With regard to the second, opinion is almost unanimous in India that the country suffers a loss because Indian income-tax is not deducted from the interest on sterling loans payable in London. The Committee express the view that whether interest on a loan should be liable to payment of income-tax or not should depend on the terms of the loan, and they advise that in future there should be a definite statement in the prospectus as to whether Indian income-tax is to be charged on the interest on the loan or not.

(In regard to the third class of cases, the Committee desire to draw a line of distinction between a selling branch and a buying branch.) In the former case, they think that, as is done in England, the income-tax should be assessed on the basis of the profits which may reasonably have been earned by a merchant who had bought from the manufacturer or producer direct. In the case of

a buying agency, the Committee are of opinion that the maximum which ought to be charged to Indian income-tax is the extra profit made by the establishment of a branch or agency in India. The same principle, in their view, should apply if the goods have been subjected to some process of manufacture in India after purchase. In this connexion, the Committee refer to certain High Court judgments in which the words "accruing from any business connexion or property in British India" in Section 42(1) of the Act were so interpreted as to tax not only the profit arising from operations conducted in India, but also the profit arising out of the sale of goods abroad. The Committee, therefore, recommend that this section should be so amended as to limit its operation in the manner indicated above.¹ The last class of cases arises in connexion with shipping concerns. Reciprocal arrangements have been entered into by several countries for mutual exemption of income-tax payments, but in view of the fact that such action would involve India in considerable loss with no corresponding gain, the Committee are unable to make any recommendation in the matter.

On the question of refunds to non-residents, the Committee recommend a change in the law on the lines of the English law which restricts the privilege

¹ Provision has since been made by Act III of 1928 for some of the cases mentioned by the Committee.

of refund to British subjects and certain others, and even in these cases to a partial extent.

The exemption limit in India is at present fairly high; it is actually higher than in England. But there are no allowances in respect of wife, children and dependents. It was urged before the Committee that provision should be made for allowances on the lines of the English law; but in view of the administrative difficulty of verifying claims, the Committee recommend the maintenance of the *status quo*. This seems to be very unsatisfactory. The difficulty referred to by the Committee is not really insuperable, and, as is remarked by Dr. Paranjpye, no assessee is likely to make a false declaration without being easily found out. Dr. Paranjpye's suggestion that an abatement of Rs. 200 for a wife and Rs. 150 for each minor son or unmarried daughter up to a maximum of Rs. 950 seems to be a reasonable one.

Another defect of the present system is that no distinction is made in India between earned and unearned incomes.) But in most advanced countries, these two categories of income are treated differently, the reasons underlying such differentiation being, first, that ~~un~~earned income is in its nature more precarious than income derived from capital, and secondly, that the whole of an income which is earned is not available for spending, if provision has to be made for old age or for

dependents. The Taxation Enquiry Committee hold the view that these considerations apply with much diminished force in India for two reasons, namely, first, that there is no large class of rentiers depending on incomes from investments; and secondly, in so far as there is such a class, by far the greater part of its investments is in land, and so long as income from land escapes income-tax altogether, it would be invidious to impose a differential rate of tax on the small balance of investment income that remains. While admitting that there is considerable truth in this contention, it may be regarded as certain that the time is not distant when the question will have to be reconsidered.

The system of graduation adopted in India is different from that in force in England at the present moment. The defect of the Indian system is that, in the absence of a provision to meet the case, an income just above each limit at which the rate increases, would pay an amount of tax which would exceed the amount paid by an income at or just below the limit, by more than the difference between the two incomes, the result being that the taxpayer with the higher income would be worse off than the taxpayer with the smaller income. This defect is not entirely removed by section 17 of the Indian Income-tax Act, 1922. The Taxation Enquiry Committee, while admitting the injustice of

the present system, do not consider it necessary to recommend any change. This hesitancy on the part of the Committee is much to be deplored.

In regard to the sufficiency or otherwise of the rates applied to incomes of various sizes, the tabular statement prepared by the Committee shows that, in the case of incomes up to £500, the Indian rates are comparable with those in other countries, and that on the largest incomes they do not fall far short of them, but that in the case of incomes from £1,000 to £10,000 they are decidedly low by comparison. The Committee decline to recommend any far-reaching change in the scales; nor do they consider it desirable to increase the maximum rates. They, however, think that it would be equitable to make a moderate addition to the intermediate scales, for instance, by applying the 9 pie rate to incomes from Rs. 10,000 to Rs. 15,000, the 12 pie rate to incomes from Rs. 15,000 to Rs. 20,000, the 15 pie rate to incomes from Rs. 20,000 to Rs. 25,000, and the 18 pie rate to incomes from that point upwards. They further suggest that the exemption limit for the super-tax be reduced to Rs. 30,000, and that a new rate of 6 pies be levied on the first Rs. 20,000, or part thereof, in excess of that sum. They also recommend that, in the case of a joint Hindu family, the limit of exemption be reduced to Rs. 60,000, the anna rate being applied to the first Rs. 40,000 of the excess.

The provisions for appeal leave considerable room for improvement. At present appeals lie on questions of fact to the departmental officers, while on questions of law a reference can be made for the opinion of a High Court. In the former case, the procedure is open to the objection that the department responsible for the assessment acts as judge in its own case. The majority of the Committee find considerable difficulty in recommending the introduction of a system on the lines of the General and Special Commissioners in England, and, consequently, advise that the matter be left in *status quo*. Dr. Paranjpye is of opinion that advisory bodies should be constituted in large centres so that an assessee might ask that their opinion be taken. On points of law, different judgments have been given by different High Courts. The Committee, therefore, suggest that an appeal to the Privy Council should be provided for.¹

With regard to the super-tax on companies, the Committee suggest that the present designation of the tax should be replaced by that of a 'Corpo-

¹ Provision has since been made for appeals to the Privy Council by Act XXIV of 1926.

Another suggestion of the Committee relates to the question of secrecy. There exist provisions for complete secrecy in the present law relating to taxes on income. The Committee suggest a departure from the present practice in two respects. First, they urge the adoption of the practice of publishing in the annual reports a list of persons penalised for income-tax offences. Secondly, they suggest that, where a local tax similar to an income-tax is levied, in order to obviate the necessity for a double assessment, the law may be so amended as to permit income-tax officers to draw up lists of persons and sums for which they are liable.

ration Profits Tax' and that the exemption limit be abolished. In this connexion, the majority regard as unfair the present practice of charging super-tax on those parts of a holding company's profits which represent dividends of subsidiary companies already charged to super-tax. It is not right, in their view, that the same profits should be taxed twice or thrice, and they suggest that in future these should only be taxed in the hands of the subsidiary company. Dr. Paranjpye, however, does not agree with this view.

The Committee make some suggestions for dealing with the evasion of taxes on income. These are quite sound, and are likely to prove useful, if accepted. They regard as satisfactory the present arrangements for giving relief in respect of double taxation between the United Kingdom and India, but they do not offer any opinion on the arrangements which exist with the Indian States.

(One of the peculiar features of the Indian income-tax is the exemption of incomes derived from the land.) It has already been pointed out that such incomes were subjected to taxation when the earlier measures relating to income-tax were enacted.) In order to equalise the burden on all classes of the people, the income-tax of 1886 (which was based on the license-taxes of 1877-78) was not extended to the landed classes, as separate cesses had already been levied on them. These cesses,

however, were, subsequently, either removed or made over to local bodies. On grounds of equity, therefore, the Committee, see no reason why the landholders should be exempt. Coming to the question of the additional revenue which may be derived from the taxation of landed incomes, the Committee are of the opinion that it is not likely to be very large, while the administrative difficulties are considered to be great. Nor are they disposed to ignore the political aspect of the question. On the whole, the Committee find the situation so puzzling that they refrain from making any recommendation with regard to this matter. But it is plain to everybody that the problem cannot be shirked and that the situation will have to be faced before long.

In connexion with this question, the Taxation Enquiry Committee briefly notice some side issues. The first is the proposal that income from agriculture should be taken into account for the purpose of determining the rate at which the tax on other incomes of the same persons should be assessed. The Committee hold that there would be ample justification in theory for the proposal, if it should prove administratively feasible and practically worth while.¹ The second is that of the tea planter or other manufacturer who derives his income partly from cultivation and partly from manufacturing the produce. This has been settled by an

¹ For a discussion of the subject see *ante*.

arbitrary rule, which the Committee regard as very favourable to the planter, in view of the terms under which much of the land under plantation is held.¹

(Some of the recommendations of the Taxation Enquiry Committee relating to taxes on income have been accepted by the Government and embodied in amending Acts, while others are still under consideration.

Several legislative measures have been enacted to amend the law relating to income-tax since Act XI of 1922 was passed. The most important of these measures are the following: (i) Act IV of 1924, which substitutes the Central Board of Revenue for the Board of Inland Revenue; (ii) Act XI of 1924 which provides for (a) the withdrawal of exemption in respect of Provident Insurance Societies and (b) the taxation of associations of individuals other than firms, companies, and Hindu undivided families; (iii) Act XVI of 1925, which provides for the taxation of sterling overseas pay received in the United Kingdom; (iv) Act III of 1926, which determines the liability

¹ The decision of the Calcutta High Court raised a point of great importance. Rules were subsequently framed under the Indian Income-tax Act of 1922 to provide for such cases. Further, it was notified that only 25 per cent. of the dividends on shares held by tea companies should be taken into account in calculating the total income of the shareholder. This notification was withdrawn in 1927. Rule 24, as it now stands, provides that "income derived from the sale of tea grown and manufactured by the seller shall be computed as if it were income derived from business, and 40 per cent. of such income shall be deemed to be income, profits and gains liable to tax."

of the Governments of British Dominions to taxation in India in respect of trading operations; (v) Act XXIV of 1926, which provides for the levy of super-tax at the source on dividends paid to non-residents and allows appeals to the Privy Council; and (vi) Act III of 1928 which contains miscellaneous amendments. Another Bill¹ is at present under the consideration of the Central Legislature.

The law relating to income-tax has been considerably affected in recent years by judicial decisions. It does not fall within the scope of this work to discuss this question. But a few of the more important rulings may briefly be noticed here. In the matter of *Bhikanpur Sugar Concern*,² it was decided in 1919 that it was liable to income-tax in respect of that portion of its produce which was derived from sugar-cane grown by its servants on its own land. The Calcutta High Court decided in 1920 in *Birendra Kishore Manikya versus Secretary of State for India* (i) that the premium paid for the settlement of waste lands or abandoned holdings might be regarded as included in agricultural income, (ii) that the *salami* or premium paid for recognition of a transfer of a holding was not agricultural income, and (iii) that income derived from illegal *abwabs*, such as *uttarayan*, was not

¹ This is Bill No. 9 of 1929. This Bill is designed to bring together a number of minor amendments relating mostly to points of machinery and administration and not designed to affect the incidence of taxation except by granting relief in two cases of hardship.

² *Patna High Court Case No. 74 of 1919.*

exempt from assessment. In the case of *Killing Valley Tea Company*, the Calcutta High Court held that profits derived by a tea concern should be regarded as profits from two businesses, one of which was exempt from duty, while the other was not. The Court expressed the view that a tea company was liable to the tax to the extent of its manufacturing operations. The Patna High Court gave an important ruling in 1920 to the effect that the amount paid in respect of cesses could not be deducted before a person's income was assessed to income-tax. In *King-Emperor vs. Raja Prabhat Chandra Barua*, it was held by the Calcutta High Court that certain kinds of income derived from land, such as *jalkar*, ground rent for potteries, *punyaha* or other sorts of *nazar*, stall fees paid by sellers in bazars, etc., were liable to be assessed to income-tax even in permanently settled estates.¹ One of the most recent decisions is that given by the Allahabad High Court in *King-Emperor vs. The Tehri State*. It has been held that the Government Trading Taxation Act is applicable to an Indian State, and that a trading Government as a company becomes liable to the payment of income-tax.

(The total revenues collected under the head 'Taxes on Income' during the first six years of the reformed system of administration were as

¹ This decision was arrived at by a majority of three Judges against two.

follows : 1921-22, Rs. 22,17,54,823¹; 1922-23, Rs. 18,14,44,485²; 1923-24, Rs. 18,49,12,358; 1924-25, Rs.16,22,85,645; 1925-26, Rs.16,18,19,871; 1926-27, Rs.16,05,62,948; 1927-28, Rs.15,42,98,663.

The amounts of revenue collected in the different provinces in the year 1927-28 were: Madras, Rs. 1,39,49,173; Bombay, Rs. 3,24,35,551; Bengal, Rs. 4,88,34,357; United Provinces, Rs. 82,54,112; Punjab, Rs. 75,12,874; Burma, Rs. 2,15,21,790; Bihar and Orissa, Rs. 44,60,154; Central Provinces and Berar Rs. 29,47,896; Assam, Rs. 19,61,455; Minor Provinces and India General, Rs. 1,24,21,341.)

(It may be mentioned here that, until 1920-21, the proceeds of the ordinary income-tax were divided between the Government of India and the Provincial Governments, but the super-tax formed entirely an imperial resource.) At the time of the inauguration of the Montagu-Chelmsford Reforms, it was decided to do away with divided heads and to allocate separate sources of revenue to the Central and Provincial Governments. Under this scheme, taxes on income were to form a central resource. The two industrial provinces, namely, Bengal and Bombay, protested against this proposal, and urged that at least a portion of income-tax revenue should be credited to the provinces. The Parliamentary Joint Committee was unable to

¹ Includes Rs. 26 lakhs derived from excess profits duty.

² Includes Rs. 1½ lakhs derived from excess profits duty.

accede to this request, but they expressed the opinion that "there should be granted to all provinces some share in the growth of revenue from taxation on incomes so far as that growth is attributable to an increase *in the amount* of income assessed."

This recommendation was embodied in Devolution Rule 15. The Rule has undergone several modifications; in its ultimate form it runs thus: "Whenever the assessed income of any year subsequent to the year 1920-21, exceeds in any Governor's province or in the province of Burma the assessed income of the year 1920-21 there shall be allocated to the local Government of that province an amount calculated at the rate of three pies in each rupee of the amount of such excess." The following shares of the proceeds of the income-tax accrued to the different provinces in 1927-28 under this Rule: Madras, Rs. 5,94,325; Punjab, Rs. 4,83,189; Burma, Rs. 13,94,359; Bihar and Orissa, Rs. 3,19,531; Central Provinces and Berars, Rs. 1,72,124; Assam, Rs. 5,62,205; Bengal, Bombay, and United Provinces, *nil*; total amount paid to Provincial Governments, Rs. 36,24,733.¹

Thus we find that, although the purpose of this Rule was to secure to the larger industrial provinces a share in the growing revenue from taxation of incomes, these provinces have not derived any benefit from it. The effect of Devolution Rule 15 has, in

¹ Finance and Revenue Accounts of the Government of India for 1927-28.

fact, been "to give bonuses to individual provinces on a haphazard basis, while leaving the Government of India to bear all losses."¹

This review of the history of the income-tax shows that the impost has had a somewhat chequered career in India. The fact that it was an unfamiliar tax made it unpopular in the beginning, and the frequent changes which were made in the rates helped to add to its unpopularity. The earlier measures did not prove successful owing to various defects in the assessment and the administration of the tax. But by gradual steps many of its defects have been overcome, and, in the course of time, the people have become reconciled to it. The tax was in the earlier days levied to meet temporary emergencies ; but, after a great deal of hesitation and deliberation on the part of the authorities, it has at last found a permanent place in the financial system of the country. The imposition of the tax has helped, in some measure, to secure a fairer distribution of the burden of taxation among the different classes of the population. Based as it is on ability to pay, the income-tax is now regarded by the enlightened opinion of the country as the most equitable of all the available forms of taxation. The revenue it brings into the public exchequer is substantial, if not large, and is expected to expand with the industrial and commercial progress of the country

¹ *Report of the Taxation Enquiry Committee, ch. xvi.*

CHAPTER IV

CUSTOMS

During the greater part of the rule of the East India Company, the Presidencies of Bengal, Madras, and Bombay had their separate tariffs and independent customs departments. A considerable element of similarity, though not uniformity, was, however, secured by the fact that the Regulations enacted by the Presidency Governments were subject to the approval of the Court of Directors and the Board of Control. Various experiments were made with the customs rules and rates by the Company after its acquisition of political authority. But it was not until the beginning of the eighteenth century that a more or less stable system was established.

The customs in each province were divided into two parts, namely, land customs and sea customs. The inland customs system of the Bengal Presidency (including the Agra Province) was founded on the indigenous method which had prevailed from olden times. In 1788, Lord Cornwallis abolished all the inland customs-houses in Bengal and Behar. In 1801, however, internal duties were re-established in these provinces at the rate of $3\frac{1}{2}$ per cent.,

with the proviso that articles which had once paid inland duty should not again be liable to it. Until 1810, duties were levied at varying rates in the different parts of the province. In that year, a system of uniform and consolidated duty was introduced, and customs houses were established at a few important places. The new system, while it facilitated long-distance trade, was injurious to trade between neighbouring places. In addition to the transit duties, town duties were levied in various towns. These were a source of much inconvenience and interfered with the growth of manufacturing industries.

Till the year 1810, the rates of duty prevalent in Bengal on exports and imports were, with a few exceptions, $3\frac{1}{2}$ per cent. customs and 4 per cent. town duties. There were, besides, various other payments to be made, such as stamps on *rawannas*, commission and fees to customs masters, etc., which caused much vexation and raised the prices of goods. By Regulation IX of 1810, all previous enactments regarding customs were rescinded, and an improved system was established. Export and import duties were fixed ordinarily at $7\frac{1}{2}$, in some cases at 5, and in the remainder at 10 per cent. A few articles were exempted from payment of duty, and, in some cases, drawbacks were allowed.

Regulation III of 1811 introduced an important alteration into the sea customs law, with the object

of giving preference to British over foreign shipping. The duties leviable on exports and imports carried in foreign vessels were raised to double the rates charged on goods conveyed in British ships. In order to reserve the coasting trade to British shipping, this Regulation provided that foreign vessels leaving British Indian ports should proceed direct to their own countries. Further changes of a momentous character were made in 1815 in order to encourage the manufactures, trade, and shipping of Great Britain. It was provided in that year that certain imports from Great Britain should be admitted free, and some others on payment of a $2\frac{1}{2}$ per cent. duty, if carried in British or Indian-built ships. It was also provided that such goods were not to be subjected to any tax in transit from port to port. With regard to exports, the provision was made that certain articles, such as indigo, cotton, wool, hemp and *sunm*, should, on exportation by sea to Great Britain in British or Indian-built vessels, be entitled to a drawback equal in amount to the entire duty paid on them, while other articles were to secure such a drawback as would leave the amount of duty actually retained at $2\frac{1}{2}$ per cent.

This policy was further pursued in the enactment of additional Regulations in 1815 and 1817. The result of this policy was to impart a great impulse to British commerce and industry, but its effect

on Indian industry and trade was disastrous. It should be noted in this connexion that Indian goods exported to England were about this time subjected to very heavy duties, and the entry of some articles was actually prohibited.

These changes caused a great loss of public revenue. In 1823, the transit and sea import duty leviable on Indian piece-goods (cotton, silk and mixed) was reduced from $7\frac{1}{2}$ to $2\frac{1}{2}$ per cent., the object being to place the piece-goods of India on the same footing as those of Great Britain. But this partial relief came too late.

In 1825, the entire customs law of Bengal was recast, but the main provisions of the previous enactments were kept unaltered. Imports by sea were classed under three heads: first, goods produced in the United Kingdom; second, products of foreign Europe and of the United States of America; and third, goods of places other than those from countries in Europe or America. Of imports under the first head, some were exempt from duty, while most of the others were chargeable with a $2\frac{1}{2}$ per cent. duty. Imports of the second class were, with a few exceptions, subject to duty at the rate of 5 per cent. Imports under the third head were mostly liable to duty either at $7\frac{1}{2}$ or at 10 per cent. These rates were fixed for goods imported in British vessels; when imported in foreign ships, double the rates were charged. Almost all goods

for export were subject to taxation. The rates varied, as in the case of imports, according to the place to which goods were exported and the nationality of the vessels in which they were carried.

The land customs of the Bombay Presidency were based on the ancient system, and were preserved largely in their original form until the beginning of the second quarter of the nineteenth century. An essential feature of the system was to levy transit duties in small sums according to distance. There were many irregular additions to the transit duties, and petty exactions were often made. At many of the towns and some of the villages town duties were levied.

The Bombay Presidency contained a large number of seaports. The duties originally levied at Bombay were on a low scale, and to this fact was due, to a large extent, the prosperity of the port. All export duties were withdrawn in 1779. So late as 1805, the rate of import duty was $2\frac{1}{2}$ per cent., higher rates being levied in the case of foreign goods and foreign vessels. In that year, an addition of 1 per cent. was made to the duty. In 1813, the rates levied on foreign goods and those exported or imported in foreign vessels were largely increased. In 1827, the system of sea customs was revised.

The inland customs of the Madras Presidency were similar to those of Bombay till 1803. In

that year, the old system was abolished, and general duties, at 6 per cent., were imposed on all goods (except those belonging to the Company) which were (a) imported by sea or land into the town of Madras or certain provincial towns or manufactured within their limits, (b) exported from the subordinate ports, (c) imported or exported across the frontiers of the Madras territories. In some cases, goods might thus be subjected to three distinct duties making an aggregate of 18 per cent. Besides these, town duties were levied at some places.

In the Madras Presidency, several changes took place in the customs system in the early years of British administration. In 1794, the Court of Directors sent out instructions to regulate their tariff according to the system prevailing in Bengal. In 1816, a Regulation was enacted with the object of encouraging British imports. Its provisions were similar to the Regulations enacted in Bengal and Bombay.

Soon after the establishment of a centralised system of administration under the provisions of the Charter Act of 1833, the question of revising the customs regulations in all the Presidencies was taken up for consideration. In 1834, Mr. Charles Trevelyan submitted a valuable Report on the inland duties, in which he pointed out the various defects of the system. Lord Ellenborough, the

President of the Board of Control, invited the attention of the Court of Directors of the East India Company to this Report in 1835. He pointed out that no less than 235 articles, including almost everything of personal or domestic use, were subject to inland duties, and that the operation of the tariff, combined with the system of search, was of the most vexatious and offensive character, without materially benefiting the revenue. He also remarked that while the cotton manufactures of England were imported into India on payment of a duty of $2\frac{1}{2}$ per cent., the cotton goods produced in India often paid $17\frac{1}{2}$ per cent. in internal and other duties. "The effect of these and similar duties", observed the President of the India Board, "is to virtually prohibit the manufacture in towns of articles not absolutely required for their own consumption".¹

A Committee was appointed about this time to consider the customs and post office regulations of the different provinces. This Committee submitted several reports in 1836. In anticipation of their recommendations, the Governor of the Agra province had already abolished almost all the inland customs stations within those territories. By Act XIV of 1836, all inland transit duties levied within the Bengal Presidency, except on the Jumna frontier line, were abolished. Similar measures were taken in Bombay and Madras in 1838 and 1844 respectively.

¹ Letter dated the 18th March, 1835.

The abolition of inland duties entailed a loss of revenue to the Government, and an addition to the customs tariff became necessary. The principles on which the customs tariff ought to be regulated were discussed by the Court of Directors in a despatch sent to India in 1846. In 1848, the duties on 'port to port' trade were abolished, and the discrimination between British and foreign vessels was discarded. In 1850, the coasting trade of India was thrown open to vessels of all nations.

On the eve of the Mutiny, we find that the duties on goods imported into or exported from India by sea were regulated by separate Acts for the three Presidencies and the other territories of the Company. By the tariffs existing in 1857 the following articles were allowed to be imported free, namely, animals, books (if British), bullion and coin, coal and coke, etc., grain (except rice at Madras), ice, precious stones and pearls, and machinery (at Bombay only). A duty of 5 per cent. was paid on all British goods included under any of the following heads, namely, military or naval stores, metals, woollen and cotton and silk goods, foreign manufactures paying 10 per cent. Foreign books paid 3 per cent. *ad valorem*. Cotton thread, twist, and yarn, paid $3\frac{1}{2}$ per cent., if British, 7 (at Bombay 10) per cent., if foreign. Certain drugs, spices, and tea paid 10 per cent.; coffee and rattans, $7\frac{1}{2}$; malt and liquor, 5. Wines and spirits paid specific duties. All other

manufactured articles paid 5 per cent. *ad valorem*. Tobacco, which in Bengal was unenumerated, paid 10 per cent. in Madras, and variable rates in Bombay. The tariffs of those two Presidencies differed in one or two other respects from those existing in Bengal. As for exports, bullion and coin, precious stones and pearls, books printed in India, animals, raw cotton if sent to Europe, the United States, or any of the British possessions outside India, and sugar and rum to the British possessions, were free. The last mentioned articles paid special rates if sent from Bengal or Madras to other British possessions. Grain paid half an anna per maund; lac, 4 per cent. (from Madras 3); silk and tobacco, special rates; spirits from Bombay, 9 annas a gallon; and all other Indian articles 3 per cent.

A large addition was made to the public debt of India in suppressing the Sepoy Mutiny, while the decision to increase the strength of the British portion of the army entailed a considerable addition to the recurring expenditure of the Government. An augmentation of resources was thus found necessary; and, among other measures, it was decided to enhance the customs duties. On the 4th March, 1859, a Resolution was issued by the Governor-General in Council with the object of enlightening the public on the necessity of improving the finances of the country. On the

12th March, a Bill was placed before the Legislative Council. The Governor-General himself moved the first reading of this Bill; and in the course of the speech made by him on the occasion, Lord Canning pointed out the extent of the pressure which had compelled the Government to resort to this measure.

In explaining the nature of the changes proposed in the Bill, Lord Canning said that everything which bore the semblance of a differential or protective duty was to be done away with, and that if the Bill was passed, not a rupee would be raised in India except for the purpose of revenue. He then gave a detailed account of the provisions of the Bill. On all articles of luxury such as tea, coffee, tobacco, spices, haberdashery, hosiery, grocery, provisions, perfumery, and jewellery, a duty of 20 per cent. *ad valorem* was fixed in the Bill. The articles which were subjected to specific rates, nearly equivalent to the 20 per cent. *ad valorem* rate, were wines, spirits, and beer. On wines and spirits, the Bill proposed to levy a duty of Rs. 3 per gallon, and on beer, 4 annas a gallon.¹ On most of the articles not included in the above enumeration, a duty of 10 per cent. was proposed. In this connexion, Lord Canning thought it fit to refer to cotton piece-goods. Although the rate of increase was considerable, he observed that, in view of the

¹ The Governor-General pointed out that these rates were below those levied in England.

fact that the import trade in the article had taken a deep root and had steadily increased, he had no apprehension that the proposed enhancement would affect it in the slightest degree. An exception was, however, made in the case of cotton thread, yarn, and twist, which were proposed to be taxed at 5 per cent., the reason being that the trade in these articles had not yet taken so firm a hold of the country as that in the manufactured product. Certain articles such as bullion, grain of all sorts, raw cotton, cattle, coal, books and machinery required for improving the communications and developing the resources of the country, were to be imported free.¹

In the list of exports, the only article on which it was intended to levy any increase of duty was grain.² The tax on grain was proposed to be raised from half an anna and one anna a maund to two annas a maund. There were two articles on which the export duties were proposed to be abolished altogether, namely, silk and tobacco. The ground of removal in the former case was that it was desirable to leave the competition of India in silk with other countries unshackled. The export duty on tobacco was removed because its yield was inconsiderable.³

¹ Most of these articles were already on the free list.

² The Governor-General remarked in this connexion that, from the information available to the Government, he believed that the increase would not affect the export of grain in any appreciable degree.

³ In regard to this provision, Lord Canning said that it was not to be supposed that the duty was abandoned because tobacco was not a fit subject of taxation, but that, if a tax was to be levied on the article, it would be better to levy an excise duty than an export duty.

The Governor-General proposed that the Bill be passed on the very day it was introduced, but exception was taken to the proposal by two members of the Council, including Sir Barnes Peacock. It was, therefore, referred to a Committee of the whole Council, and was passed on the 14th March. By this Act (VII of 1859) a uniform tariff was established for the whole of India, superseding the varying tariffs of the three Presidencies. The alterations were expected to bring an additional sum of 93½ lakhs into the public exchequer. The total yield of customs duties for the year 1859-60 was estimated at 1 crore and 97½ lakhs. The enhancement of duties on cotton manufactures gave rise to some opposition. A memorial was submitted to the Secretary of State by the European mercantile community of Bombay, in which it was pointed out that a local cotton industry had already been started and that it was impolitic to place imposts on articles imported from Britain.

The Tariff Act of 1859 was passed under a very pressing emergency, and in a somewhat hurried manner. The changes in the tariff proved financially successful on the whole. But the enhancement of the duties afforded greater inducement to evasion than before, while the falling-off in imports showed that the increase in duties had been carried too far. Mr. James Wilson took this as a warning, and he introduced a Bill into the

Legislative Council on the 18th February, 1860, to amend the tariff. The main alterations made by the Bill were as follows: First, all 20 per cent. import duties were reduced to 10 per cent. with the exception of beer, spirits, wines and tobacco. Secondly, the duties on cotton thread, twist, and yarn, were raised to 10 per cent. Thirdly, in regard to export duties, the only change was that the tax on saltpetre was increased to two rupees a maund. Fourthly, some articles were added to the free list, namely, among the imports,—wool, flax, hemp, jute, maps, prints and works of art, and hides; and among the exports,—wool, flax, hemp, jute, hides, tea, and coffee. The Finance Member wished it had been in his power to reduce the general duties to 5 per cent., but that was impossible at the time.

With regard to export duties, the Finance Member agreed that these were impediments in the way of developing the produce of the country. He observed: "As a general rule, when the products of our soil have to find a foreign market, and in cases in which they enter into competition with those of other countries, the direct effect of export duties must be to place our products in those countries at a disadvantage with their foreign competitors; in point of fact, it cannot be denied that in such cases an export duty falls chiefly upon the producer who cultivates the article." The

Finance Member pointed out that the exports of wool had been very important, but had shown some tendency to decline during the two previous years. The Government was especially interested in encouraging hemp and hides, because they competed in the English market with articles of unfriendly foreign nations. Jute was in the same category, and with regard to it, he expressed the opinion that it was one of the great raw materials used in England, which competed with the coarse hemp of Russia and the production of which it was "much our interest to promote." It was necessary to give every encouragement to the incipient efforts made in the Punjab to grow flax. As for tea, Mr. Wilson said that the experiment made by the Government, at a great cost, of introducing it as an article of cultivation had proved eminently successful, and steps were being taken to hand it over entirely to private enterprise. He regarded the tea industry as one of the few means that existed in India "of attracting European capital and European settlers."

The reductions and abolitions were estimated to involve a loss of £82,000 to the exchequer. But as the Government was faced with a large deficit, the Finance Member was obliged to make additions to the rates in some cases. The enhanced duty on the export of saltpetre was defended on the ground that the article was produced almost exclusively

in India, and fetched a large price and a high profit. Mr. Wilson thought this article did not stand in the same position as other articles produced by the cultivators of the soil, and could bear a high duty without any risk of its being interfered with by foreign competition.¹ As the total quantity of saltpetre exported annually from India was 100,000 maunds, it was expected that the increase in the rate of duty would yield £180,000 or an additional amount of £164,000.² He also proposed to raise the duty on unmanufactured tobacco to 8 annas a seer and that on manufactured tobacco to one rupee a seer.

The proposal to raise the import duty on yarn and twist to 10 per cent. was one which the Finance Member made with regret, and to which he was driven by sheer necessity. He failed to discover any good reason for allowing cotton twist and yarn to be imported at a lower rate of duty than cotton piece-goods. He was not impressed with the argument that it was an earlier stage of manufacture. Nor did he attach much importance to the view that a low duty on yarn and a higher duty on cloth encouraged the indigenous weaving industry. Another source from which an increased revenue was likely to be obtained was tariff revaluation.

¹ For some time past, a small duty had been levied on the export of this article.

² Mr. Wilson proposed to allow the saltpetre refiners, subject to payment of the duty, to turn to profit the salt which was necessarily made in the process.

Mr. Wilson considered the then existing tariff valuations to be too low, and took steps to revise them and apply a uniform system to the whole of India.

A considerable net gain to the exchequer was estimated as the result of these alterations. An increase in the export duty on indigo had been suggested in some quarters, but Mr. Wilson refused to accept the suggestion, because, in the first place, a rival production was supposed to exist in Mexico, and secondly, it was not thought desirable to place any impediment in the way of the extension of an industry which was one of the few cultivations in India which attracted "British capital and skill to direct native labour."¹

In the following year, another large deficit was estimated. But this fact did not prevent Mr. Wilson's successor, Mr. Samuel Laing, from reducing the duty on imported twist and yarn from 10 to 5 per cent. on the ground that "it ought not to be maintained at a rate which might stimulate the growth of a protected interest." He added: "The principle of free trade is to impose taxes for purposes of revenue only, and if yarn be a fit subject for taxation, there ought to be an

¹ "This is the kind of industry", Mr. Wilson added, "which, above all others, the Government would wish to encourage, and on that account alone they would feel precluded from placing any impediment in the way of its extension. It would be more consonant with our views to remove what little duty there now is as soon as circumstances will permit. The value of the influence of European gentlemen settled in our country districts cannot, in our opinion, be over-estimated, and it will be the steadfast policy of the Government to encourage it in every fair way we can".—*Financial Statement, 1860-61.*

excise duty on the native manufacture equal to the customs duty, unless the latter be so small in amount that it would be palpably not worth while to establish a countervailing system of excise." Mr. Laing thought that, with a 5 per cent. import duty, this might be the case, but at any higher rate, untaxed Indian yarn would manifestly be a protected article. Mr. Laing wished that he could at once reduce the duty on piece-goods and other manufactures from 10 to 5 per cent., but unfortunately, the amount of sacrifice was too large to enable him to propose it without imprudence.¹ In the case of yarn, however, the amount was small, the failure of the high duty palpable, and the case was urgent, because parties were "actually building mills and importing machinery on the strength of the high duty."²

Thus, even in this year of deficit, a revenue of £40,000 was sacrificed to maintain what were called the principles of free trade. At the same time, an addition was made to the duty on salt, an article of necessity which even the poorest could not do without.

The financial position of the Government improved to some extent in the course of the year, and the Finance Member estimated a surplus of £900,000 for 1862-63. He proposed to reduce the duties

¹ *Financial Statement, 1861-62.*

² *Ibid.*

on imported manufactures. Some eminent persons, among them the then Lieutenant-Governor of Bengal, thought that a 10 per cent. duty was "one of the most legitimate sources of revenue". But the Government of India held a different opinion for two plain and obvious reasons. The first of these was thus explained by the Finance Member: "The duty applies almost exclusively to British manufactures. Now as long as England and India remain parts of one great Empire, it is impossible to apply precisely the same rules as if they were separate and independent countries. I have opposed, as stoutly as any one, any attempt to ease English finance unduly at the expense of India; but I cannot deny that England, having founded the Indian Empire, and being ready to sustain it, and having given up all pretensions to exact a tribute, as Holland does from Java, or Spain from Cuba, and all claim on a monopoly of the Indian market, may, with some reason, ask India so to levy the necessary revenue as not to interfere injuriously with trade between the two countries. Apart from moral and political considerations, the extension of commerce is the most direct and palpable advantage derived by England from the possession of India. A heavy import duty, therefore, on trade between England and India, comes very near in principle to a transit duty between different parts of the same Empire, and what is more important

than theory, it is a tax which, in practice, is not likely to be permanently maintained."

There was also another argument against the permanent retention of a 10 per cent. duty. "Either the clothing of the people", said Mr. Laing, "is a proper subject for taxation, or it is not; if it be so, on what possible principle can we impose a considerable duty on clothing which comes from abroad, and levy no duty at all on clothing produced at home?"¹ No exception, Mr. Laing added, could be taken to an old accustomed duty of 5 per cent. on manufactured goods; but if it was to be kept at 10 per cent., this was a rate which required the Government, unless it was prepared to abjure the principle of free trade, at once to impose a counter-vailing excise duty on every loom in India. Such a step, however, the Government did not think it desirable to take. Mr. Laing did not wish to discourage manufactures of certain descriptions in which India had a natural advantage. But he was anxious "not to bestow on Indian manufactures the fatal boon of a temporary and precarious protection."²

¹ *Financial Statement, 1862-63.*

² Mr. Laing said further: "With cheap raw material, cheap labour, and many classes of the native population patient, ingenious, and endowed with a fine touch and delicate organisation, I see no reason why the interchange between India and Europe should be confined to agricultural produce against manufactures, and why, in course of time, manufactures of certain descriptions where India has a natural advantage, may not enter largely into her staple exports."—*Financial Statement, 1862-63.*

For these reasons, the import duties on piece-goods and yarns were reduced to the rates of 5 and $3\frac{1}{2}$ per cent. respectively.¹ The Finance Member was not, however, prepared to extend this policy of reduction to the other articles of the tariff, because they were not extensively produced in India as well as imported, and the same arguments which applied in the case of piece-goods did not apply in the other cases. A moderate duty of 10 per cent. on those articles was not, therefore, in his opinion, an objectionable mode of raising revenue. Paper was placed in the free list on the ground that a duty on the raw material was indefensible, while the finished article 'book' was admitted free.² The duty on beer, which was "to many European constitutions almost a necessary," was reduced by one-half, the duty on wines of less value than Rs. 12 per dozen was reduced to Re. 1, while the duty on tobacco³ was reduced from Re. 1 per seer to 20 per cent. *ad valorem*.

The finances of the Government continuing to be prosperous in the following year, the duty on beer,

¹ Objections had been made in some quarters to the reduction taking effect immediately. But the Government saw no sufficient reason to depart from the usual and accustomed course in such cases, which was clearly best for the interest of the public. The Finance Member, therefore, proposed that the reduction of the duty should take effect from the passing of the Act on the following Wednesday.

² Mr. Laing refused to enter upon a discussion of the larger question, namely, whether a tax on paper was obnoxious as a "tax on knowledge".

³ From beer to tobacco the transition was "easy and natural," according to Mr. Laing. He did not mention whether the reverse was also true.

which was, according to Sir Charles Trevelyan, the new Finance Member, "the most wholesome of stimulants and the best suited to this climate," was reduced to a registration fee of one anna, while the duty on every kind of wine was reduced to Re. 1 per gallon. Iron, which was a material of industry essential to the development of great works, but which had been charged with a duty of 10 per cent., was now subjected only to a registration fee of 1 per cent. No further reduction was made in the duty on piece-goods, because the 5 per cent. *ad valorem* duty, charged on a valuation which had been fixed when prices had been half of what they were at this time, really amounted to $2\frac{1}{2}$ per cent. Besides, the so-called protective duty had failed to give protection to indigenous manufactures. The handloom weavers, as Sir Charles Trevelyan stated in the Council, had been "prostrated by the blow which staggered Manchester. They had gone down before the excessive price of the raw material, and had migrated or gone upon the railways or other public works, or had given themselves up entirely to agriculture." The Finance Member prophesied that, when Manchester set to work again, she would "find her rival local manufacturers converted, to an unexpected extent, into readymoney customers."¹

¹ The absorption of the handloom weavers, who had been half agriculturists before, in the agricultural class was regarded by the Finance Member as a benefit both to England and India. He observed:

It was suggested in many quarters that the plan, which had been adopted in England a few years ago of confining customs duties to a small number of principal articles of import, might with advantage be adopted in India. But Sir Charles Trevelyan expressed the view that, in the special circumstances of India, "our policy should be to levy a widespread but moderate duty, so as to give free scope to trade in time of peace, and to cherish the increase of a fund which would be our first financial reserve in time of war."¹

By the end of the year, the finances of the Government of India had shown signs of further improvement. On the occasion of the discussion of the Financial Statement for 1864-65, Sir Charles Trevelyan remarked: "The great embarrassment of the trade of India has always been the want of imports to meet the vast quantity of exportable produce which the country is capable of sending forth. If we desire to relieve the trade of India, and to give free scope to its further extension, we should give all possible encourage-

"There has been occasional severe distress, particularly where the manufacture was carried on for general sale at marts, but on the whole, it is a remarkable proof of the healthy, progressive state of India, that the transition has been got through with so little difficulty." Discussing the causes of the trade depression, Sir Charles pointed out that the unusual combination of large stocks with high prices was the cause of the depressed state of the trade. It was the 40, 50, or even 60 per cent. advance of price which paralysed trade, "and not the nominal 5 per cent. duty."

¹ *Financial Statement, 1863-64.*

ment to her imports." Accordingly, the general import duty of 10 per cent. was reduced to $7\frac{1}{2}$. The import duty on tobacco was reduced to 10 per cent.¹ The loss of revenue arising from these reductions was expected to be balanced by increased receipts from the readjusted valuation of piece-goods. As a matter of fact, however, there was an appreciable decline in customs receipts.

In the following year, some important alterations were made in the customs tariff, in view of the growth in expenditure and the cessation of the revenue derived from income-tax. The Finance Member expressed the opinion that Indian exports had such a hold on foreign markets that they could easily bear some duty without being seriously checked.² He showed, by reference to the trade figures, that the exports of jute, wool, tea, and coffee had increased considerably during the preceding four years, and he proposed to

¹ This was done because foreign tobacco had to compete with the untaxed produce of this country.—*Financial Statement, 1864-65*,

² In defence of this policy of imposing export duties, Sir Charles Trevelyan said: "The old policy of the East India Company was to levy low rates of duty both upon exports and imports. However contrary this practice may have been to some received maxims of political economy, it was suited to the circumstances of the country, for owing partly to the abundance and richness of the productions of India, and partly to the simple habits of the people, the exports of merchandize have always greatly exceeded the imports... This policy has of late years been departed from to a certain extent... So far as India possesses the monopoly of the foreign market, or a decided superiority over all other countries taken together, an export duty must be paid by the consumer. So far as exported articles are met by an effective competition in the foreign market, the duty must be paid by the producer."—*Financial Statement, 1865-66*.

levy an export duty of 3 per cent. on each of them. Hides, sugar, and silk, the trade in which had not increased in the same proportion, were subjected to a duty of 2 per cent. The export duty on rice and other grains was raised from two annas to three annas a maund. On the other hand, the duty on saltpetre—which was now in a decadent condition—was reduced from Rs. 2 to Re. 1¹.

There were no changes of any importance in 1866-67, except that the duty on saltpetre, which had been unable to compete with the new manufacture, was reduced from Re. 1 a maund to 3 per cent. *ad valorem*, that is to say, the old rate. The relief, however, came too late, for the industry had already received a blow from which it could not possibly recover.

In 1867, in compliance with the request of the Bengal Chamber of Commerce, a Committee was appointed for the revision of tariff valuations. In accordance with the recommendations of this Committee, the customs tariff was revised with a view to the better classification of articles, to a readjustment of values and charges, and to the removal of duties which were not valuable as sources of revenue, but were obstructive to trade. The new classification was far more simple and

¹ The import duty on hops was reduced from $7\frac{1}{2}$ to 1 per cent. in order to assist the Indian breweries.

intelligible than the old one. The plan was adopted of enumerating the articles which were to pay customs duties, every article not enumerated being free.¹ The number of articles to be taxed was greatly reduced, forty heads being removed from the list of imports liable to duty, leaving sixty-five classes chargeable. Further, the export duties on eighty-eight articles, among which was saltpetre, were abolished, retaining only nine classes of articles on the list. The adoption of the new plan involved some sacrifice of revenue, but the liberation of commerce from many vexatious charges was regarded as more important than revenue. The loss of revenue resulting from the adoption of the new system was met by an increase in the export duty on grains from 2 to 3 annas a maund and an alteration of the wine duties. The Committee had advocated the raising of the duty on grains not only as a legitimate mode of improving the revenue, but also on the ground of its healthy tendency to check the exportation of staple articles of food during a period of famine.² The

¹ This was the mode in which the English tariff was framed.

² Mr. Massey was able to cite high authority besides that of the Committee in support of his view. In 1857, in the prospect of scarcity, a prohibitory duty on the export of grain had been proposed in the legislative council; but this extreme measure had not been adopted. In 1859, the duty was raised from half an anna to two annas per maund, but it did not check exportation.

Some of the grain merchants of Burma memorialised the Secretary of State against the increased duty, basing their opposition "not on the ground of its tendency to check the trade but in the prospect of its decreasing their profits."

duties on cotton piece-goods and twists were retained at the rates of 5 and $3\frac{1}{2}$ per cent. *ad valorem*, but the valuations were reduced to correspond with the then existing state of the market. Machinery, together with component parts thereof, was placed on the free list.¹

By Act XI of 1868, the importation of timber and wood was declared free. The customs tariff was again carefully revised with the assistance of a Committee in 1869. The tariff values of cotton goods and of the principal metals, were reduced by about 15 per cent.² On the occasion of the annual budget debate, Sir Richard Temple, reviewing the customs receipts for a decade, remarked that, in Mr. Wilson's time, the revenue had been just under $2\frac{3}{4}$ millions, but it was a little over this figure at this time, notwithstanding the fact that the duties had been reduced from 20 and 10 per cent. to $7\frac{1}{2}$ and 5 per cent. and that no less than 130 articles had been removed from the list of dutiable merchandise at the customs house.³

In 1870, the export duty on shawls and a few

¹ In this respect, the Government went beyond the recommendations of the Committee.—*Moral and Material Progress Report, 1865-66.*

² This decision did not take effect till 1871.

³ A volume of the statistics of the foreign trade and navigation for British India was issued about this time. The latest trade returns disclosed, according to Sir Richard Temple, some striking facts indicative of that sort of prosperity which was the real basis of national finance. "That these results", he observed, "should be achieved through the direct agency of a handful of non-official gentlemen, is one among the many wonders of the time."

insignificant articles was remitted, while some others were included in the tariff.¹ Act XVII of this year removed from the list of imports paying duty, blacking, carpets, China and Japan ware, felt, grass and other China cloth, horns, jute manufactures, lac, marble, shawls, tallow and grease, trunks, materials for carriages, chemicals, and telegraph materials.² Corals and matches were included in the list of goods paying $7\frac{1}{2}$ per cent., and steel rails were, like iron, to pay a duty of only 1 per cent. By Act XIII of 1871 all materials for railways were admitted at 1 per cent., and asphalt was charged $7\frac{1}{2}$ per cent. In 1873 and 1874, the export duties on wheat and lac dye were removed.³

The question of the abolition of the export duty on rice gave rise to much controversy about this time. In response to an enquiry made by the Government of India in 1872, the Chief Commissioner of British Burma observed that the rice duties fell exclusively upon the agricultural classes, and that they were in fact a supplement to the land tax. He

¹ In 1870, a remission of the export duty on Indian and Burmese rice was suggested in view of the dulness in the trade; but an improvement having occurred in the course of the year, the Government did not make any change.

² Some of these articles, however, probably paid duty under other denominations. *Vide Waterfield's Memorandum on Fiscal Legislation in India.*

³ In 1872, the *farman* privilege was withdrawn from the Portuguese at Surat. This privilege had been granted by the Moghul Emperor in 1714 and recognised by the British Government. Under it, goods belonging to Portuguese subjects, and carried in Portuguese vessels, were subject to only $2\frac{1}{2}$ per cent. on importation at Surat.

also said that the import duties were not an important item, but that the export duties in Burma were expected during the year 1872-73 to exceed the export duties of the whole of Bengal which included, of course, a great portion of the exports of the North-Western Provinces, Oudh, the Central Provinces and the Punjab.

Major Duncan, Inspector-General of Police in British Burma, thought that the rice duties were unsound in principle. But the Chief Commissioner expressed the view that it was a legitimate way of supplementing the light land tax. The latter was a direct tax, and it was quite right to supplement it by an indirect tax on the surplus produce of the soil. He did not believe that, if this duty were taken off, a single additional acre of land would be brought under cultivation. The objections to the rice duty were, in his opinion, purely theoretical and based on a false analogy between the conditions of Burma and of other countries. In regard to the operation and effects of the rice export duty, the Chief Commissioner observed that it was paid by the producer, and that the land, which was taxed lightly, was able to bear this supplementary burden. He showed that the exports of rice had grown enormously during the previous five years. He added : "It is seldom that any State has the means of raising a large revenue with absolutely no injury to commerce and no pressure

on the people. In the rice duty the Government of India has this opportunity, and it seems to the Chief Commissioner that any surrender of its favourable position in this respect would inflict a serious injury on the revenues of the country, with absolutely no corresponding advantages to compensate for this sacrifice. It is not as if the duty were unpopular, or that a concession to public opinion on the subject were expedient. Not a voice is raised against the duty in Burma, on the score that its retention is a wrong and an injury to the country; the memorial of the mercantile community to the late Viceroy, on the occasion of his visit to Burma, did allude to the subject, but it asked that a greater portion of the proceeds of the duty might be spent in the province, rather than that it might be taken off altogether.”¹

¹ *Letter from the Chief Commissioner of Burma to the Government of India, dated the 16th November, 1872.* A brief history of the rice duty may be given here. Act XVII of 1867 came into force in British Burma under which the duty on grain exported from India was raised from two to three annas per maund. It was expected by many that this enhancement of duty would have a prejudicial effect on the rice trade of this province, which formed the staple of its commerce; that that trade would no longer be able to compete with other countries, which were, it was supposed, anxious to become competitors with Burma in the European markets, and that as a consequence the material progress of the province would be retarded. As a matter of fact, there was a large increase in the export of rice.

In Bengal, previous to 1866, the export of grain was free, whether in English or foreign vessels. By Reg. IX of 1810, Sec. 13, cl. 2, grain of all sorts was declared free on export. By Reg. X of 1810, Sec. 3, cl. 1, rice,—whether cleaned or in the husk,—wheat and barley, were subjected to a town duty of 2½ per cent. levied on a rated value, if cleaned, of one Calcutta sicca rupee per maund of 8 Calcutta sicca weight to the seer, and rice in the husk or paddy at 8 annas per maund. Under Section 30, cl. 2, if expressly intended for exportation by sea,

Another article which was the subject of discussion at this time was sugar. In 1872, the Government of the North-Western Provinces wrote: "As soon as financial considerations will admit, His Honour would be glad to see the export duty on sugar crossing the frontier line taken off. So long as these provinces had the exclusive privilege of supplying Rajputana and Central India with sugar, being the only source from which

no duty was levied; but the boats which brought rice to Calcutta were to be conducted to the customs house in charge of a peon, who was not to leave the boat or to prevent the grain to be landed elsewhere than at the customs house, there to remain until shipped or passed for export. Regulation XV of 1825, which imposed a great variety of duties, specially exempted grain of all sorts from duty when exported, no matter to what place, or by what vessels, foreign or English. Thus matters remained till 1836. Under Act XIV of that year, schedule B, grain and pulse of all sorts, if exported in British vessels, were subjected to a duty of one anna per bag not exceeding 2 maunds of 80 tolas to the seer; or if exported otherwise than in bags, $\frac{1}{2}$ an anna per maund. These rates were doubled on exports in foreign vessels.

In 1859, under Act VII of that year, the duty on grain was raised to 2 annas a maund. The effect of this change was apparent on the exports of the succeeding years. The shipments of rice and paddy for the five years preceding 1859 averaged 111,585,697 maunds, whilst for the period 1859 to 1863-64 the average was only 8,146,364 maunds. The duty of two annas continued to be levied down to the 31st March, 1865. In April, 1865, it was increased to 3 annas per maund under Act VII of that year. This increased rate was disallowed by the Secretary of State for India, and the rate of two annas was reverted to. In 1867, it was again raised to 3 annas a maund on the recommendation of the Committee appointed in 1866 to revise the tariff, composed of the Commissioner of Customs, Bombay, the Collector of Customs, Madras, the President of the Chamber of Commerce, the junior Secretary to the Board of Revenue, and the Collector of Customs, Calcutta. The rate of 3 annas continued, and was in force in 1872.

The raising of the rate of duty had an adverse effect on the exports from Bengal. There was a strong feeling against the duty. But the Indian community considered it an excellent tax, on the ground that it tended to keep food in the country. The Collector of Customs, Calcutta, thought that any reduction of the duty on grain would be received with the greatest satisfaction by the mercantile community.—*Letter from the Government of Bengal to the Government of India, dated 13th December, 1872.*

it could be procured, the duty by raising the price was virtually a tax on the consumer, and was consequently paid by Rajputana and Central India. But as soon as, by the additional facilities afforded by the railway, Central India was enabled to import foreign sugar from Bombay, and the two sugars came into competition, it is evident that the produce of the North-Western Provinces no longer ruled the market; its price must be adjusted with reference to that of the other sugar, and consequently the tax is liable to fall on the producer and to discourage the production and manufacture of the staple in the North-Western Provinces." Sir William Muir came to the conclusion that the time for reviewing the expediency of this export duty had arrived, and that, as soon as the state of the finances might admit, the producers of these provinces should be relieved from a burden which must depress their trade.¹

The Government of Bengal observed that the export of rice varied with the harvests and the prevailing price of grain in Bengal and in Europe. It remarked further that it might, to a small extent, check export, but that indirect effect in checking the production of rice must be inappreciable. As the export trade had flourished in spite of the small duty, the Lieutenant-Governor did not consider that

¹ *Letter from the Government of the North-Western Province to the Government of India, dated the 11th December, 1872.*

this duty should be "the first for reduction or abolition".¹

Early in 1874, the Manchester Chamber of Commerce submitted a memorial to the Secretary of State complaining that the import duties of $3\frac{1}{2}$ per cent. on yarns and 5 per cent. on cotton manufactures were "absolutely prohibitory" to the trade in yarn and cloth of the coarse and low-priced sorts, that a protected trade in cotton manufacture was thus springing up in India to the disadvantage both of India and Great Britain, and that the duties increased the cost of their articles of clothing to the poorest of the people, thereby interfering with their "health, comfort, and general well-being." The Chamber, therefore, prayed that early consideration might be given to the subject with a view to the abolition of the duties. A few months later, the Manchester Chamber addressed another letter to the Secretary of State in which they said: "A large number of new mills are now being projected, and the revenue from import duties will be consequently diminished. The impost is, therefore, defeating its own object, as well as inflicting an injustice on the consumer and importer."

In November, 1874, a Committee was appointed by the Government of India to consider the whole

¹ Letter dated the 13th December, 1872.

Of the Bengal exports, more than half consisted of rice about this time; indigo, oil-seeds, and lac came next in order. The exportation of jute, cotton, silk, tea, saltpetre, wheat, and sugar was free.

question of the tariff. They made recommendations relating to the export duties, tariff valuations, and other matters. In regard to the duties on cotton manufactures, they observed: "The demand that, because one class of goods, represented by 4 lakhs of duty in all India, has in one part of India, to meet a local competition, the Government shall remit the remaining 77 lakhs which competition cannot affect, appears to the Committee quite unreasonable." They also rejected the alternative of an excise duty on Indian mill products as they saw "no need for establishing a cumbersome and expensive excise machinery."

The Government of India accepted the recommendation of the Committee in regard to a lower scale of valuations. In the matter of export duties, it went further, and decided to free from all fiscal burdens the entire export trade, except in three articles, namely, rice, indigo, and lac.¹ The general import duty was reduced from $7\frac{1}{2}$ to 5 per cent. As a concession to the sentiments and fears of Manchester, an import duty of 5 per cent. on long-stapled cotton was decided upon. A Bill embodying these provisions was passed on the 5th August, 1875. Mr. T. C. Hope, in the course of an able speech, showed that the case for the abolition of all duties "must inevitably fall to the ground. He further observed

¹ The export duties on cotton goods, oilseeds, and spices were removed.

that Mr. Massey had remarked with truth that the Indian import duties were the lightest in the world. Lord Northbrook, in summing up the debate on this occasion, explained that the Indian customs duties had never been regarded as protective, and observed that, in a financial question, the true interest of the people of India was the only consideration which the Government of India ought to have in view.

The Secretary of State, Lord Salisbury, took exception to the procedure adopted by the Government of India in placing the measure before the Legislative Council without obtaining his sanction. Shortly afterwards, Lord Salisbury sent a despatch to the Governor-General in Council in which he strongly urged the latter to abolish the import duty on cotton manufactures as soon as the condition of the finances might permit such a step being taken. He thought that the duty was open not only to economic, but also political, objections. On the 30th September, Lord Salisbury sent a telegram to the Governor-General expressing his disapproval of the newly passed Tariff Act and practically enjoining the removal of the cotton duties. In a despatch dated the 11th November, 1875, Lord Salisbury again urged the removal of the cotton duty which he considered to be "a matter of serious importance both to Indian and Imperial interests." Minutes of dissent were,

however, recorded to this despatch by several members of his Council.

Lord Northbrook and his colleagues, in their reply to the despatch, said that the duty could not be removed "without danger to the Indian finances, and that the imposition of new taxes in its stead would create serious discontent." Other despatches to and from India followed. The Secretary of State continued to insist on the abolition of the cotton duties, while the Government of India maintained its objection to the proposal. The opinion of the Council of India was often divided on the question. In these despatches, the question of relations between the British and Indian Governments was discussed with enthusiasm on both sides. The resignation of Lord Northbrook, however, helped to smooth matters over. Immediately after his appointment, Lord Lytton, the new Governor-General, publicly declared his view in favour of the abolition of the cotton duties.

On the 30th August, 1877, the following Resolution was adopted by the House of Commons: "That in the opinion of this House, the duties now levied upon cotton manufactures imported into India, being protective in their nature, are contrary to sound commercial policy, and ought to be repealed without delay as soon as the financial condition of India will permit." On the financial effects of the proposed abolition, Sir John Strachey,

the Finance Member, said: "The truth is that cotton goods are the sole article of foreign production which the people of India largely consume, and there is no possibility of deriving a large customs revenue from anything else". But he added: "I don't know how long a period may elapse before such a consummation is reached; but whether we see it or not, the time is not hopelessly distant when the ports of India will be thrown open freely to the commerce of the world."¹

In March, 1878, the Finance Member said in the Council that the Government of India was bound to give effect to the principles on which the customs legislation of Great Britain was based. As a first step towards giving effect to the policy enjoined by Parliament and the Secretary of State, he exempted those coarser qualities of cotton goods with which the Indian manufactures were likely to compete successfully. This involved considerable financial sacrifice, and that in a year of deficit when the imposition of fresh taxes was found necessary.

The relief thus granted to the imported cotton goods failed to give satisfaction; and in 1879, Lord Lytton decided to exempt from duty cotton goods containing no yarn of higher number than 30's. At the same time, the valuations were reduced. Instead of placing a Bill before the Legislative Council, the Governor-General decided to take executive action.

¹ *Proceedings of the Governor-General's Council, 1877.*

The majority of members of his Executive Council, were, however, opposed to the reduction. But the extraordinary step was taken by Lord Lytton to overrule the Council under the authority vested in him for use only on emergent occasions.

The objections of the dissenting members were based mainly on financial considerations, as this was a period of extreme financial embarrassment for the Government, owing to the combined effects of war, famine, and loss by exchange. Mr. Whitley Stokes, in the course of an admirably written Note of Dissent, urged seven cogent reasons against the measure. One of these was that the people of India would be convinced that the step had been taken "solely in the interest of Manchester and for the benefit of the conservative party." "Of course", he added, "the people of India will be wrong: they always must be wrong when they impute selfish motives to the ruling race. Nevertheless, the evil political results likely to follow from this popular conviction should not be ignored and should, if possible, be avoided." He also observed that the adoption of such an important measure by a mere executive order would "resemble what lawyers call a fraud on the power; and there is, unfortunately, no court of equity to relieve the people of India against it."¹

¹ The other dissentients were: Mr. (afterwards Sir) Rivers Thompson, (who subsequently rose to the position of Lieutenant-Governor of Bengal) Sir Alexander Arbuthnot, and Sir Andrew Clarke.

This action was strongly resented by the entire Indian community, and the feeling was shared by the leading representatives of the European mercantile community in India. The reduction in duties was, of course, heartily approved by the Secretary of State, but no less than seven members of the Council of India expressed their disapproval of the step. This measure caused a reduction in revenue amounting to about £200,000. On the 4th April, 1879, the House of Commons passed the following resolution: "This House accepts the recent reduction in those duties as a step towards their total abolition to which Her Majesty's Government are pledged."

In 1879, the inland sugar duties were abolished, which had been characterised as the most discreditable relic of the dark ages of taxation that existed in India. This abolition involved a loss of revenue amounting to about £155,000. The removal of the sugar duties made it possible for the Government to abolish the Inland Customs Line, one of the greatest reproaches on British administration in India. In the same year, materials for railways were exempted from payment of duty. It was felt that it must be a short-sighted fiscal policy to add artificially to the cost of railways, in view specially of the fact that many of them were constructed under the guarantee system.

As a result of the changes made in 1879, there

now remained, out of the 62 tariff numbers of schedule A of the Indian Tariff Act, 1875, only 35 numbers. These alterations, including the remission of duties on cotton goods and minor articles were carried out with a loss of about £77,000. In 1880, the export duties on indigo and lac were removed, leaving rice as the only export liable to duty.

One of the consequences of the modification of the cotton duties was that the revenue from grey goods showed a tendency to disappear very fast. In 1882, Mr. Evelyn Baring, the Finance Member, said that the existing system caused considerable administrative inconvenience and that it was open to objection on the ground that the immediate effect of the partial repeal of the cotton duties had been to protect one class of Manchester grey goods against another. The line drawn being an arbitrary one, the result was that the manufacture and trade in grey goods for India had, in fact, been forced artificially in one direction by the customs duty. Another anomaly of the system, according to Mr. Baring, was that Manchester was protected against India. The defects could not, however, be rectified merely by abolishing the duty on grey goods; for if grey goods were exempted, it would be difficult to justify the taxation of white and coloured goods. As for the general import duties, the Finance Member quoted, approvingly, the view expressed by the Calcutta Trades Association in

1879 when they had characterised these duties as "protective, capricious, and opposed to economic principles." Besides, they yielded only a small revenue, and were not only open to numerous economic and practical objections, but caused an amount of friction, scrutiny, and interference with trade quite incommensurate with the net revenue they produced. He held, therefore, that the arguments in favour of abolishing the general import duties were even stronger than those which might be adduced in respect of the abolition of the cotton duties.

This was a year of financial surplus, and the Finance Member formulated the real issue in these words: "The ordinary revenue of India exceeds the ordinary expenditure. A remission of taxation is, therefore, possible. What form should that remission take?" After a full consideration of the various alternatives, the Government came to the conclusion that the form which a remission might most beneficially assume was the abolition of the whole of the cotton duties and of the general import duties. The net loss of revenue from the abolition of the import duties was expected to amount to £1,108,000, which was much less than the estimated surplus for the year 1882-83 (£2,105,000). In conclusion,¹ the Finance Member

¹ He added: "As an incident of her connexion with England, India has a right to profit from English experience and English economic history. That experience and that history show that by the adoption of

expressed the hope that the solution which the Government of India now offered would set at rest the controversy which had raged for so many years.¹

Not only were cotton goods of all sorts as well as metals placed on the free list, but also all other articles except five, namely, arms and ammunition, liqueurs, wines, opium, and salt. During the discussion of the Bill in the legislative council of the Governor-General, Maharaja Jatindra Mohan Tagore expressed his regret that the interested cry of Manchester carried greater weight with the Government than justice to the millions of India entrusted

Free Trade, a country benefits, indeed, all the world, but more specially benefits itself . . . The wealth of India, like that of other countries, is in proportion, not only to its natural resources, but to the degree of liberty it may possess in the use of the measures now proposed. India will be more free to exchange her exportable produce for the products of foreign lands than would be possible were the import duties maintained." In addition to these arguments, another was advanced by the Finance Member, namely, that the reform would contribute to the extension of the railway system of India. The Government, therefore, brought forward these proposals in the firm belief that their adoption would be of the utmost benefit to India, and with the knowledge that, under present circumstances, they would be unaccompanied by any counterbalancing disadvantages.

Two minor reforms were also made at this time, namely, the duty on methylated spirit was reduced to 5 per cent., and that perfumed spirit would be taxed at the rate of Rs. 4 per imperial gallon.—*Financial Statement, 1882-83.*

¹ Sir Auckland Colvin afterwards observed: "The capricious and uncertain elements in Indian finance should have been allowed more weight in the counsels of those who carried out the reforms of 1882 The exemption from duty in March 1878 by the Government of Lord Lytton of certain descriptions of grey cotton goods made the abolition of the import duties on all cotton goods a question only of time, and of a very brief time. If Apollon was constrained to water, it was because Paul had sowed. The corner-stone was taken out of the edifice in 1878, and the whole fabric of import duties was bound shortly to be removed, under pain of becoming a nuisance and a danger."—*Proceedings of the Governor-General's Council, 1888.*

to its care. His voice, however, fell on deaf ears. The Bill was passed without any real opposition.

The expectation regarding an enormous increase in consumption due to the abolition of the cotton and general import duties was not realised, and the Finance Member attributed this failure to the low rate of exchange, the Egyptian complications, and the economical habits of the people.¹ In his opinion, the remission of the duties did not in any way affect the Indian mills; nor did any injury to the sugar trade result from the measures adopted. The reduction in the salt duty, however, showed a favourable result in the increased consumption of that article which helped considerably to recoup the loss of revenue. In 1883, Mr. Baring said that it was most desirable to develop the export trade of India, and with that object in view to remove the export duty on rice. He then cited the instance of the wheat trade which had been making steady progress.²

¹ "The relief afforded to trade in general," said the Finance Member, "owing to the cessation of all the embarrassment and delay consequent on the levy of duties at the customs house, cannot be represented in arithmetical form. It is, however, a very important factor in the consideration of the question."—*Financial Statement, 1883-84.*

² This trade, as was pointed out by Mr. Baring, might for all practical purposes, be said to date from the year 1873. In 1882-83 the amount of export was 14,000,000 cwt. Almost the whole of the wheat trade was with Europe, and the largest market for Indian wheat was England. As the total production of wheat was decreasing in England, it was likely that the demand for wheat would increase. But the United States was the greatest rival of India in this respect. The comparative advantages of the two countries were summarised by Major Baring thus: On the one hand, the Indian outturn was capable of very considerable increase; on the other, the processes of American agriculture were

The improvement which had shown itself in the financial position of the country did not last long. Deficits began again to appear from 1884. Even the levy of the income-tax in 1886 did not place the finances of the Government on a firm basis. In 1888, when the financial situation in India became very unsatisfactory, an import duty of 5 per cent. was levied on petroleum. It was expected that this would give an income of Rs. 65,000. The Finance Member justified the imposition on the ground that money was badly needed, and that petroleum was an article in respect of which most of the theoretical objections to an import duty did not apply. He added that this article lent itself to a convenient and certain collection of duty; the oil was for the most part of a few well-recognised brands, so that there was no difficulty in fixing its value for purposes of duty. The production was a monopoly of one or two countries (namely, America and Russia), with which the production of India or of other countries could hardly enter into competition.¹ The Finance Member did not deny

superior to those of Indian agriculture. Besides, the land in the North-Western and Western States was unexhausted, and was of very great natural fertility. The yield per acre was larger than in India. The United States possessed further advantages in matters of ocean freight and railway communication and rates. Indian wheat was quoted in the London market at a lower price than American or Australian wheat, this being due not so much to its quality, which was generally good, but to its admixture with dirt and inferior grains. At the same time, India possessed one great advantage over the United States in her enjoyment of free trade.

¹ So far as the consumer was concerned, he would certainly, said Mr. Westland, even after the tax was levied, be better off than he was only

that import duties in India were matters that required delicate handling, but, in his opinion, there was not the slightest occasion for the Government to take up questions affecting such duties generally. The question of imposing a countervailing excise duty on oil produced in India was considered by the Government but decided in the negative, because the small quantities extracted in Burma, Assam, the Punjab, and Baluchistan represented at the best mere nascent industries, which were utterly out of any chance of competition with imported oils. The machinery of an excise duty was not, therefore, required, and it was decided not to apply it.¹

Raja Peary Mohan Mukerji hesitated to lend his support to the Bill for imposing a duty on petroleum. This was, in his opinion, an insignificant article of commerce, and the duty would touch even the poorest classes. He, therefore, suggested that import duties might be levied on hardware and metals, if the Government were disinclined to re-impose duties on cotton goods. When, however, the Bill was referred to a Select Committee he withdrew his opposition. On the other hand, Sir Dinshaw Manockjee Petit thought that an *ad valorem*

a year or two ago, for the Government was taking from him only a small part of the benefit he had received through the development of the trade during the preceding few years.

¹ *Proceedings of the Governor-General's Legislative Council, 27th January, 1888.*

duty on petroleum was the least objectionable way of raising additional revenue and that it was not likely to prove oppressive on the poorest classes. Mr. Steel, while approving of the principle of the Bill, suggested, on behalf of the mercantile community, the substitution of a tax on measurement for an *ad valorem* duty on the ground that a tax on value would give rise to disputes in appraising the article and that it would tend to discourage imports of the purer qualities of oil.¹ At the final stage of the Bill, two important amendments were made in it, namely, a fixed duty was substituted for an *ad valorem* duty, and secondly, the rate was raised to about 8 per cent.²

In 1890, the duty on spirits was raised from Rs. 5 to Rs. 6 a gallon. The reasons which in-

¹ Another objection to an *ad valorem* duty, in Mr. Steel's opinion, was that, if oil were imported in tanks and landed in bulk, such oil would practically be admitted at one-half the duty imposed on goods landed in the customary packages, as the value of a case of petroleum consisted in about equal proportion of the cost of the oil itself and that of the tins and box in which it was packed.

² The Finance Member said: "It is obvious that the levy of a fixed duty is much more convenient than a duty assessed *ad valorem*. The objections to it are mainly that the poorer classes, who naturally use the cheaper qualities of oil, are, by a fixed duty, made to pay a higher rate of taxation than the wealthier classes, who naturally use the more expensive qualities of oil. But enquiries show that, in the case of kerosene oil, there is very little difference in price between the lowest qualities which are imported and the highest... The values, therefore, being so near uniformity, it is obvious that a fixed duty will in its operation differ not very essentially from an *ad valorem* duty; and therefore, it may by preference be adopted, as in other respects its simplicity recommends it. I may mention that there is a very small quantity of high-priced oil imported. This high-priced oil will escape its proper proportion of taxation, but it is better to accept the inconvenience of an inequality like this than the greater inconvenience of applying all the difficulties of an *ad valorem* duty to the much larger quantity of the ordinary oils which are imported."—*Proceedings of the Governor-General's Legislative Council, 1888.*

fluenced the Government in deciding to raise the duty were as follows : (i) On general grounds, it was desirable to increase, within reasonable limits, the cost to the consumer of intoxicating liquors ; (ii) it was an accepted principle of excise administration in India to endeavour gradually to raise the duty on spirits made in India to the tariff rate, and as it had been found possible in some places to increase the duty to the tariff rate, the occasion for a further increase of that rate had arrived ; (iii) it was hoped that the increase might check the increasing import of cheap deleterious foreign spirits ; and (iv) the increased duty would make a substantial addition to the public revenue. On the occasion of the Tariff Act Amendment Bill, it was pointed out that, in recent years, the rates of duty on spirits manufactured in India had been increased in a higher proportion than the duty on imported spirits ; and that, in order to restore the ratio that used to exist between the duty on imported spirits and the duty on Indian spirits, the rate of duty would have to be increased considerably. The Finance Member also cited the opinion of the Government of Bengal which had stated that low-class European spirits competed considerably with country liquor, and recommended an increase in the tariff rate chiefly with reference to that inferior class of imported spirits, on the ground that it was "if not absolutely deleterious,

certainly less wholesome than either country spirits or country rum."¹

The situation again became acute in 1893. In the following year, the Government found itself face to face with another heavy deficit caused by the exchange difficulty. It was, therefore, decided, in March, 1894, in addition to the adoption of other measures, to impose general import duties at the rate of 5 per cent. The Secretary of State accepted the proposal to re-impose the general duties, but refused to sanction the inclusion of cotton yarn or cotton fabrics in the list of articles liable to duty. Six members of the Council of India, however, expressed their dissent from this latter decision. During the debates which took place in the Legislative Council, several members, Indian as well as European, urged the inclusion of cotton goods.² Even a high officer of the Government, Mr. C. C. Stevens, considered it his duty to raise his voice of protest against the decision.³ Various public bodies, including the European Chambers of Commerce, protested against the exclusion of cotton goods. Many public meetings were also held in various parts of the country. But the Government of India

¹ *Proceedings of the Governor-General's Legislative Council, dated the 21st March, 1890.*

² Among these were Mr. (afterwards Sir) Patrick Playfair, Dr. Rash Behari Ghosh, Sir Griffith Evans, Mr. (afterwards Sir) Fazulbhai Vishram, Mr. G. Chitnavis, the Maharaja of Durbhanga, and the Maharaja of Ayodhya.

³ Mr. Stevens soon afterwards rose to the position of Acting Lieutenant-Governor of Bengal.

was helpless. The Tariff Bill was passed in the form in which it had been introduced. The duties levied at the time were estimated to give a net return of Rs. 1,140,000.

The opposition to the measure continued unabated, while the financial position of the Government showed no signs of improvement. On the 31st May, 1894, the Secretary of State sent a despatch to the Governor-General in Council, in which he suggested that, if a duty was to be levied on cotton goods, the change must be accompanied either by an exemption from duty of those classes of cotton goods which were likely to compete with Indian manufactures or the imposition of an excise duty equivalent to the import duty. In reply to this despatch, the Government expressed its readiness to accept an excise duty as a solution of the difficulty, and forwarded proposals for the imposition of import duties at the rate of (a) 5 per cent. on all cotton goods, and (b) $3\frac{1}{2}$ per cent. on all cotton yarn of counts above 24's; together with an excise duty of $3\frac{1}{2}$ per cent. on all machine-made cotton yarn produced in Indian mills of counts above 24's. Sir Henry Fowler accepted these proposals with two amendments, namely, that the rate of import duty on yarn should be 5 per cent., and that the duties on yarn, both import and excise, should begin with counts above 20's. These proposals were embodied in Bills which were introduced in the Council on the 17th December, 1894.

The proposal to levy an excise duty gave rise to a storm of opposition from the commercial community and the public generally. The European as well as the Indian non-official members of the Governor-General's Legislative Council also strongly opposed the proposal.¹ But as it had been recommended by "superior orders," which, officers of the Government of India "were obliged to obey,"² the Bills were passed with the help of the official bloc in the Council.³

The concession of an excise duty on yarn, however, did not satisfy Manchester. Representations were made to the Secretary of State by the Lancashire merchants, and a deputation waited upon him. The new Secretary of State, Lord George Hamilton, assured them of "his firm resolve to accord them perfect equality of treatment." Accordingly, early in 1896, two Acts were passed which abolished the import and excise duties at 5 per cent. on cotton yarn, reduced the import duty on manufactured cotton goods from 5 per cent. to $3\frac{1}{2}$ per cent., and imposed an excise duty of $3\frac{1}{2}$ per cent. on cotton goods of all counts manufactured in Indian mills. These measures involved a sacrifice of about

¹ Among others, Sir Griffith Evans, Sir Patrick Playfair, and Sir Fazulbhai Vishram protested against the levy of an excise duty.

² *Vide* Sir James Westland's Speech in the Governor-General's Legislative Council, 1894.

³ It may be noted that one official member, Mr. C. C. Stevens, refrained from voting on this occasion.

Rs. 5,00,000. It is worthy of note that when the matter went up to the Secretary of State, two of the members of his Council took strong exception to these measures on the ground that they were "not logically defensible, and, therefore, politically unwise."¹

In 1899, Sir James Westland introduced a Bill which conferred on the Government the power to impose countervailing duties in the case of bounty-fed sugar imported from European countries. These duties were to be in addition to the ordinary tariff, and the rates were to be equal to the amounts of bounties granted by foreign nations. It was a measure of defence on the part of India, and it was welcomed by some non-official members of the Governor-General's Council as marking a departure in the fiscal history of the country. But the general public was not sure whether the real object was to help India, or to benefit the British colony of Mauritius, or to strike a blow at Germany and Austria. The Bill was passed without any opposition.

As for the yield of the duty, the Finance Member estimated in 1900 that he would obtain 17 or 18 lakhs of rupees annually from this source. He expressed his satisfaction at the fact that this addition to the revenue was realised at the expense of the European tax-payers, taxed by their

¹ *Parliamentary Paper 229 of 1896.* The dissentients were Sir James Peile and Sir Alexander Arbuthnot.

respective Governments to provide the bounties. "The fact is," added the Finance Member, "that the Government of India has added 17 lakhs to its resources by taking, for revenue purposes, the approximate difference between cost price and the artificially maintained selling price of bounty-fed imported sugars, whilst the Indian consumer pays no more for his sugar than he would have to pay if the bounty systems were abolished."¹

In 1902, the Finance Member pointed out that the countervailing duties on bounty-fed sugar had brought in a very handsome addition to Indian revenues, but it could not be said that they had any important influence in checking importations of foreign sugar. "The fact is," he said, "that the direct bounties granted by some foreign Governments on the export of sugar, form but a portion, and not always the larger portion, of the profits derived by sugar manufacturers from the export of their produce. The reason was that, in addition to the fixed direct bounty paid per ton by foreign Governments on the exported article, there existed arrangements whereby railway companies undertook the carriage of sugar to the seaports, at reduced rates, and government-subsidised steamers to transport the sugar to countries across the seas, at rates of freight quite unobtainable for ordinary goods. Besides these special concessions, refiners combined

¹ *Financial Statement, 1900-1.*

to maintain the price of sugar consumed in the country of production at such abnormally high rates as to permit of the exported surplus being sold at a considerable loss, while still maintaining a high average rate of profit on the sale of the total output.”¹

In the meanwhile, the question of sugar bounties, both direct and indirect, had been fully discussed at an International Conference held at Brussels. It was agreed at this Conference to restrict by international agreement the protective duties that might be imposed in the sugar-producing countries, and to abolish all kinds of bounties on the production or export of sugar. A convention was drawn up giving effect to this decision and requiring the contracting Powers either to impose counter-vailing duties on the sugar imported from countries which continue to grant bounties, directly or indirectly, or to prohibit altogether the importation of sugar from such countries. The Government of India was represented at the Conference, but it did not become a party to the convention preferring to retain for the time being complete liberty of action. But on the 6th of June, 1902, a Bill was passed, empowering the Governor-General in Council to impose a special duty on the sugar imported from any country in which the excise duty on home-grown sugar exceeded by more than a fixed minimum

¹ *Financial Statement, 1902-3.*

of 6 francs per 100 kilos of refined sugar, and $1\frac{1}{2}$ francs per 100 kilos of raw sugar.

The parties to the Brussels Conference, however, considered that a protective duty of this amount would not allow a sufficient margin for the operations of cartels or combinations of sugar refiners, and they held that, when the protective duty exceeded the above rates, a special duty of half such excess would be sufficient to neutralise the depressions in prices that might be created by the cartels. This formula appeared to be suitable to the conditions prevailing in Germany and Austro-Hungary, where the cartel system had been elaborated, and the rate of duty, worked out on the above principle, corresponded roughly with the difference, as calculated by experts, between the export price of sugar and the average cost of production in those countries. The Government of India, therefore, adopted this formula as a provisional measure, and special duties were imposed, under a new Act, on sugar imported from Germany and Austro-Hungary. The provisions of the Act were subsequently extended to sugar imported from France, Denmark, Russia and the Argentine Republic. Measures were also taken to ascertain the countries of origin of all sugar imported into India, in order to prevent the evasion of the counter-vailing duties by importation by indirect routes. The practical effect of the new duties was to close,

temporarily, the Indian market to the direct importation of German and Austro-Hungarian sugar, and to encourage imports from such beet-growing countries as Holland and Belgium, which did not maintain high protective duties. The imports of cane sugar from Hongkong, Java and the Straits Settlements were also largely increased. The net receipts from countervailing duties during these four years were : 1899-1900, £56,783 ; 1900-1, £140,465 ; 1901-2, £244,398 ; 1902-3, £70,381.

In 1904, the Finance Member referred to the quantities of imports of sea-borne sugar into India, and pointed out that the importations from the United Kingdom and Java had been remarkable, and that there had been a great decrease, practically amounting to a cessation of imports, from Austro-Hungary and Germany. The decisions of the Brussels Conference were still in force, and their execution was entrusted to a permanent Committee on which the United Kingdom was represented. The position of the Government of India in connexion with this arrangement was unfortunately complicated and involved a constant necessity of taking most difficult decisions.¹

No changes were made in the tariff until 1910,

¹ An opinion given by the law officers of the Crown and communicated as an instruction to the Government of India by the Secretary of State, showed that India was unfortunately not entirely free from the effects of the Brussels arrangements. This opinion obliged the Government of India to cancel, at short notice, the arrangements which had been embodied in the Act passed in Simla in August 1903.

except slight increases in the duties on liquors and substantial reductions in the salt tax. In that year, the Government of India found it necessary to impose fresh taxation. The import duties on liquors, silver, petroleum and tobacco were raised. The Finance Member remarked on this occasion that the Indian tariff was a revenue, and not a protective, tariff; and said that substantial duties on wine, beer, spirits, and tobacco were in no way inconsistent with that principle, as these constituted a most legitimate form of taxation in every civilised country.¹ He added: "I hope I shall not be charged with framing a *swadeshi* budget. In the sense which may be indicated on Bryant and May's match boxes ('support Home Industries') I think *swadeshi* is good; and if the outcome of the changes I have laid before the Council result in some encouragement of Indian industries, I for one shall not regret it; but I would emphasise the fact that the enhanced customs duties are attributable solely to the imperative necessity of raising additional revenue. There is not the slightest inclination towards a protective customs tariff."²

¹ *Financial Statement, 1904-5.*

² He further observed: "Even in free trade England we have always imposed considerable customs duties, not to protect industries but to raise revenue. That is all we are doing in India; and I cannot but think that in countries which depend mainly on agriculture, where the population is poor, and there are no large and profitable manufactures, it will be long before you can dispense with customs receipts as part of the revenue essential for the administration of the country."—*Proceedings of the Governor-General's Council, 1910.*

Immediately after the enactment of these measures, a vigorous agitation was started in England on behalf of the tobacco trade, and the Government of India found itself obliged in 1911 to reduce the duty on imported tobacco. A bill was passed by the Governor-General's Council which fixed the duties on tobacco at the following rates: Unmanufactured Re. 1 a lb.; cigars, Re. 1-10 as. a lb.; cigarettes weighing less than 3 lbs. per thousand, Rs. 3-2 as. per thousand; cigarettes weighing 3 lbs. or more per thousand, Re. 1-4 as. per lb.; manufactured tobacco of other sorts, Re. 1-2 as. per lb. In the statement of objects and reasons accompanying the Bill, it was asserted that the new duties which had been imposed upon tobacco a year ago had not realised the revenue which had been expected from them, and it was considered probable that a somewhat lower range of duties would be more productive. The Bill accordingly provided for a reduction, by about one-third all round, in the existing rates upon tobacco of all classes.

Customs revenue received a great impetus during the Great European War. The exigencies of this unprecedented struggle necessitated the imposition of fresh taxation. In 1916, the general import duty was raised from 5 to $7\frac{1}{2}$ per cent. *ad valorem*; the duty on sugar was increased to 10 per cent.; that on iron and steel to $2\frac{1}{2}$ per cent., and the duty on other metals to $7\frac{1}{2}$ per cent. The free list

was considerably curtailed, and some of the articles which had previously been imported free were now subjected to a duty of $2\frac{1}{2}$ per cent., while others were taxed at $7\frac{1}{2}$ per cent. The import duties on arms, liquors, tobacco, and silver manufactures were also considerably enhanced. Finally, an export duty was levied on two important staples, namely, jute and tea. The duty on cotton goods, however, was left untouched. With regard to this last decision, Sir William Meyer, the Finance Member, informed the Council that the Government of India had represented their view to the authorities in England that there should be a material increase in the cotton import duties, while the cotton excise should be left unenhanced, subject to the possibility of its being altogether abolished when financial circumstances were more favourable. But as the British Government considered a revival of old controversies undesirable at the moment, no steps were taken in this direction. The proposals were accepted without question. But the non-official members of the Legislative Council expressed their disappointment at the decision to leave the cotton duties alone, and Sir Ibrahim Rahimtoola moved an amendment with the object of raising the $3\frac{1}{2}$ per cent. import duty on cotton goods to 6 per cent. This amendment was rejected.

In the same year, an Industrial Commission was appointed, but the tariff question was excluded

from the scope of its enquiries. In 1917, resort to further taxation was found necessary, in order that India might make an adequate contribution towards the expenses of the War. Various steps were taken to improve the revenue, and customs came in once more for their share in the scheme. The export duty on jute was doubled. The import duty on cotton goods was raised to $7\frac{1}{2}$ per cent.,—the general tariff rate; but the excise duty on cotton was left at $3\frac{1}{2}$ per cent. The proposal relating to cotton duties was welcomed by the non-official members of the Indian Legislative Council. Later in the year, an excise and customs duty of six annas a gallon was levied on motor spirit as a war measure. The main object was not the raising of revenue but the restriction of consumption. The Act was to be in force for the period of the war and six months thereafter.

The first post-war tariff measure was a Bill which sought to impose an export duty of 15 per cent. on hides and skins, with a rebate of 10 per cent. on hides and skins exported to any part of the British Empire. The object was two-fold, namely, first, to give some encouragement to the tanning industry of India; and, second, to give an advantage to the tanners and the hide merchants of the British Empire over those of foreign countries. The first part of the Bill was welcomed by the Indian members of the Council; but they saw no justification for the other proposal, namely, the grant of a

rebate.¹ One prominent member, Mr. B. N. Sarma, who, shortly afterwards, rose to the position of a Member of the Viceroy's Executive Council, moved an amendment to delete the second part of the Bill. His chief ground was that it raised, in an indirect manner, a large and important question, namely, the question of preference between the various parts of the Empire. Sir George Barnes, on behalf of the Government, however, assured the Council that the rebate had not been proposed as part of any general scheme of Imperial Preference.² The amendment was lost, and the Bill was passed in its original form. During this year, a Bill was passed to continue the excise and customs duty which had been first levied in 1917 on motor spirit as a war measure, but which had produced a revenue of 25 lakhs a year.

The question of tariff policy was incidentally referred to by Mr. Montagu and Lord Chelmsford in their Report on Indian Constitutional Reforms. They observed that educated public opinion desired a tariff, and they sympathised with this desire. The Parliamentary Joint Committee of 1919 went further and recommended the question of the tariff "as a special case of non-intervention" on the part of the Secretary of State in Indian affairs.³ This

¹ This was the view expressed by Pandit Madan Mohan Malaviya.

² *Proceedings of the Indian Legislative Council, March, 1919.*

³ For a fuller discussion of the subject see Banerjee, *Fiscal Policy in India, Ch. IV.*

view was endorsed even by an imperialist of the type of Lord Curzon.

The Government of India was again faced with a large deficit in 1921. To meet this deficit, the Finance Member proposed, among other measures, a large addition to the customs tariff. In the first place, he desired to increase the general *ad valorem* duty of $7\frac{1}{2}$ per cent. to 11 per cent., except in the case of matches and certain articles of luxury, but inclusive of cotton manufactures. The excise duty on cotton was to be left at $3\frac{1}{2}$ per cent. The concession of the free importation of machinery and stores required for use in the cotton mills was, however, withdrawn, and most articles of this sort were made liable to a duty of $2\frac{1}{2}$ per cent. Sir Malcolm Hailey estimated that this measure would produce an additional revenue of Rs. 384 lakhs.

Secondly, the Finance Member proposed to levy on matches a specific import duty of 12 annas per gross boxes in place of the *ad valorem* duty of $7\frac{1}{2}$ per cent. His third proposal was an increase of duty on liquors. The fourth measure proposed by him was the raising of the general *ad valorem* duty of $7\frac{1}{2}$ per cent. to 20 per cent. in the case of certain articles of luxury, such as motor-cars, motor-cycles, silk piece-goods, fire-works, clocks, watches, musical instruments, cinematograph films, and umbrellas.¹

¹ It is rather strange that umbrellas should have been regarded as articles of luxury in a country where excessive heat and torrential rain are normal occurrences.

His fifth proposal was to raise the import duty on foreign sugar to 15 per cent. Lastly, the Finance Member proposed that the duties on tobacco, other than manufactured, be raised to 50 per cent. All these proposals were accepted by the Legislative Council without any opposition.¹

The action of the Indian Government and the Indian legislature gave rise to much consternation in Lancashire. A deputation from the Manchester Chamber of Commerce waited upon Mr. Montagu, Secretary of State for India. He replied that the law gave him the power to recommend to the King the vetoing of the measure, but in that case the whole Bill, which included various items of taxation, must be vetoed. This was clearly impossible, for it would leave the Government of India with none of their increased resources to meet their increased charges. Besides, after the recommendation of the Parliamentary Joint Committee on this matter and Lord Curzon's speech in the House of Lords, it was absolutely impossible for him to interfere with the right of the Government of India to consider the interests of the country.

In spite of the heavy taxes levied, the revised estimates of the year showed a deficit, and another large deficit was estimated for the following year. The Finance Member, therefore, felt compelled to bring forward in March, 1922, a

¹ *Proceedings of the Governor-General's Council, 1921.*

number of fresh proposals for taxation, the most important of which were the following : the raising of the general import duty on all articles including cotton goods to 15 per cent. ; the increase of the cotton excise duty from $3\frac{1}{2}$ to $7\frac{1}{2}$ per cent. ; the raising of the duty on machinery, iron and steel to 10 per cent. ; the increase of the duty on foreign sugar to 25 per cent. ; the doubling of the duty on petroleum ; the levy of a duty of 5 per cent. on imported yarn ; the raising of the duties on luxuries to 30 per cent. ; and lastly, the enhancement of the duties on alcoholic liquors, except wines, by approximately 20 per cent. The Finance member expected a sum of 14 crores and 90 lakhs from the proposed increases in the customs duties.

Some of the proposals of the Government did not find favour with the legislature. The two most important modifications related to cotton goods. The Legislative Assembly refused to increase the excise duty on cotton manufactures, whereupon the Government decided to leave the import duty on cotton goods at 11 per cent. Towards the end of March, a deputation of Members of Parliament and others representing cotton textile interests waited upon Lord Peel, then Secretary of State, and Lord Winterton, then Parliamentary Under-Secretary for India. Lord Winterton assured the deputation that the fullest consideration would be given by the Secretary of State to their representations.

In the following year, the Government of India was faced with another deficit. But this time it thought it desirable to meet it by an increase of the salt duty instead of by an alteration in the customs tariff.

After the war, the principle of Imperial Preference was adopted in the tariff of Great Britain and in the tariffs of several of the Dominions. The question, consequently, became one of practical politics for India, and it seemed to the Government that the time had come for examining the question afresh.¹ Therefore, on the 19th February, 1920, Sir George Barnes, the Commerce Member of the Government of India, moved a resolution recommending to the Governor-General in Council the appointment of a Committee to examine the trade statistics and to consider whether or not it was desirable to apply to the Indian customs tariff a system of preference in favour of "goods of Empire origin". In moving this resolution, Sir George said that there were two aspects of the question which deserved serious attention. In the first place, the adverse decision of Lord Curzon's Government had been based in some measure on the danger of reprisals by foreign nations, but it was doubtful whether this danger was a real one in 1920.

¹ In January, 1920, the Governor-General, in the course of his address to the Association of Chambers of Commerce observed that the Government did not wish to make any general change in tariff matters without the support of public opinion.

Secondly, the position had been changed by the adoption of a policy of preference in other parts of the Empire, including the United Kingdom. He further observed: "We must remember, I think, that we hope in the future to be something more than a source of supply of raw materials for other peoples' industries to work up. We look forward to the development of our own industries. I think we are even justified in looking forward to the possibility of finding export markets for our manufactured products either within the Empire or without. I think I might reasonably say that there are some portions of the Empire, not far from our own shores, which we might justly look upon as a natural outlet for our goods. If we are to compete on favourable terms in those markets which are admitted to preferential duties, it would seem *prima facie* that we should be placing ourselves at the outset at a disadvantage."

An amendment was proposed to the resolution urging the addition of the words "and as to the best methods of considering the future fiscal policy of India". This amendment was carried; and the original resolution, as amended, was passed.¹

In March, 1920, this Committee reported their provisional conclusions. In regard to the best method of considering the future fiscal policy of

¹ On the 20th February, 1920, Mr. V. J. Patel moved a resolution urging the appointment of a committee to investigate the question of fiscal policy, but it was rejected by the Council.

India they wrote: "We think that this can only be effectively enquired into by means of a commission with power to take evidence in various parts of the country from all the interests concerned".

On the 23rd February, 1921, Mr. (now Sir) Lalubhai Samaldas moved in the Council of State the following resolution: "The Council recommends to the Governor-General in Council that His Majesty's Government be addressed through the Secretary of State for India, with a prayer that the Government of India be granted full fiscal autonomy under the direction of the Indian Legislature".¹ An amendment was moved to substitute for the words "under the direction of the Indian Legislature" the words "subject to the provisions of the Government of India Act". This amendment was accepted, and the resolution, as amended, was carried.

On the 1st March, 1921, in reply to a question asked in the Legislative Assembly by Mr. Jamnadas Dwarkadas, Mr. (afterwards Sir Charles) Innes announced that the Government of India had decided to appoint a Fiscal Commission with the following terms of reference, namely, "to examine with reference to all the interests concerned the tariff policy

¹ In moving this resolution, Mr. Lalubhai said: "By getting fiscal autonomy we can, by arranging tariffs in particular fashions, give protection to such struggling indigenous industries that cannot at present stand against free trade competition of the West. We can at the same time set up and build up new industries under the protection of tariff walls of desirable heights".—*Proceedings of the Council of State, 23rd February, 1921.*

of the Government of India, including the question of the desirability of adopting the principle of Imperial Preference, and to make recommendations".¹

The Government of India, also took this opportunity to make their own attitude towards the question of Imperial Preference clear. Mr. Innes said: "In the event of some scheme of Imperial Preference being found consistent with India's interests, the Government of India hope that India will not stand aloof from such a scheme so that India's solicitude for the solidarity of the Empire may be established. But they propose to take no decision until the question has been examined by the Commission. If, on the Report of that Commission, the principle is accepted, the principle can be given effect to only by legislation, and it will be for this Assembly to decide whether that legislation should be passed or not."²

The successive additions made to the customs duties during and after the European war substantially altered the character of the Indian tariff. Although these duties were levied for revenue purposes, their protective tendency, in some instances at least, could hardly be mistaken. The Government had so far held ~~itself~~ aloof from all discussions relating to the theoretical aspects of its fiscal policy, but the submission of the Report

¹ *Proceedings of the Legislative Assembly, dated the 1st March, 1921.*

² *Ibid.*

of the Indian Fiscal Commission in 1922 changed the situation.

The Commission, after tracing the history of the tariff in India and describing her existing economic position, discussed at some length the question of the importance of industrial development for the well-being of the country. They observed: "We have no hesitation in holding that such a development would be very much to the advantage of the country as a whole, creating new sources of wealth, encouraging the accumulation of capital, enlarging the public revenues, providing more profitable employment for labour, reducing the excessive dependence of the country on the unstable profits of agriculture, and finally stimulating the national life and developing the national character."

On the main subject of their enquiry, namely, the tariff policy of the Government of India, the Commission recommended "in the best interests of India the adoption of a policy of protection to be applied with discrimination". They suggested that such discrimination be exercised in the selection of industries for protection, and in the degree of protection afforded, so as to make the inevitable burden on the community as light as was consistent with the due development of industries. They recommended the creation of a Tariff Board whose duties would be, *inter alia*, to

investigate the claims of particular industries to protection, to watch the operation of the tariff, and generally to advise the Government and the Legislature in carrying out the policy indicated by them. They urged that, in dealing with claims for protection, the proposed Tariff Board should satisfy itself (i) that the industry possessed natural advantages, (ii) that without the help of protection it was not likely to develop at all, or not so rapidly as was desirable ; and (iii) that it would eventually be able to face world competition without protection. They further recommended (a) that raw materials and machinery be ordinarily admitted free of duty, and that semi-manufactured goods used in Indian industries be taxed as lightly as possible ; (b) that industries essential for purposes of national defence, and for the development of which conditions in India were not unfavourable, be adequately protected, if necessary ; and (c) that no export duties be ordinarily imposed for purely revenue purposes, and if imposed at all, the rates should be very low.

The Commission unreservedly condemned the then existing cotton excise duty in view of its past history and associations, and observed : "The whole question is permeated with suspicion and resentment ; and these feelings have been kept alive by the action taken by the representatives of the cotton industry in 1917, in 1921 and again

within the last few months, to try to secure through the Secretary of State a reversion to the system which their influence had for so many years imposed upon India." They thought that the cotton excise duty could not be dealt with purely on economic grounds, and therefore, suggested that the Government and the Legislature should "start again with a clean slate, regulating their excise policy solely in the interests of India."

On the question of Imperial Preference, the Committee made the following recommendations:—

"(a) That no general system of Imperial Preference be introduced.

(b) That the question of adopting a policy of preferential duties on a limited number of commodities be referred to the Indian Legislature after preliminary examination of the several cases by the Tariff Board.

(c) That, if the above policy be adopted, its application be governed by the following principles:

(i) That no preference be granted on any article without the approval of the Legislature.

(ii) That preference given must not in any way diminish the protection required by Indian industries.

(iii) That preference should not involve on balance any appreciable economic loss to India.

(d) That any preferences which it might be found possible to give to the United Kingdom be granted as a free gift.

(e) That in the case of the other parts of the Empire preference be granted only by agreements mutually advantageous."

The position of non-Indian enterprises was discussed at some length by the Commission. After describing the economic advantages of the use of foreign capital, they expressed the view that, where the Government granted anything in the nature of a monopoly or a concession, where public money was given to a company in the form of any kind of subsidy or bounty, or where a license was granted to act as a public utility company, it was reasonable that the Government should make certain stipulations. But the Commission thought that, with the exception of such special cases, it would be "undesirable to attempt to differentiate between foreign and Indian capitalists."

Although the Commission urged some important changes in the tariff system of India, many of their ~~recommendations~~ recommendations were considered inadequate to the needs of the country. Five members of the Commission,¹ therefore, submitted a Note of Dissent in which they suggested certain additions to, and alterations in, the main Report. The first objection of the dissentients was to the statement in the Report regarding the policy of discriminating protection. They thought that the formulation of

¹ These were : Sir Ibrahim Rahimtoola (President of the Commission), Sir T. V. Sheshagiri Ayyar, Mr. G. D. Birla, Mr. Jamnadas Dwarkadas, and Mr. Narottam Morarjee.

the policy in the words used in the Report was open to objection because,—in the first place, it mixed up policy and procedure ; secondly, by emphasising the method of carrying out the policy, the vital issue of the problem was observed ; thirdly, it ignored the fact that every country applied protection with discrimination suited to its own conditions ; and, fourthly, the outlook of the majority was different from that of the dissentients.

In the opinion of the dissentient minority, it was necessary to make an unqualified pronouncement to the effect that the fiscal policy best suited to India was *protection*. While they agreed that the policy of protection should be applied with discrimination, they did not think that any limitations should be made a condition precedent to its adoption. The dissentients recognised the necessity of caution in the application of the principle of protection in the interests of the masses, but they thought that it would not be right “to hedge the policy in such a manner as to lead to inadequate results.”

The dissentients also differed from the majority of the Commission in regard to the policy of levying excise duties. These duties, except when levied on alcohol, tobacco, and other articles of a similar character, were, in the opinion of the dissentients, unsound in principle. They, therefore, urged that excise duties should be restricted only to articles the consumption of which it was desirable to check in

the interests of the community, and to a few articles of luxury. On the question of the levy of cotton excise duty, the minority did not endorse the half-hearted recommendation of the majority, but expressed the emphatic view that, for maintaining India's self-respect and promoting cordial relations between India and England, it was necessary to abolish the duty immediately.¹

In regard to Imperial Preference, the minority after discussing the different aspects of the question, came to the following conclusions :—

(1) “We are in favour of the principle of Imperial Preference on the distinct condition that India should in this matter be put on the same footing of freedom as is enjoyed by the Self-governing Dominions, and that the non-official members of the Legislative Assembly should be given power by legislation or other equally effective means to initiate, grant, vary, and withdraw preference as may be necessary in the interest of India in all its aspects.

(2) “That the condition precedent to any agreement with a British dominion in trade matters

¹ The dissentient minority wrote in their Report: “We should like to invite attention to the political effects in India of such agitation by Lancashire representatives. It is, in our opinion, essentially necessary that cordial relations should subsist between India and England. The imposition of cotton excise duties is one of the principal causes of estrangement between the two countries. Far-sighted statesmanship demands that this cause should be removed. The Indian sentiment on the question is decisive. The evidence placed before us conclusively proved this. It would be unwise to deal with the question by resorting to expedients which would not be acceptable to the Indian people.”—*Minute of Dissent, Ch. III.*

on the basis of reciprocity should be the recognition of the right of the Indian people to a status of complete equality and the repeal of all anti-Asiatic laws so far as they apply to the people of India."

The recommendations of the majority of the Commission relating to foreign manufacturing ventures in India were regarded as unsatisfactory by the dissentients. They recommended that (1) all such companies should be incorporated and registered in India in rupee capital; (2) there should be a reasonable proportion of Indian Directors on the Board; and (3) reasonable facilities should be offered for the training of Indian apprentices.

Finally, the minority suggested that the proposed Tariff Board should consist of three members, of whom the Chairman should be a trained lawyer who had occupied for a reasonable period the position of a Judge of an Indian High Court, and the two other members should be men of wide general attainments to be elected by the Legislative Assembly. The Note of Dissent concluded with the expression of the hope that the economic problem of India would "be examined in a spirit of broad-minded statesmanship".

The Government of India accepted the policy of "discriminating protection" as recommended by the Fiscal Commission. A Tariff Board was established, whose duty was to consider the case of every

industry that might put forward a claim for protection. The steel industry was the first to come under examination by the Tariff Board. The Board said that the steel industry satisfied the three conditions which had been considered by the Fiscal Commission as essential for the grant of protection to any industry. They also observed that it was an industry essential for purposes of self-defence and of great importance on national grounds. The grant of protection was recommended by the Board, which led to the passing of the Steel Industry Protection Act of 1924. Under this Act, import duties on steel were increased, and duties were levied on certain kinds of wrought iron. Bounties were also given on the production of steel rails and fish-plates in India. The operation of the provisions of the Act was limited to a period of three years. A further enquiry was made towards the end of the first year, when the Tariff Board recommended large increases in the import duties. The Government of India, however, decided to grant a bounty, in view of the fact that the duties proposed would lay a burden on the consumer of approximately two crores of rupees in a year in order to confer on the industry a benefit of only 50 lakhs of rupees, and also in view of the fact that a surplus revenue of 71 lakhs of rupees had been received from the protective duties on steel up to the end of December, 1924. This decision was arrived at because a bounty

was considered to be the most effective form of aid which could be given to the steel industry, and would at the same time not impose any additional burden either on the consumer or on the general taxpayer. Accordingly, a resolution in the Assembly was moved by the Commerce Member, Sir Charles Innes, recommending the payment of bounty not exceeding Rs. 50 lakhs in twelve months. This resolution was carried.

During this period, the industry made satisfactory progress, which showed the success of the policy of protection. While the assistance given was not excessive, it improved the position of the Indian steel industry. The whole question was again investigated before the expiry of the Act of 1924. On this occasion, the Board recommended the continuance of a policy of protection until India was self-sufficient in the production of steel. They treated British and continental steel as different kinds of steel, the former being equivalent to standard steel and the latter to non-standard steel. As Indian steel had to compete with the products of Great Britain as well as those of the Continent, it was considered desirable, on economic grounds, that two scales of duties should be imposed, a basic duty fixed with reference to the price of British steel, and an additional duty in respect of the margin between British and continental prices. The basic duty was to be levied on steel coming from all countries, while the additional

duty would be confined to non-British steel. The Board also recommended that the payment of bounties should be discontinued.

A Bill was introduced in the Legislative Assembly to give effect to the main recommendations of the Tariff Board. This Bill marked a notable departure from the principles adopted in the previous Act in ~~this~~ that it included a provision for giving preference to manufactures of Great Britain. Strong exception was taken by the non-official members to this provision of the Bill, but it was passed in its original form in 1927.

The claims of various other industries to protection have since been examined by the Tariff Board, the most important among these being paper, coal, matches, petroleum, ply-wood tea chests, cotton manufactures, shipbuilding, and various subsidiary branches of the steel industry. In some cases, protection has been granted, but in others it has been refused. The manufacture of paper in India from bamboo pulp has been granted protection. But the coal industry has been refused protection on two grounds, namely, first, that imports are insignificant, and secondly, that it is undesirable in the economic interests of the country to tax the source of power.

We must now resume our historical narrative. In 1923, the export duty on raw hides and skins was reduced from 15 to 5 per cent. *ad valorem*,

and the system of preference was done away with. These measures were adopted because neither of the two objects, with which the 15 per cent. duty had been levied in 1919 and the rebate of 10 per cent. had been decided upon, had been achieved. Besides, the duty was considered to be wrong in principle.¹ Opportunity was also taken to make certain minor amendments in the tariff schedule necessitated by administrative reasons. The substantive changes were: (1) the adoption of a clear definition of the head 'machinery and its component parts', and consequential changes in the entries relating to railway and building materials, ships, etc.; (2) the raising of the duty on saccharine; and (3) the withdrawal of the concessional rate in respect of tea chests and of lead therefor.

In 1924, it was decided to make Government stores liable to customs duty. This step was taken partly because of the complications caused during the previous year by the decision of the Bombay High Court which brought stores purchased for Company railways into the category of 'Government stores'; and partly because the Government of India held the view that 'Government stores' should, for customs purposes, be treated like any other imports. Some small changes were also made in the tariff, the most important being the reduction of

¹ The Indian Fiscal Commission observed: "We cannot approve in its existing form the export duty on raw hides and skins which was avowedly imposed for protective purposes".—*Report, ch. XI.*

the excise duty on motor spirit to $4\frac{1}{2}$ annas a gallon.

In the following year, certain minor alterations were made in the customs tariff. These included the abolition of the import duty of $2\frac{1}{2}$ per cent. on grain and pulse, the reduction from 15 per cent. to $2\frac{1}{2}$ per cent. the *ad valorem* of the duty on reeds, healds, and some other articles, chiefly used in power-looms, and finally the modifications of the duties imposed on petrol in such a way as to fix the duty to be paid by all petrol alike, whether imported or produced in India, at 4 as. a gallon in place of the then existing duty of 6 as. a gallon for imported petrol. These proposals were urged by the Government in the interests of the trade. Another customs measure enacted in the course of this year is worth noticing. Owing to an increase in the world production of sugar, there had been for some time past, a heavy fall in sugar prices. This led to a large increase in the imports of the article into India. An Act was, therefore, passed to convert the previous *ad valorem* duty into a specific duty. Apart from affording some protection to indigenous sugar, this measure proved of considerable benefit to the revenues of the country.

It was towards the end of this year that the Taxation Enquiry Committee submitted their Report. They pointed out that the revisions of the tariff which had taken place during the previous

decade had produced far-reaching effects. They showed that, apart from the duties that had been levied for protective purposes, there were others which were protective in effect. On the question of incidence, they remarked that the additions to import duties had, in some cases, resulted in shifting the burden of taxation from the richer classes to the general population. In their opinion, a higher rate of duty could be safely imposed on wine, beer and spirits, while a reduction of the duties on the conventional necessities of life, such as sugar, and on the raw materials of industry and means of production, was desirable. The Committee endorsed the opinion of Dr. Gregory that the customs tariff should be the object of periodical survey, and recommended that an expert enquiry be undertaken forthwith.

They suggested that section 30 of the Sea Customs Act should be so amended as to make the charge on invoice price *plus* cost of freight the normal procedure, and the charge on a price which included the wholesaler's profit the exceptional one. They recommended the comparison and coordination of the arrangements in the different provinces and at all the ports for the prevention of smuggling. Lastly, they observed that the ideal arrangement would be the institution in India of a customs *zollverein*, although this was not practical politics at the moment.

In regard to export duties, the Taxation Enquiry Committee made the following recommendations:

(i) export duties should be levied on articles of which India had a complete or partial monopoly, that the rates in any case should be low, and that an export duty should not be utilised for the purpose of protecting an industry; (ii) the rate of duty on jute and rice should not be increased; (iii) the duty on tea should be removed when the conditions of the trade would show signs of a prejudicial effect being produced; (iv) the duty on hides, being wrong in principle, should be abolished at an early date,¹ but the duty on skins should be retained; (v) an export duty on lac should be imposed; and (vi) that an export duty should be levied on oil-seeds and manures.²

The advisability of an export duty on raw cotton had been pressed on the Commission by a number of witnesses, partly as a revenue measure and partly as a measure of protection to the Indian cotton mill industry. But a majority of the Committee considered such a duty to be unsound, because it would fall on the producers of Indian cotton and might do considerable harm to the export trade.

¹ Dr. Paranjpye and Sardar Jogendra Singh were of opinion that the experience of the previous few years could not be regarded as conclusive, on account of the abnormal conditions due to the war and its after-effects. They considered that a vigorous effort should be made to encourage the Indian tanning industry, and that the export duty should not be given up.

² The Committee were not unanimous regarding the advisability of levying an export duty on oil-seeds, bones and other forms of manure

The cotton excise duty was examined by the Committee from two points of view, namely, first, on its merits, and secondly, in the light of history. They thought that, so far as the consumer was concerned, this tax was better than that on salt. They were not fully satisfied as to the injurious effect of the duty on the cotton industry.¹ But they observed that, taking the case as a whole, there was probably some element of truth in the contention that, if the excise duty were abolished, this industry would benefit, assuming that the customs duty remained at 11 per cent. The Taxation Enquiry Committee, after tracing the history of the duty since its inception in 1894, pointed out that in 1916, Lord Hardinge had given an assurance that the excise duty would be altogether abolished as soon as financial considerations would permit, and that this pledge had been repeated since by more than one high officer of the Government, including Lord Reading. They then summed up the position in these words: "If for revenue purposes a general excise is necessary, an excise duty on locally manufactured cotton goods, coupled with an adequate customs duty on imported goods, need not necessarily be condemned so long as the burden on the consumer is not too great, and is less objectionable than some others, inasmuch as it falls on

¹ The Committee, however, pointed out that the corresponding duty in Egypt had recently been removed, and that the duty in force in Japan had been condemned by the Taxation Commission of 1920-22.

the consumer and not on the producer, and is collected with a minimum of trouble. It affects the industry only in so far as it has the result of increasing the price and reducing consumption; but the Government of India are pledged to remove it as soon as financial considerations permit, and therefore, it must be classed by the Committee among the taxes to be abolished".¹

The Committee considered the excise duty on petroleum to be satisfactory. But they suggested that, when remission of taxation would become possible, the tax on kerosene, which involved a burden on all classes of the population should be withdrawn. They disapproved of the idea of an excise duty on matches, but they considered excise duties on aerated waters and patent medicines to be legitimate. Further, they recommended the levy of an excise duty on locally-made cigarettes and pipe-tobacco, accompanied by an indirect excise through a system of licensing in the case of country tobacco.

The recommendation of the Committee relating to the cotton excise duty was quite a sound one. Their other suggestions were also good, with the exception of the proposal to levy a tax on country tobacco. Such a tax would be in the nature of a poll-tax as it would fall almost on the entire population. Tobacco is regarded as a conventional

¹ *Report Ch. VI.*

necessary by agriculturists, artisans, and all others who live by the sweat of their brow, and a duty on this article would surely be felt as a heavy burden by the poorest classes of the people. Its incidence would be similar to that of the salt tax, and its imposition is sure to provoke much discontent. Such a duty is likely also to affect the production of the article.

The Government of India lost no time in giving effect to the recommendation of the Taxation Enquiry Committee in regard to the cotton excise duty. In December, 1925, the cotton excise duty was suspended by an ordinance of the Governor-General. In framing the budget estimate for 1926-27, the Finance Member anticipated a surplus of a little over 3 crores of rupees. He, therefore, decided to abolish the duty, and the Government of India had now the privilege of sharing with the legislature "the credit for this historic achievement". The abolition of this duty involved a loss of about Rs. 1 $\frac{3}{4}$ crores to the Government.

This measure gave satisfaction to all sections of the community. But it was not adequate for the purpose of placing the cotton industry on a firm basis. The reasons were various. The Bombay Millowners' Association demanded protection for the industry. A special Tariff Board to whom the question was referred expressed the view that there existed an unfair competition between Japan and

India, and that the cotton industry had been handicapped by the fixing of the value of the rupee at 1s. 6d. The majority of the Board recommended an additional import duty of 4 per cent. on all cotton manufactures other than yarn. They further suggested the grant of a bounty of 1 anna per lb. on yarn of 32's and higher counts, the money required for which was to be obtained out of the proceeds of the additional duty levied. The President of the Board, Mr. F. Noyce, did not consider that an all-round increase in the import duty on piece-goods could be justified, and recommended the imposition of a differential duty of 4 per cent. on all cotton manufactures imported from Japan. The Government of India declined to accept the recommendations either of the majority or of the minority of the Tariff Board. It decided not to increase the import duty on cotton cloth nor to grant a bounty to the spinning of yarn. But it introduced a Bill to levy a specific duty of $1\frac{1}{2}$ annas per lb. of yarn imported into the country irrespective of its origin. This Bill was passed. The cotton manufacturers were not, however, satisfied with the measure.

Another surplus was estimated in the budget for 1927-28, and the Finance Member took this opportunity to make some minor reductions in taxation. The export duty on hides had been condemned by the Fiscal Commission; and as the

trade in the article was at this time in a depressed condition, it was decided to abolish the duty. This abolition was expected to involve a loss of revenue amounting to about 9 lakhs of rupees. The export duty on skins was also open to objection ; but as it was both more productive than the duty on hides, and the loss was more positively harmful, the Finance Member did not propose its reduction or abolition. When the Finance Bill came up before the Legislative Assembly, the provision relating to the abolition of the export duty on hides was strongly opposed by the non-official members. When a division was taken, there was an equality of votes against and in favour of the retention of the clause. The President gave his casting vote against such retention. The clause was, therefore, deleted.

The export duty on tea brought a revenue of about 50 lakhs a year ; but as the finances of the country were not in a position to bear the loss entailed by its abolition, the Government of India decided to couple the removal of the duty with a compensatory measure, namely, the assessment of the tea companies on 50 per cent. instead of 25 per cent. of their total profits. The loss on the one hand was thus expected to be nearly compensated by the gain on the other. The Government of India also reduced the import duty on motor cars from 30 per cent. to 20 per cent. *ad valorem* and the import duty on tyres from 30 to 15 per cent. The import

duty on rubber seeds and rubber stamps was removed. In order partially to cover the loss entailed by the reduction and abolition of duties, the import duty on unmanufactured tobacco was raised from Re. 1 to Re. 1-8as. per lb.

No changes were made in the customs duties in 1928-29. But in order to give effect to the recommendations of the Road Development Committee, it was decided in March, 1929, to increase the import and excise duties on motor spirit from 4 to 6 annas per gallon. This measure of taxation was designed not for the advantage of the general revenues of the Central Government, but for a specific purpose. The proceeds were to be credited to a Road Development Fund, from which disbursements were to be made, from time to time, to Provincial Governments and other bodies.

A few words may be said here about export cesses. The object of these cesses is not to secure revenue but to help the development of the industries concerned. The first of such cesses to be levied was that on tea in 1903. The proceeds of the cess were made over to a committee for the purpose of encouraging the use of tea. A Lac Cess Bill was passed in 1921 which levied a cess of four annas a maund on all exports of lac.¹ The object

¹ In introducing the Lac Cess Bill in September 1921, Mr. C. A. Innes said: "Shellac is one of our most important trades and the total value of the exports amounted in 1917-18 to 2½ millions, and in 1918-19

was to improve the quality of the article. In 1923, the Cotton Cess Bill was passed to provide for the creation of a fund for the improvement and development of the growing, marketing and manufacture of cotton in India. In September, 1929, a committee was appointed to consider the question of imposing a nominal cess in place of the export duty on raw hides. This committee has not yet concluded its labours.¹

With the phenomenal development of the foreign trade of India, the income derived from customs

to 2 millions sterling. Apart from small quantities of somewhat indifferent lac grown, I believe, in Indo-China, India may be said to have a monopoly of lac and shellac. Shellac is being used in increasing quantities for various purposes notably the manufacture of gramophone records...Before the war the price varied between Rs. 30 & 40 a maund. In 1920, the price touched Rs. 250. Now these high prices induce a very real danger, namely, the danger that some synthetic substitute may be found. A valuable report was written by two Forest officers. They tell us that for the present state of affairs there are two remedies. In the first place, the production of the best quality of lac must be stimulated...Secondly, a scheme of research is required on the chemical and entomological side. A committee was appointed, and an Indian Lac Association for research has been founded. This Association has approached the Government with a request that a small cess should be placed on exports of lac at the rate of 4 annas per maund for shellac and 2 annas per maund for refuse lac. We propose a cess of only four annas a maund. The cess will yield an income of about 1 lakh a year.”
—*Proceedings of the Governor-General's Council, 1921.*

¹ Giving evidence before the Hides Cess Enquiry Committee in Calcutta, Mr. Abdul Ghunny, President of the Calcutta Skins and Hides Trades Association, advocated the imposition of a one per cent cess *ad valorem* on raw and half-tanned hides and skins exported from India. The principle to be adopted in the imposition should be to benefit the industry and not to give protective effect to one part of it. He expressed the view that the cess should be levied for five years to see if any of the stipulated improvements were possible and also to see if the rate of cess was more or less to cover the expenses of schemes. He was in favour of the formation of a committee to administer the proceeds of any cess or cesses which might be imposed, and the headquarters of such a committee should be located in Calcutta which was central so far as Cawnpore, the Punjab, Karachi and Madras were concerned. The cess could be spent profitably only on the removal of the defects in the trade.

tended continually to grow from the date of re-imposition of import duties, and this tendency was greatly accentuated by the levy of fresh taxes during and after the war. The revenue derived from customs did not much exceed 1 crore of rupees in the first year of the direct administration of India by the Crown. In the three years just preceding the war, the customs revenue stood thus: 1911-12, Rs. 9,70,28,499 ; 1912-13, Rs. 10,79,58,640. In the first year of the war, there was a falling-off in the revenue derived from this source ; but it gradually rose again, and in 1917-18, stood at 16½ crores. During the last decade, the receipts from customs were as follows : 1918-19, Rs. 18,18,09,614 ; 1919-20, Rs. 24,38,32,802 ; 1920-21, Rs. 31,89,85,157 ; 1921-22, Rs. 34,40,98,381 ; 1922-23, Rs. 41,34,65,362 ; 1923-24, Rs. 39,69,64,296 ; 1924-25, Rs. 45,75,34,515 ; 1925-26, Rs. 47,77,95,049 ; 1926-27, Rs. 47,38,10,721 ; 1927-28, Rs. 48,21,41,872. In the revised estimates for 1928-29, the customs revenue was taken at a little over 50 crores.

It thus appears that import and export duties form a very elastic and expansive source of revenue. At the present moment nearly one-half of the net income of the Government of India is derived from customs.

CHAPTER V

SALT

UNDER the Mahomedan rule, a duty was levied on salt as part of the general system of transit duties. Akbar abolished the salt tax along with transit duties on all other articles. But it is doubtful whether his orders were carried out in the distant provinces. It is possible that in some parts of the country the salt and other transit duties were collected by the provincial rulers for their own benefit in spite of these having been prohibited by the Emperor. In any case, a tax on salt was collected in the eighteenth century¹; whether it had been continued from the time of Akbar or re-imposed later is not quite clear.

In 1760, the claim of the East India Company's servants to trade in salt, duty free, was first avowed. Mir Kasim, the Nawab of Bengal, however, ordered that no customs whatsoever should be collected in future. But a majority of the

¹ *Vide* Vincent Smith, *Akbar*.

Towards the end of the Mahomedan administration, an *ad valorem* duty of 5 per cent. was levied on Hindus, and 2½ per cent. on Mahomedans, upon all salt passing the town of Hugly on its way into the interior of the country.—*Ninth Report of the Select Committee, 1783.*

Council of Bengal resolved in 1763 that this general exemption being a breach of the Company's privileges, the Nawab should be required to revise the order and collect duties as before from the country merchants and all other persons who had not the protection of the Company's *dastak*.¹ The Directors disapproved of these transactions and ordered in 1764 a final and effective stop to be put to the inland trade in salt. Soon after this, however, under pressure from the Court of Proprietors, the Directors ordered the Governor and Council to form a plan, in concert with the Nawab, for regulating the trade in the article.

Under the administration of the Company, the salt systems of the different Presidencies grew up independently of one another. Let us consider the Bengal system first. After the Company had acquired possession of the district in the neighbourhood of Calcutta, they imposed a salt tax in the double form of ground rent for the *khalaris*² and a transit duty; but about the year 1762, these were consolidated into a single duty of Rs. 30 upon every *khalaria*, the estimated produce of each *khalaria* being from 250 to 300 maunds of salt. To this duty was subsequently added a further tax of Rs. 10 on every 100 maunds of salt manufactured. In 1765, on the acquisition of the *diwani*, Lord Clive

¹ Pass.

² Salt works

formed an exclusive company known as the 'Society of Trade' for carrying on inland trade in betel-nut, tobacco, and salt. This concern was started for the benefit of the senior European servants who enjoyed its profits as a supplement to their salaries. The action, however, was disapproved by the Court of Directors, who considered it disgraceful and below their dignity to allow such a monopoly. The 'Society of Trade' ceased to have any connection with the trade in betel-nut and tobacco from September, 1767, but the monopoly of the trade in salt was continued for another year. This arrangement was condemned by the Court of Directors, who insisted that the manufacture and trade in salt should be perfectly open to all Indians, subject to the payment of such a tax as would not raise the wholesale price of the article beyond 140 *sicca* rupees for every 100 maunds.¹

Accordingly, the system of free manufacture and trade under an excise tax was introduced in 1768. The restrictions were that no one person should make more than 50,000 maunds and that all the salt manufactured should be brought to one or other of two specified places, to be there taxed with the excise duty. This duty was fixed at 30 *sicca* rupees for every 100 maunds. The system, owing largely to the malversations of Clive's exclusive company, proved very unfavourable to the Government

¹ *Fifth Report, 1812.*

revenue, which declined from £118,296 in 1766-67 to £45,027 in 1772-73. The Government of Warren Hastings, therefore, resolved in 1772 again to assume the management of the manufacture of salt. It was determined that all salt should be made for the Company, and that the salt manufactories in each district should be let in farm for five years. By the conditions of the farm, a certain quantity of salt was to be delivered at a stipulated price, which was then to be dealt out at a fixed rate to the traders who had advanced money to the farmers for payment of the labourers. But this complicated farming system resulted in a loss of revenue. Therefore, another change in the system was made in 1777, when it was decided to continue the practice of farming the manufactories, but the salt produced was left at the farmer's disposal. This simple system of farming also did not succeed.

In 1780, Hastings framed a scheme under which the salt-producing tracts were divided into separate agencies, over each of which a civil officer of rank presided, who himself was subject to a Comptroller, the head of the whole department. The Comptroller and the agents, in addition to their salaries, were allowed a commission of 10 per cent. on the net profit derived by the Government under their management. The *malangis*¹ received advances from the agent at the beginning of the season,

¹ Salt makers.

stipulating to deliver their salt, to him on account of the Government at a price agreed upon, and were prohibited from selling it to any other person. The agent stored the salt, and sold it to wholesale dealers, at prices fixed from year to year by the Government. The difference between the contract price agreed upon by the *malangis* and the fixed price at which it was delivered to the salt merchants was, in effect, the duty taken upon the salt. The salt cost the Government 8, 12, or 14 annas a maund at the different places of manufacture, and the sale price to merchants was fixed at 2 rupees a maund. The amount of duty thus varied from Re. 1-2 as. to Re. 1-8 as. a maund.¹

This assumption of strict monopoly was strongly opposed in the Governor-General's Council.² But the system was completely successful from the financial point of view. The net receipts reached the unprecedented amount of £625,747 in 1784-85. As, however, there was some decline in the two following years, Lord Cornwallis established, in 1788, the system of salt sales by public auction in Calcutta. From this period the revenue continued to rise. The average net profit from salt in the three years which preceded the Report of the Select Committee of 1812 was 1,17,25,700 *sicca* rupees.

In the same year, a set of regulations was promul-

¹ Report of the Salt Commissioner in British India, 1856.

² *Fifth Report*, 1812.

gated for the protection of the *malangis*. The regulations of 1788, with some improvements, were embodied in the Code of 1793 as Regulation XXIX of that year. This Regulation was afterwards repealed, but its more important provisions were re-enacted and were in force till the date of abolition of the monopoly. Various other regulations were also enacted between 1793 and 1851.

The great increase in the net revenue derived from salt was due, in a large measure to the substitution by Lord Cornwallis's Government of quarterly sales in limited quantities to the highest bidder, for sales to an unlimited extent at fixed prices. Another effect of the auction system was to establish a sub-monopoly on a large scale and on a farm basis. Great fluctuations occurred from year to year in the sale price, in the quotations actually offered for sale, and in the stock of purchased, but uncleared, salt.

Considerable divergence of opinion prevailed from very early times on the propriety or desirability of the system of salt monopoly. In 1776, Philip Francis wrote: "The idea of monopolising this necessary of life, whether for the advantage of the Government or of individuals, has been at all times invariably reprobated by the Company." He added: "The single act of throwing open the trade in salt and opium will, I am convinced, in a few years give a totally new face to the country." The

¹ *Sixth Report of the Select Committee, 1783, App. 14.*

Parliamentary Committee of 1783 observed : "Even if the monopoly of this article was a profitable concern, it should not be permitted. Exclusive of the general effect of this and of all monopolies, the oppressions which the manufacturers of salt, called *malangis*, still suffer under it, though perhaps alleviated in some particulars, deserve particular attention. There is evidence enough on the Company's records to satisfy your Committee that those people have been treated with great rigour, and not only defrauded of the due payment of their labour, but delivered over like cattle in succession to different masters who, under the pretence of buying up the balances due to their preceding employers, find means of keeping them in perpetual slavery. For evils of this nature there can be no perfect remedy as long as the monopoly continues."¹

In later times, the controversy became a very keen one. On the one hand, it was argued that every monopoly was bad in principle, and that the salt tax had all the defects of a monopoly ; on the other, it was maintained that the monopoly in salt was an easy and cheap method of obtaining revenue, that it was very productive, and that it gave employment to large numbers of labourers. In 1827, the Court of Directors sent a despatch to the Governor-General in Council in which they

¹ *Report of the Select Committee, 1783.*

questioned the soundness and expediency of the auction system, and suggested the system of sale at fixed prices, and in unlimited quantities. This led to a prolonged discussion of the subject.

The different aspects of the question were discussed in considerable detail in the course of evidence tendered before the Parliamentary Committee of 1832-33. The Committee pointed out in their Report that salt in Bengal was publicly disposed of by auction, at sales held monthly. The price at which salt had been sold, on an average of three years, had amounted to Rs. 4-0a.-8p. per maund, corresponding to 12s. 9d. per cwt. This price was about 288 per cent. above the original cost and charges. The Committee reported that the average annual revenue derived from salt had, during the three previous years, amounted to £1,600,000. This was too large an amount to be given up, and the Committee did not think that it could be commuted for any other tax less onerous to the inhabitants of the country. As a substitute for the then existing monopoly, two other modes of collecting revenue from this article had been suggested, namely, an excise duty on salt manufactured in Bengal, and a duty on importation. The Committee expressed the view that the collection of an excise duty on salt manufactured on private account could not be easily carried into effect, in consequence of the expense and difficulty of establishing an efficient method of

supervision. It had been stated before the Committee that Bengal might obtain a cheaper supply of salt by importation from the coasts of Coromandel and Malabar, Ceylon, the Gulf of Persia, and even Great Britain, than by any system of home manufacture.

As the manufacture of salt by private individuals was likely to endanger the security of the revenue, it did not appear to the Committee expedient to interfere with the existing regulations on the subject, but they considered it desirable to adopt means for encouraging a supply of salt by importation, in lieu of manufacture by the Government. Further, they thought it would be advisable so long as the manufacture continued, to contract by advertisement for the delivery of salt into the public warehouses of the port of Calcutta at a certain price per ton. They expected that, under this system, the home manufacture would be gradually diminished, beginning in those districts in which the cost of production and loss of human life were the greatest, and expressed the hope that, under such an arrangement, a material reduction might be effected in the price of salt.

The subject was fully investigated by a Select Committee which was appointed to consider the question of salt administration in India. Mr. H. M. Parker, junior member of the Salt Board, submitted a Minute to this Committee in which he advanced

various arguments against an excise system. Mr. J. Crawford, on the other hand, a persevering opponent of the salt monopoly, gave evidence before the Committee in favour of a combined system of excise and customs. The Committee submitted their Report in 1836. In the following year, the Report of the Select Committee was received in India, along with a despatch from the Court of Directors. The Select Committee stated that the evils usually incident to a Government monopoly in a great article of consumption were not wanting in the salt monopoly of India, and that they had not been convinced by the evidence tendered before them that the same amount of revenue as was realised by the Bengal salt monopoly could not be collected, "with equal security, and with great advantage to the consumer and to commerce, by a combined system of customs and excise."

They further expressed the view that, however modified the monopoly might be, the evils of the system could never be eradicated except by its extinction. They commended to the early attention of the Government "a considerable reduction of the duty, under a system of free competition," but in the then existing state of India's finances they were unwilling to recommend the immediate abolition of the system of monopoly. They further urged that the following recommendations of a practical character might be given effect to without delay:

First, that the system of public periodical sales should be abolished. Secondly, that the *golahs*¹ should be kept open at all times for the sale of salt in quantities of not less than 100 maunds. Thirdly, that the price to be paid by the purchaser should be fixed at the cost price to Government added to a fixed duty. Fourthly, that the import into Calcutta of salt manufactured in any other country should be permitted, and such salt should be sold at such times as the proprietors might please, in quantities of not less than 100 maunds. Fifthly, that such imported salt should be subject only to the same duty, as that sold by the Company, and to no other duty or charge whatever except a fair and reasonable rent on such salt as might have been fixed. Sixthly, that the duty to be imposed should not exceed the average rate of the salt profit of the Company's monopoly for the last ten years.²

In the meantime, all the recommendations of the Committee, except those on the third and sixth points, had been anticipated by the spontaneous action of the Bengal Government. After the withdrawal of the order prohibiting imported salt in 1817, a new element of difficulty had begun to affect the system of auction sales, namely, the importation for private sale of large and rapidly increasing quantities of foreign salt. The difficulty

¹ Places of storage.

² *Report of the Select Committee on Salt, 1836.*

became serious about the year 1835. In 1836, auction sales were discontinued, and Mr. Hastings's original system of sales at fixed prices, and in unlimited quantities was reverted to. The duty on the importation of foreign salt for private sale had been fixed at 300 *sicca* rupees per 100 maunds in 1817. This duty was converted by Act XIV of 1836 into the nearly equivalent duty of 325 Company's rupees.

Considerable difficulties were, however, found with regard to the other recommendations. The principles on which the calculations were to be made became a matter of prolonged discussion, and it was not until 1847 that the Government found itself in a position to adjust the sale prices of Bengal salt in strict conformity with the recommendations of the Select Committee. From 1836 to 1844, the regulation of wholesale prices was left entirely to the Salt Board.

The duty fixed in 1836 remained unaltered till 1844, when a reduction of 4 annas a maund was made. Simultaneously, a corresponding reduction of Rs. 25 per 100 maunds was made in the sale price of Bengal salt. This was an experimental step taken towards the reduction of taxation, whereby it was hoped that a two-fold advantage would be gained, namely, first, "the provision of an adequate supply of a necessary of life to the people at a price so moderate as to prevent the necessity of

their having recourse to an illicit, or unwholesome substitute, and, secondly, the greater stability and probable extension of the public revenue, by encouraging the consumption of salt by the mass of the population at a cheap price, instead of restricting it to portions of it only, by a dear price." The amount of reduction was small, because the Governor-General considered it "impossible to hazard large reductions at once, owing to the enormous amount of revenue that would be risked by their adoption".

In 1847, a further reduction of 4 annas a maund was made, bringing the duty down to Rs.2-12 as. a maund. At the same time, the differential duty which salt from the North-Western Provinces paid on passing below Allahabad was reduced from 1 rupee to 12 annas. The prices of salt at the various agencies were, for the first time, fixed at the cost price *plus* the amount of the reduced duty. In 1849, a further reduction of 4 annas a maund was made, bringing the duty down to Rs. 2-8 as. a maund. The same reduction of 4 annas was made in the Allahabad differential duty. The fixed sale prices of Bengal salt were again adjusted in conformity with this reduced duty, and a new settlement of the cost price was made according to the latest accounts. The net effect of the reductions of these years on consumption was an increase of more than 16 per cent. Its effect on revenue,

however, was different. The average annual net revenue from salt for the three years preceding the reduction was Rs. 1,59,03,903, and that for the years 1852-3 to 1854-55 was Rs. 1,44,46,755, showing a decrease of a little more than 9 per cent.

From 1835, the quantity of imported salt increased year by year until 1851-52. After this date a decrease occurred in the three following years. Salt was allowed to be bonded under certain rules. As imports increased, the quantity of salt manufactured in Bengal was reduced. For this reason, the salt agency of the Twenty-four Parganas was closed in 1848, and manufacture in the Chittagong agency was suspended in 1852. But an increase in consumption and a decrease in the quantity imported rendered it necessary to recommence manufacturing salt in Chittagong in 1853, and to reopen the Twenty-four Parganas Agency in 1855. In 1856, there were seven salt agencies at work in Bengal, namely, Puri, Cuttack, Balasore, Hijli, Tamruk, Twenty-four Parganas, and Chittagong.

It may be mentioned here that several steps were taken between 1835 and 1855 towards the substitution of a system of excise for the system of manufacture. In 1835-36, the Government agreed to assist and support an experiment by Mr. George Prinsep to manufacture, for sale to the Government, salt by the English process at Narainpur. In 1838, the Bengal Salt Company established works at