

SUMMARY.
OF THE
BUDGET OF THE UNITED KINGDOM
FOR THE
FISCAL YEAR ENDING MARCH 31, 1953

PREPARED BY
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INTERNAL REVENUE TAXATION



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SUMMARY OF THE BUDGET OF THE UNITED KINGDOM

I. SUMMARY STATEMENT

The budget proposals for the year ending March 31, 1953, were presented by the Chancellor of the Exchequer, Mr. R. A. Butler, on March 11, 1952. A résumé of his budget proposals appears below.

A. TAX CHANGES

1. A 30 percent excess profits tax quite similar to that imposed in the United States is made effective as of January 1, 1952. At the same time the profits tax for corporations was decreased slightly so that, taking the income tax and profits tax together, a corporation will pay in taxes 50 percent of its undistributed income, as compared to 52.75 percent under existing law, and 17.5 percent of its distributed income (plus a 47.5 percent withholding tax for the stockholder) as compared to 18.75 percent (plus a 47½ percent withholding tax) under existing law.

2. The time limit for the carry forward of business losses is eliminated.

3. Several changes are made in the application of the income tax to individuals. They are as follows:

(a) The "allowances" for single persons, or exemptions, are increased from £110 to £120, the allowance for a married couple from £190 to £210, and the allowance for a child from £70 to £85.

(b) The exclusion of earned income is increased from one-fifth (20 percent) to two-ninths (22.2 percent) of such income, and the maximum of earned income relief, which is reached at an income level of about £2,000, is increased from £400 to £450. Also, all income, whether earned or not, of less than £250 a year will be eligible for the earned income credit and a "notch" rate will be provided for income slightly in excess of £250.

(c) The rate schedule in the lower tax brackets is revised and lowered somewhat. The old and new "reduced" rates and "standard" rates (exclusive of the surtax which is not changed) are as follows:

Taxable income	Old rates	New rates
	<i>Percent</i>	<i>Percent</i>
£0 to £50	15	15
£50 to £100	27½	15
£100 to £250	27½	27½
£250 to £400	47½	37½
Over £400	47½	47½

4. Under the purchase tax (wholesalers' sale tax) the existing "utility" classification is discontinued for wearing apparel and similar items. As "utility" items they were exempt from tax. Under the new arrangement specific monetary exemptions are to be provided for wearing apparel, etc., and any excess of price over the exemption is to be subject to the purchase tax. Certain other goods, such as rubber boots, and industrial protective clothing, which previously have been taxable under the purchase tax, are also to be granted exemptions under the new plan with the result that they are to be exempt or subject to reduced rates. The rate on fur-trimmed garments is to be reduced from 100 percent to 33½ percent. It is not expected that these changes in the purchase tax will raise any additional revenue.

5. The tax on gasoline and oil is raised by 7½d. per imperial gallon, making the new tax 2s. 6d. per gallon, and raising the price of gasoline from 3s. 7½d. per gallon, to 4s. 3d. per gallon. Thus, the total tax on gasoline will be about 59 percent of the retail price. It is estimated that this change will increase revenues by £66 million.

6. Motor-vehicle license duties on cars first registered since 1946 are raised from a flat annual fee of £10 to £12 10s. The new duty of £12 10s. is also substituted for the higher assessments, based on horsepower ratings, previously applied to older cars. As a result of these changes there will be a revenue reduction of slightly over £1 million in a full year of operation.

7. A new uniform schedule of tax is provided under the entertainment duty for sports and games, which is in between the two schedules previously applicable. Formerly high tax rates were provided for racing and low rates of tax for other sports and games. The new schedule lowers the tax on racing considerably and increases somewhat the tax on other forms of sport.

8. Postal charges for mail, other than those for the ordinary letter, are raised so as to increase revenue in a full year of operation by slightly over £4 million. The tax on exchange subscribers' rentals of telephones is increased from 15 percent to 50 percent. Increases are also provided in other charges made for telephone service. The tax on special telephone and telegraph service is increased from 25 percent to 50 percent. The effect of the changes in the rates on telephone and telegraph charges will be to increase revenue by about £10 million in a full year.

B. GENERAL ECONOMIC CHANGES

1. The bank rediscount rate is raised from 2½ to 4 percent for commercial paper (last November it was raised from 2 to 2½ percent). In addition the rate at which the bank is prepared to lend to the money market for loans against Treasury bills was raised from 2 to 3½ percent. This increase in interest rates is expected to result in a net reduction in domestic investment of at least £100 million, after taking into account a probable increase in investment for defense and building.

2. Imports are to be reduced by £100 million a year on the basis of prices existing at the beginning of the year. This action, together with previous reductions, means that imports will be at an annual level of about £3,150 million, or about 10 percent below the value of imports in 1951 and 15 percent below the annual level in the second half of 1951.

C. EXPENDITURE CHANGES

1. Government expenditures for food subsidies are to be held at a level of £250 million a year instead of the £410 million previously planned. These expenditures represent payments made to food suppliers to hold down the prices which must be paid by consumers for food. The reduction of these food subsidies will mean that food prices will rise to cover costs which were previously covered by these Government subsidies. According to the budget message this increase in price to consumers is expected to average about 1s. 6d. per week per person. This is an increase of around 21 to 26 cents. The effect of this change is expected to be more than offset by the income tax reductions, previously discussed, and by the family allowance and pension increases, discussed below.

2. Family allowances are increased from 5s. to 8s. a week. These are payments made to families for each child after the first child. This is expected to cost £37 million in a full year of operation.

3. Old-age assistance benefits are to be increased to provide the equivalent of uniform benefits for single persons of 32s. 6d. a week, and for married couples of 54s. a week. However, no decision has as yet been reached as to whether there is to be a differentiation in pension benefits according to whether an individual is over or under age 70. Contributions of employers and employees are also to be increased by 7½d. per week for men, and 5½d. per week for women. It is anticipated that this change in pension benefits in the next few years will raise costs by £10 million a year.

4. War pensions are raised by 10s. a week, raising the standard basic rate from 45s. to 55s. a week for 100 percent disability. Increased benefits are also to be granted to war widows. These changes will cost approximately £10 million a year.

5. Industrial injury benefits also are to be raised by 10s. a week; that is, the basic rate will be raised from 45s. to 55s. a week. This is expected to cost £3 million a year.

6. The pension payments made to former public service employees are to be increased by 5s. to 7½s. a week up to a total cost of £20 a year per person.

D. EFFECT ON THE BUDGET

1. Expenditures in the fiscal year 1953 are expected to amount to £4,150 million taking into account the reductions in food subsidies and increases in pensions. This is £76 million above the probable expenditures for the fiscal year 1952. The £76 million is a net figure composed of both increases and decreases. The increases include £33 million for debt charges and £265 million for defense expenditures, while there is a decrease of £222 million in civilian expenditures.

2. Revenues, taking into account the proposed changes, are estimated at £4,661 million, an increase of £221 million over the probable revenue for the fiscal year 1952. Although reductions are made in the income and profit tax rates, this increase in revenue is due primarily to the larger revenue which it is estimated will be derived from these taxes, and is attributable primarily to a substantial rise in corporate profits.

3. The above expenditure and receipt figures indicate a budgetary surplus for the fiscal year 1953 of £511 million, taking into account

the reduced food subsidy payments and the increase in pensions. This can be compared with a probable budgetary surplus of £366 million for the fiscal year 1952. The United Kingdom budget does not, however, take into account certain expenditures and receipts made by the Government outside of the conventional budget. To a large extent these are loans or repayments of loans. After these are taken into account, the surplus for the fiscal year 1953 is reduced to £5 million and the surplus for the fiscal year 1952 becomes a deficit of £158 million.

II. BALANCE OF PAYMENTS PROBLEM

Despite the estimated surplus of £366 million in the conventional budget for the fiscal year 1952, the Chancellor of the Exchequer, Mr. Butler, indicated that the United Kingdom's economic position was deteriorating. This arises from the balance of payments problem with which the country is faced. In general terms the balance of payments represents the balance between what the United Kingdom sells abroad and what is purchased from the rest of the world. Previously it had been estimated that due to new defense requirements being added to the continuing problem of recovering from wartime losses, the United Kingdom would have a deficit in its balance of payments of about £100 million in 1951. However, for a number of reasons indicated in the budget message, the deficit in the balance of payments was considerably larger. The white paper on the United Kingdom balance of payments places the deficit in current transactions for 1951 at £521 million. The United Kingdom's balance of payments for the last several years are shown in table 1.

TABLE 1.—United Kingdom balance of payments

[In millions of pounds sterling]

	1946	1947	1948	1949	1950	First half	Second half	Total 1951
Exports	905	1,135	1,588	1,820	2,225	1,310	1,398	2,708
Imports	-1,081	-1,560	-1,791	-1,974	-2,372	-1,646	-1,851	-3,497
Trade balance	-176	-425	-203	-154	-147	-336	-453	-789
Travel	-29	-55	-33	-30	-22	-8	-26	-34
Shipping	29	33	76	81	113	73	33	106
Investment income (interest, profits, dividends)	71	80	76	78	128	73	17	90
Government	-363	-230	-92	-149	-141	-73	-76	-149
Other services	109	98	193	204	312	179	80	259
Immigrants' funds, private gifts, legacies, etc.	15	-46	-43	-25	1	-1	-3	-4
Balance of invisibles	-168	-120	177	159	391	243	25	268
Surplus (+) or deficit (-) in current transactions	-344	-545	-26	+5	+244	-93	-428	-521

Source: The data for 1946 and 1947 were derived from United Kingdom Balance of Payments, 1946 to 1950, No. 2 (Cmd. 8201), H. M. Stationery Office, and the data for the remaining years were derived from United Kingdom Balance of Payments, 1948 to 1951, No. 2 (Cmd. 8505), H. M. Stationery Office.

Mr. Butler gives several reasons accounting for this deterioration in the United Kingdom's balance of payments position. First, Marshall aid was suspended and the first repayments of the United States and Canadian loans had to be made. Second, "invisible" income (such as income from foreign travel, shipping, investments abroad, etc.) fell

below expectations. Third, the internal economy was such as to hamper the expansion of exports and to stimulate imports. Production did not increase as much as was expected, and the budget failed to produce any general decline in personal consumption. The volume of civil domestic investments rose substantially instead of declining, as had been planned. As a result, goods available for export were fewer than had previously been anticipated. At the same time other industries met with a slack or falling demand abroad. A fourth factor was the rise in the price of imports. Compared with 1950, the increase in volume in 1951 was about £300 million, but because of higher prices the total increase in the import bill was slightly over £1,100 million.

The United Kingdom deficit in the balance of payments in itself meant a severe drain on dollar and gold reserves. However, the effect of this drain was magnified because the position of the other sterling area countries became worse. The sterling area countries include the British colonies and the British Commonwealth of Nations with the exception of Canada. These countries were faced with difficulties because the prices of their main exports, such as rubber, tin, and wool, which had been high in the winter of 1950-51, were falling, while their imports, as a result of an earlier rise in the incomes, were increasing. As a result they, as well as Great Britain, added to the strain on the dollar and gold reserves of the sterling area. Table 2 shows the sterling area gold and dollar reserves held in London for the years 1949 through 1951 and for the first 3 months of 1952. It will be noted that the reserves increased during 1950 and the first half of 1951, but have declined quite rapidly since that time until they reached the quite low level of \$1,700 million by the end of March 1952.

TABLE 2.—*Sterling area gold and dollar reserves held in London*

[In millions of dollars]

	Sterling area dollar balance	Additional dollars		Change in reserves	Reserve at end of period
		Credits, etc. ¹	Marshall aid		
1949 year-----	-1, 531	168	1, 196	-167	1, 688
1950 year-----	+805	45	762	+1, 612	3, 300
1951:					
First quarter-----	+360		² 98	+458	3, 758
Second quarter-----	+54		² 55	+109	3, 867
Third quarter-----	-638		² 40	-598	3, 269
Fourth quarter-----	-940		² 6	-934	2, 335
1951 year-----	-1, 164		² 199	-965	2, 335
1952:					
Jan. 31-----	-299		² 1	-299	2, 036
Feb. 29-----	-266			-266	1, 770
Mar. 31-----	-71			-70	1, 700

¹ Mainly United States and Canadian credits.² Allotted before December 1950.

Source: British Information Service, British Record, Mar. 14, 1952, and Apr. 11, 1952.

To meet this balance of payments problem Mr. Butler said:

Our part in the new effort is to eliminate the United Kingdom deficit with the non-sterling world in the second half of 1952, after taking into account such defense aid as we may receive from the United States.¹

To accomplish this aim he indicated that resources must be diverted from use at home sufficient to improve the over-all balance during 1952 to the extent of £600 million. He expects improvement in invisible earnings and in the balance of trade to account for £200 to £250 million of this total. In addition to this, the plans of the Government are to reduce imports by more than £300 million and to increase exports by approximately £50 million. The reduction in imports of £300 million and the increase in exports of £50 million, however, is expected to reduce goods available for domestic use only by approximately £200 million because of the size of stocks presently on hand. However, increased defense expenditures will divert another £200 million from civilian to military uses.

Because of the overriding importance of the balance of payments problem, Mr. Butler indicates that achievement of the aims outlined above was the dominating factor in deciding what budgetary recommendations to make. In this situation the government is seeking to curtail civilian purchases of imported goods, especially, and of domestic goods where the producers affected can turn to exports. Both of these changes would tend to make dollars available for the arms build-up without a balance of payments deficit. In general this was accomplished by increasing curbs on domestic investment expenditure through the new excess profits tax and the higher interest rate. The only devices to curtail civilian consumption were the increase in the gasoline tax and the decrease in food subsidies, the effect of which on consumption in general were more than offset by decreases in the income taxes. It was also intended, as is explained below, that the income tax changes on low incomes will help the balance of payments situation by increasing production through encouraging an increase in the amount of overtime worked.

III. BUDGET RECEIPTS AND EXPENDITURES

The actual and estimated budgetary receipts and expenditures as shown in the Financial Statement are summarized in table 5 for the fiscal years 1951, 1952, and 1953:

¹ Parliamentary Debates (Hansard). House of Commons Official Report, Mar. 11, 1952, vol. 497. No. 52. p. 1277.

TABLE 3.—*Summary of receipts and expenditures*

	Actual		Estimated 1953	
	1951	1952 ¹	Under existing rates	Under budget proposals
	In millions of pounds			
Receipts.....	3, 978	4, 440	4, 778	4, 661
Expenditures.....	3, 257	4, 074	4, 240	² 4, 150
Surplus.....	721	366	538	² 511
	In millions of dollars (\$2.80=£1)			
Receipts.....	11, 138	12, 432	13, 378	13, 051
Expenditures.....	9, 120	11, 407	11, 872	11, 620
Surplus.....	2, 019	1, 025	1, 506	1, 431
	In millions of dollars (\$3.50=£1)			
Receipts.....	13, 923	15, 540	16, 723	16, 314
Expenditures.....	11, 399	14, 259	14, 840	14, 525
Surplus.....	2, 524	1, 281	1, 883	1, 789

¹ Based on probable receipts and expenditures as contained in the Financial Statement of Mar. 11, 1952, for year ending Mar. 31, 1952.

² Takes into account net saving in expenditure resulting from reduction of food subsidies of £160 million and increased payments of pensions, insurance benefits, and family allowances of £80 million.

The data are shown both in millions of pounds and in millions of dollars. In the latter case pounds have been converted into dollars at two different rates: \$2.80 per pound, the official exchange rate, and \$3.50 per pound. The latter exchange rate is included because, in periods of sudden changes, the value of a nation's currency in foreign exchange may vary considerably, without having much effect on the purchasing power of the currency at home. Because of the balance-of-payments difficulties, discussed in the previous section, the foreign exchange value of the pound has decreased considerably more, during and since World War II, than has the domestic purchasing power of the pound. However, the use of the foreign exchange rate as the conversion factor between pounds and dollars implies that the decrease in these two values of the pound were the same. To arrive at what might be called the dollar domestic purchasing power of the British pound, a United Nations publication ² converts from pounds to dollars at the 1938 exchange rate and adjusts for changes in the cost of living between 1938 and 1949 in the United States and in Great Britain. This adjustment was carried forward by the staff for cost-of-living changes in 1950 and 1951 to arrive at the \$3.50 rate. This conversion rate is believed to better reflect the value of goods and

² Statistical Office of the United Nations, National and Per Capita Incomes, Seventy Countries—1949, Statistical Papers Series E, No. 1, New York, October 1950.

services which could be bought with a pound by a British family than is true of the foreign exchange rate.

An examination of the above table indicates that, while both receipts and expenditures under the budget proposals are above those for the fiscal year 1952, in both cases they are below the receipts and expenditures which would have existed in the absence of the budget proposals. This reduction in receipts can primarily be accounted for by the budgetary concessions in the income tax in the lower rate brackets, while the reduction in expenditures can be accounted for primarily by the budgetary decreases in food subsidies and the Post Office deficit. Moreover, these reductions in income and expenditures are interrelated, since the income tax reductions, to some extent, were intended as a compensation for the reductions in the food subsidies.

Table 4 compares the estimated budgetary expenditures for 1953 in certain major categories with the actual expenditures for 1951 and 1952.

TABLE 4.—*Comparison of actual expenditures in the fiscal years 1951 and 1952 and the budget proposals for 1953*

[In millions of pounds]

	Exchequer issues		Budget estimate 1953
	1951	1952 ¹	
Defense.....	777	1, 112	1, 377
Debt service.....	497	542	575
All other.....	1, 983	2, 420	² 2, 198
Total ordinary expenditures.....	3, 257	4, 074	² 4, 150

¹ Probable expenditures as contained in the Financial Statement of Mar. 11, 1952, for year ending Mar. 31, 1952.

² Takes into account net saving in expenditure resulting from reduction of food subsidies, of £160 million and increased payments of pensions, insurance benefits, and family allowances of £80 million.

The above table indicates that total ordinary expenditures under the budget proposals for 1953 will be about £76 million in excess of those for 1952 after taking into account the decrease in food subsidies and increases in pensions. However, there are increases in defense expenditures of £265 million and in debt service expenditures of £33 million. These are offset by other decreases of £222 million. The budget speech of the Chancellor of the Exchequer, together with the Financial Statement make it clear that £80 million of this reduction can be accounted for by reductions of £160 in food subsidies offset by increased payments for pensions, insurance benefits and family allowances of £80 million. Also a comparison of estimated expenditures for the fiscal year 1953 with those made a year ago for 1952 indicate that most of the remaining decrease probably can be accounted for by decreases in national health service costs, in contributions to the national insurance and pension schemes and by "other services."

Up to this point discussion has been with respect to what is called ordinary revenues and expenditures, or "above the line" revenues and expenditures. There are also, however, certain receipts and payments which are outside of the budget, called "below the line"

items. The excess of "below the line" expenditures over receipts was £524 million in the fiscal year 1952 and is estimated at £506 million for 1953. Thus, on this basis there was a deficit in 1952 of £158 million while a surplus is forecast for 1953 of £5 million. Expenditures "below the line" in large part represent loans which the Treasury is authorized to make without annual legislative approval which it is anticipated can be recovered in the future. Receipts "below the line" in large part represent the recovery of such loans previously made.

Table 5 below shows the actual or estimated receipts by major sources for the fiscal years 1951, 1952, and 1953:

TABLE 5.—Receipts by major sources for the fiscal years 1951–53

[In millions of pounds]

	Actual		Estimated 1953 ²
	1951	1952 ¹	
Income taxes.....	1, 525	1, 818	1, 927
Profits taxes.....	268	307	457
Death duties.....	185	180	175
Customs.....	905	1, 000	1, 044
Excise and sales taxes:			
Stamp taxes.....	54	62	58
Motor vehicle duties.....	61	65	64
Excises.....	725	755	772
Total excises and sales taxes.....	841	882	894
Miscellaneous internal revenue duties.....	6	3	2
Total tax receipts.....	3, 730	4, 190	4, 498
Miscellaneous receipts.....	248	250	163
Total receipts.....	3, 978	4, 440	4, 661

¹ Probable receipts as contained in the Financial Statement of Mar. 11, 1952, for the year ending Mar. 31, 1952.

² After proposed tax changes.

NOTE.—Figures are rounded and will not necessarily add to totals.

Total receipts under the budget for 1953 are expected to be £4,661 million or £221 million above the probable figures for 1952. Profits tax receipts are expected to increase by approximately £150 million, income tax receipts by £109 million, and customs, excises and sales tax receipts by £56 million. The large increase in profits and income tax receipts is primarily attributable to a substantial rise in corporate profits. The principal decrease is in miscellaneous receipts, which are down by about £87 million. The decrease in miscellaneous receipts is attributable primarily to the fact that practically no revenue is anticipated from surplus stores and considerably less than formerly from the surplus receipts of trading services.

In the calendar year 1951 the British Central Government's expenditures, including grants and loans to the localities, were about 33 percent of the gross national product. The combined expenditures of the central and local governments were about 36 percent of gross national product. In the United States in the calendar year 1951, expenditures

of the Federal Government, including grants-in-aid to State and local governments, were about 18 percent, and the combined expenditures of all levels of government about 24 percent of the gross national product.

In comparing the 36 percent and 24 percent it should be recognized that certain difficulties are encountered in making international comparisons of government expenditures. Medical expenditures, for example, are included for the United Kingdom, while, although similar expenditures are made by individuals in the United States, they do not appear here as a part of government expenditures. In addition, there are other items such as food subsidies and family allowances which are included as United Kingdom, but not United States, expenditures. The British food subsidies are in effect negative sales taxes since a sales tax is first imposed on food and then payments are made to food suppliers as subsidies. On the other hand, the family allowances in the United Kingdom are similar in effect to the personal exemptions under the income tax in the United States. The exemptions for children in the United Kingdom are lower than they are in the United States, but this is compensated for to some extent in the United Kingdom by the fact that these allowances are paid to families having more than one child. Although these food subsidies and family allowances have a similar effect as features of the United States law, in the United Kingdom they appear as government expenditures, while in the United States the effect is achieved by collecting lower taxes initially. The exclusion of these medical expenditures, food subsidies and family allowances alone would reduce total United Kingdom expenditures in 1951 from 36 to 30 percent of the gross national product.

One basis for comparison is the net purchase of goods and services by the United States and the United Kingdom Governments. This omits in both cases those expenditures where a government is acting only as an agent in transferring funds from one group of persons to another and thus excludes expenditures which do not involve the use of resources by government. On this basis expenditures by the United States governments, including State and local governments, represented about 19 percent of the gross national product in 1951. United Kingdom central and local government purchases of goods and services in 1951 represented approximately 20 percent of the gross national product. Thus, the main difference in the budgets of the two countries lies in the size of the transfer payments, 5 percent of the gross national product in the United States and 16 percent in the United Kingdom. These larger payments in the case of the United Kingdom do not directly reduce the volume of goods and services available through the private segment of the economy, but they do redistribute the goods and services, and the taxes levied to accomplish this redistribution can affect incentives in the same way as other taxes.

IV. BUDGET TAX CHANGES

The revenue effects of the budget tax changes are summarized in table 6.

TABLE 6.—*Estimated revenue effect of proposed tax changes*

[In millions of pounds]

	Fiscal year 1952-53	Full year effect
Income tax.....	-180.3	-229.0
Profits tax and excess profits levy.....	+1.0	+100.0
Structural changes in income and profits tax.....	+ .5	- .5
Customs, excises, and duties:		
(a) Stamp duty.....	-2.5	-3.5
(b) Hydrocarbon oils, petrol substitutes, and power methylated spirits.....	+66.0	+66.0
(c) Entertainments duty.....	- .5	- .3
(d) Purchase tax.....	(1)	(1)
(e) Betting duty.....	(1)	(1)
(f) Motor vehicle duty.....	- .9	-1.3
Total, customs, excises, and duties.....	+62.2	+61.0
Post Office:		
(a) Postal service.....	+3.6	+4.2
(b) Telephone service.....	+5.8	+9.4
(c) Telegraph service.....	+ .2	+ .2
Total, Post Office.....	+9.6	+13.8
Grand total.....	-107.0	-54.8

¹ Negligible.

A. INDIVIDUAL INCOME TAXES

Individuals in the United Kingdom pay two types of income taxes. One is known simply as the "income tax." In computing this tax certain "reliefs and allowances" are allowed as deductions. These "reliefs and allowances" include such things as personal exemptions, dependency allowances, and an earned income allowance. This tax is divided into two parts, the "standard rate" and the "reduced rates." The reduced rates prior to the budget included two rate brackets and covered only the first £250 of taxable income; all income in excess of this amount was taxable at the flat standard rate. The second income tax payable by individuals is the "surtax" which applies progressive rates to the income of the individual in excess of £2,000 (the reliefs and allowances are not deductible under this tax).

The current budget makes a number of concessions which principally have the effect of lowering the tax of individuals in the middle and lower income brackets. These concessions take the form of larger personal exemptions and dependency allowances, a larger earned income allowance and lower tax rates in the bottom brackets of the "income tax." It is estimated that these changes will exempt at least 2 million people from tax altogether. No changes are made, however, in the surtax applying to the incomes in excess of £2,000.

In his budget message, Mr. Butler says:

The income tax in its present form suffers from three major defects: The starting points of liability are too low, the rates of tax are too high, and the graduation is too steep. I propose to make a start this year in tackling these defects. * * * I propose, therefore, to make radical changes in the incidence of the income tax designed to lighten the burden of the tax, particularly on extra earnings, and thus

to encourage people when they put in longer overtime or earn more by harder work. We must insure that the tax works with, and not against, economic forces, and that it encourages rather than damps down people's natural aspirations.³

In the past the British tax system has been criticized on the grounds that it interfered with the incentives to produce, and particularly the willingness to engage in overtime work.⁴ Mr. Butler indicates sympathy with this view by reducing the income tax burdens and by indicating that he would like to make larger reductions. Apparently he believed that from the standpoint of the problem with which the United Kingdom is faced, it is most important to increase incentives in the lower tax brackets since, as indicated in tables shown subsequently in this section, he concentrated the tax reductions in the bottom brackets of the income tax. He was able to accomplish this reduction without unbalancing the budget by decreasing somewhat the high level of services the United Kingdom government provides, which primarily go to persons in the same low income brackets in which the tax reduction was concentrated.

The exemption or allowance for single persons is increased from £110 to £120; that for married couples, from £190 to £210; and that for children, from £70 to £85. In the case of single persons this is an increase of approximately 9 percent, for married couples an increase of nearly 11 percent, and for children an increase of slightly over 21 percent. In terms of dollars these exemptions or allowances are the equivalent of either of the two following schedules, depending upon the rate of conversion used:

	Old allow- ances	New allow- ances
	In dollars (£ = \$2.80)	
Single person.....	308	336
Married couple.....	532	588
Child.....	196	238
	In dollars (£ = \$3.50) ¹	
Single person.....	385	420
Married couple.....	665	735
Child.....	245	297. 50

¹ This represents an attempt to measure the value of the pound in terms of dollar domestic purchasing power. It is explained further on p. 7.

Personal exemptions in the United States for single persons are \$600, for married couples \$1,200, and for dependents \$600. Thus, the allowances granted in the United Kingdom in the case of single persons are from 56 percent to 70 percent of the exemptions granted a single person in the United States, depending upon the conversion rate used. For married couples the allowances in Great Britain are from 49 percent to 61 percent of United States exemptions, and for

³ Parliamentary Debates, op cit., p. 1304.

⁴ See, for example, London Economist, April 6, 1946, "Taxes and Incentive."

children the United Kingdom allowances are from 40 percent to 50 percent of United States exemptions. However, in comparing the allowances for children in the United Kingdom with the dependency credits in the United States it would appear that the United Kingdom family allowances should be taken into consideration. These allowances are increased by the budget from 5s. to 8s. a week for children after the first. If this allowance is treated as an exemption, it raises the exemption for children, after the first, from \$238 to \$296 if the conversion is made at the foreign exchange rate, or from \$297 to \$370 if the conversion is made at the \$3.50 rate. On this basis the British exemption is from about 49 percent to 62 percent of the American exemption for dependents after the first.

The earned income allowance is increased from one-fifth to two-ninths of the income, or from 20 percent to 22.2 percent, with the maximum allowance being raised from £400 to £450. The £450 maximum allowance is reached at an income level of £2,027. In terms of dollars the new maximum allowance amounts to \$1,260 or \$1,575, depending upon the conversion rate and applies at an income level of \$5,676 or \$7,095. In addition, the Chancellor states that in the future all incomes below £250 a year (\$700 or \$875) will receive the earned income relief irrespective of whether or not the income is earned. A "notch" rate is to be provided for incomes slightly in excess of £250. Prior to the Revenue Act of 1943, the United States also had an earned income credit. It was an earned income credit of 10 percent of the net income up to \$3,000 whether earned or not, and up to \$14,000 if earned. This credit was applied against net income for normal tax (then 6 percent) purposes.

In addition to providing an earned income credit of one-fifth of such income, the United Kingdom also provided an additional credit of one-fifth of the income where either the taxpayer or his spouse was 65 years of age or over, and during the year did not receive income in excess of £500 (\$1,400 or \$1,750). In such a case the one-fifth exclusion applied to any income to which the earned income credit did not apply. This exclusion also is increased from one-fifth to two-ninths by the budget. This has somewhat the same effect as the additional \$600 exemptions allowed in United States to taxpayers and spouses who are age 65 or over.

Prior to this budget the income tax had two "reduced rates" and a "standard rate" which apply to income after the deduction of the "relief and allowances." The new schedule proposed in the budget widens the area of application of the first rate and adds a new reduced rate. In terms of both pounds and dollars the old and new income tax rate schedules appear as follows:

Taxable income after "reliefs and allowances"	Old schedule	New schedule
In pounds		
	<i>Percent</i>	<i>Percent</i>
£0 to £50	15. 0	15. 0
£50 to £100	27. 5	15. 0
£100 to £250	27. 5	27. 5
£250 to £400	47. 5	37. 5
Over £400	47. 5	47. 5
In dollars (£1=\$2.80)		
	<i>Percent</i>	<i>Percent</i>
\$0 to \$140	15	15
\$140 to \$280	27. 5	15
\$280 to \$700	27. 5	27. 5
\$700 to \$1,120	47. 5	37. 5
Over \$1,120	47. 5	47. 5
In dollars (£1=\$3.50)		
	<i>Percent</i>	<i>Percent</i>
\$0 to \$175	15	15
\$175 to \$350	27. 5	15
\$350 to \$875	27. 5	27. 5
\$875 to \$1,400	47. 5	37. 5
Over \$1,400	47. 5	47. 5

The reason given for making the reductions in the income tax are explained by the following statement by the Chancellor of the Exchequer:

I have carefully considered various suggestions which have been made from time to time for exempting overtime altogether from income tax, but so far no fair or practical way of doing this has been found. The proposal I have put forward, is, I think, the best way of insuring that overtime is not unduly penalized for taxation purposes. I hope that this alone will provide a very real and positive incentive to greater production.⁵

The changes in the income-tax law apply to the full taxable year 1952-53. New withholding tables are to go into effect on June 8.

The detailed revenue estimates of these changes in the income-tax law are as follows:

Estimated revenue decrease resulting from proposed changes in the individual income-tax laws

	1952-53	Full year of operation
Increase in earned income relief	£42, 000, 000	£53, 000, 000
Extension of earned income relief to all incomes of £250 or less	250, 000	1, 000, 000
Increase in single allowance, married allowance, and child allowance	67, 000, 000	84, 000, 000
Revision of "reduced rates"	71, 000, 000	91, 000, 000
Total decrease	180, 250, 000	229, 000, 000

⁵ Parliamentary Debates, op. cit., pp. 1305-1306.

The full year's effect of the £229 million represents a decrease of about 13½ percent of the probable receipts under the "income tax" in the fiscal year 1952.

The surtax rates begin at £2,000 (\$5,600, or \$7,000) and the reliefs and allowances are not allowable. Although no changes were made in the surtax rates by the budget, they are shown in table 7 to present a clearer picture of individual income taxation in the United Kingdom.

Table 8 shows for a single person and a married couple with two children the amounts of tax due on income, after all allowances except personal exemptions and dependency exemptions, and the earned income allowance, at various income levels under existing law and under the law which will be in effect after the proposed tax changes. These data are shown using the foreign exchange rate of \$2.80 per pound, and using the domestic purchasing power conversion rate of \$3.50 per pound. The table indicates that in the case of a single person the maximum dollar amount of tax decrease is reached at an income of around \$8,000, and amounts to approximately \$175 or about \$139, depending upon the conversion rate used. Much the same situation exists in the case of the married couple with two dependents, although here the maximum tax benefit at an income level of \$8,000 is \$241 or \$193. On a percentage basis the table indicates that both for single persons and married couples the major portion of the tax reduction is concentrated in the lowest income brackets.

TABLE 7.—*Surtax imposed on income of individuals by the United Kingdom*

[Not changed by the 1953 budget]

Income ¹	Surtax rate applicable to income in bracket	Income ¹	Surtax rate applicable to income in bracket
(£1 = \$2.80)		(£1 = \$3.50)	
	<i>Percent</i>		<i>Percent</i>
\$0 to \$5,600-----	0. 0	\$0 to \$7,000-----	0. 0
\$5,600 to \$7,000-----	10. 0	\$7,000 to \$8,750-----	10. 0
\$7,000 to \$8,400-----	12. 5	\$8,750 to \$10,500-----	12. 5
\$8,400 to \$11,200-----	17. 5	\$10,500 to \$14,000-----	17. 5
\$11,200 to \$14,000-----	22. 5	\$14,000 to \$17,500-----	22. 5
\$14,000 to \$16,800-----	27. 5	\$17,500 to \$21,000-----	27. 5
\$16,800 to \$22,400-----	32. 5	\$21,000 to \$28,000-----	32. 5
\$22,400 to \$28,000-----	37. 5	\$28,000 to \$35,000-----	37. 5
\$28,000 to \$33,600-----	42. 5	\$35,000 to \$42,000-----	42. 5
\$33,600 to \$42,000-----	47. 5	\$42,000 to \$52,500-----	47. 5
Over \$42,000-----	50. 0	Over \$52,500-----	50. 0

¹ No "reliefs or allowances" may be taken in computing this tax.

TABLE 8.—*Comparison of the individual tax burdens in the United Kingdom under existing law and under the proposed tax reduction*

SINGLE PERSON—NO DEPENDENTS

Net income ¹ (after deductions but before exemptions)	\$3.50=£1				\$2.80=£1			
	Amount of tax		Tax reduction		Amount of tax		Tax reduction	
	Existing law	Proposal	Amount	Percent	Existing law	Proposal	Amount	Percent
\$400.....					\$2.....		\$2.....	100.0
\$600.....	\$14	\$7	\$7	50.0	30	\$20	10	33.3
\$800.....	48	30	18	37.5	74	44	30	40.5
\$1,000.....	92	55	37	40.2	118	87	31	26.3
\$2,000.....	380	295	85	22.4	456	362	94	20.6
\$3,000.....	760	638	122	16.1	836	732	104	12.4
\$4,000.....	1,140	1,007	133	11.7	1,216	1,101	115	9.5
\$5,000.....	1,520	1,377	143	9.4	1,596	1,471	125	7.8
\$8,000.....	2,855	2,681	174	6.1	3,229	3,090	139	4.3
\$10,000.....	4,037	3,862	175	4.3	4,509	4,370	139	3.1
\$15,000.....	7,312	7,137	175	2.4	7,999	7,860	139	1.7
\$20,000.....	10,937	10,762	175	1.6	11,909	11,770	139	1.2
\$25,000.....	14,887	14,712	175	1.2	16,039	15,900	139	.9
\$50,000.....	37,137	36,962	175	.5	39,409	39,270	139	.4
\$100,000.....	85,824	85,650	174	.2	88,159	88,020	139	.2
\$500,000.....	475,824	475,650	174	(²)	478,159	478,020	139	(²)
\$1,000,000.....	963,324	963,150	174	(²)	965,659	965,520	139	(²)

MARRIED COUPLE—2 DEPENDENTS

\$1,000.....								
\$2,000.....	\$101	\$34	\$67	65.3	\$168	\$100	\$68	40.5
\$3,000.....	395	215	180	38.0	544	386	158	29.0
\$4,000.....	775	575	200	25.8	921	755	166	18.3
\$5,000.....	1,155	944	211	18.3	1,301	1,125	176	13.7
\$8,000.....	2,490	2,219	271	9.7	2,937	2,744	193	6.6
\$10,000.....	3,671	3,430	241	6.6	4,217	4,024	193	4.6
\$15,000.....	6,946	6,705	241	3.5	7,707	7,514	193	2.5
\$20,000.....	10,571	10,330	241	2.3	11,617	11,424	193	1.7
\$25,000.....	14,521	14,280	241	1.7	15,747	15,554	193	1.2
\$50,000.....	36,771	36,530	241	.7	39,117	38,924	193	.5
\$100,000.....	85,458	85,218	240	.3	87,867	87,674	193	.2
\$500,000.....	475,458	475,218	240	.1	477,867	477,674	193	(²)
\$1,000,000.....	962,958	962,718	240	(²)	965,387	965,174	193	(²)

¹ Assumes all income earned.² Less than 0.05 percent.

Tables 9 and 10 compare the effective and marginal rates payable by individuals on income to the United States Federal Government with those payable by individuals to the United Kingdom Government, for a single person with no dependents, and for a married couple with two dependents. As previously shown, United Kingdom taxes are computed at two conversion rates: \$3.50 per pound and \$2.80 per pound.^{*} These tables indicate that as a result of smaller United Kingdom exemptions the British tax starts at a lower income level than in the United States. However, in the \$800 and \$1,000 income brackets the British tax for single persons is somewhat lighter than the tax imposed by the Federal Government in the United States. If the comparison is made only on the basis of the \$3.50 conversion rate, this is also true of the \$2,000 bracket. This is attributable to the fact that the starting British rate is 15 percent as contrasted to 22.2 percent in the United States. However, the marginal and effective rates are lower in the United Kingdom than in the United States in

these brackets only in the case of single persons. Due to the more generous exemptions in the United States for married couples with children, the second United Kingdom rate bracket (and even the third rate if £1 is held equal to \$2.80) applies in the case of married couples with children before the exemption level is exceeded in the United States, and the second British tax rate, 27½ percent, is substantially above the beginning United States rate of 22.2 percent.

TABLE 9.—Comparison of individual effective rates of tax under the proposed rates in the United Kingdom and under the present Federal rates in the United States

SINGLE PERSON—NO DEPENDENTS

Net income (after deductions but before exemptions)	United Kingdom ¹		United States
	\$3.50=£1	\$2.80=£1	
	Percent	Percent	Percent
\$500		1.6	
\$600	1.2	3.3	
\$800	3.8	5.5	5.6
\$1,000	5.5	8.7	8.9
\$2,000	14.8	18.1	15.5
\$3,000	21.3	24.4	18.1
\$4,000	25.2	27.5	19.7
\$5,000	27.5	29.4	21.0
\$8,000	33.5	38.6	24.9
\$10,000	38.6	43.7	27.3
\$15,000	47.6	52.4	33.1
\$20,000	53.8	58.9	38.8
\$25,000	58.8	63.6	43.8
\$50,000	73.9	78.5	56.9
\$100,000	85.7	88.0	69.7
\$500,000	95.1	95.6	87.2
\$1,000,000	96.3	96.6	² 88.0

MARRIED COUPLE—2 DEPENDENTS

\$1,500		1.0	
\$2,000	1.7	5.0	
\$3,000	8.2	12.9	4.4
\$4,000	14.4	18.9	8.9
\$5,000	18.9	22.5	11.5
\$8,000	28.1	34.3	16.0
\$10,000	34.3	40.2	17.7
\$15,000	44.7	50.1	21.6
\$20,000	51.7	57.1	25.0
\$25,000	57.1	62.2	28.0
\$50,000	73.1	77.8	42.2
\$100,000	85.2	87.7	56.0
\$500,000	95.0	95.5	82.2
\$1,000,000	96.3	96.5	87.1

¹ Assumes all income earned.

² Taking into account maximum effective rate limitation of 88 percent.

TABLE 10.—*Comparison of the marginal rates of tax on incomes of individuals under the United Kingdom law after the proposed tax changes and under the Federal tax law in the United States for selected net income levels*

[The marginal rates shown are for the top dollar of income]

SINGLE PERSON—NO DEPENDENTS

Net income (after deductions but before exemptions)	United Kingdom ¹		United States
	\$3.50=£1	\$2.80=£1	
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
\$600.....	15. 0	15. 0	-----
\$800.....	15. 0	27. 5	22. 2
\$1,000.....	27. 5	27. 5	22. 2
\$1,500.....	27. 5	37. 5	22. 2
\$2,000.....	37. 5	47. 5	22. 2
\$3,000.....	47. 5	47. 5	24. 6
\$4,000.....	47. 5	47. 5	24. 6
\$5,000.....	47. 5	47. 5	29. 0
\$8,000.....	57. 5	60. 0	34. 0
\$10,000.....	60. 0	65. 0	38. 0
\$15,000.....	70. 0	75. 0	53. 0
\$20,000.....	75. 0	80. 0	59. 0
\$25,000.....	80. 0	85. 0	66. 0
\$40,000.....	90. 0	95. 0	72. 0
\$50,000.....	95. 0	97. 5	75. 0
\$100,000.....	97. 5	97. 5	88. 0
\$500,000.....	97. 5	97. 5	92. 0
\$1,000,000.....	97. 5	97. 5	² 88. 0

MARRIED COUPLE—2 DEPENDENTS

\$1,500.....	-----	15. 0	-----
\$2,000.....	15. 0	27. 5	-----
\$2,500.....	27. 5	37. 5	22. 2
\$3,000.....	37. 5	47. 5	22. 2
\$4,000.....	47. 5	47. 5	22. 2
\$5,000.....	47. 5	47. 5	22. 2
\$8,000.....	57. 5	60. 0	24. 6
\$10,000.....	60. 0	65. 0	24. 6
\$15,000.....	70. 0	75. 0	34. 0
\$20,000.....	75. 0	80. 0	38. 0
\$25,000.....	80. 0	85. 0	42. 0
\$40,000.....	90. 0	95. 0	59. 0
\$50,000.....	95. 0	97. 5	66. 0
\$100,000.....	97. 5	97. 5	75. 0
\$500,000.....	97. 5	97. 5	92. 0
\$1,000,000.....	97. 5	97. 5	92. 0

¹ Assumes all income earned.² Taking into account maximum effective rate limitation of 88 percent.

Above the lower income brackets the United Kingdom tax rates rise much more rapidly than is true in United States. For example, a 50 percent effective rate in the United Kingdom for a single person is reached between the income levels of \$14,000 and \$17,000, depending on the rate of conversion. For a married couple with two children a 50 percent effective rate is reached at about \$15,000 or \$19,000 depending on the conversion rate. In the United States a 50 percent effective rate does not apply in the case of a single person until an income level of approximately \$34,000 is reached, and in the case of a married couple with two dependents, until an income level of approximately \$73,000 is reached. This wide spread in the United States taxes between taxes of single and married persons is attributable to the income-splitting provision, which the United Kingdom does not have, although the budget would under certain circumstances permit married couples to be taxed as though they were single persons.

The maximum marginal rate in the United Kingdom is 97½ percent as contrasted to 92 percent in the United States. In the case of a single person, however, this maximum rate is reached at an income level of between \$40,000 and \$50,000 in the United Kingdom, while in the United States it is not reached until an income level of about \$200,000, in the case of a single individual and about \$400,000 in the case of a married couple.

In view of the fact that there are no local income taxes in the United Kingdom, the previous tables do not present an accurate comparison of the tax burdens in the United Kingdom and in the United States with respect to persons living in States also imposing an income tax. For that reason table 11 is inserted comparing the income tax burdens on individuals under the proposals in the United Kingdom and under the present combined Federal and State income-tax laws in selected States.

TABLE 11.—*Individual income-tax burdens under the proposed tax changes in the United Kingdom and under the combined Federal and State income-tax laws in selected States*

SINGLE PERSON—NO DEPENDENTS

Net income ¹ (after deductions but before exemptions)	United Kingdom ²		United States and New York	United States and California	United States and Virginia	United States and North Carolina
	\$3.50=£1	\$2.80=£1				
\$600-----	\$7	\$20				
\$800-----	30	44	\$44	\$44	\$44	\$44
\$1,000-----	55	87	89	89	89	89
\$2,000-----	295	362	329	311	331	341
\$3,000-----	638	732	587	552	582	602
\$4,000-----	1,007	1,101	860	808	848	888
\$5,000-----	1,377	1,471	1,160	1,082	1,142	1,192
\$8,000-----	2,681	3,090	2,226	2,062	2,212	2,292
\$10,000-----	3,862	4,370	2,940	2,796	2,926	2,988
\$15,000-----	7,137	7,860	5,290	5,081	5,244	5,343
\$20,000-----	10,762	11,770	8,161	7,934	8,098	8,217
\$25,000-----	14,712	15,900	11,378	11,161	11,304	11,436
\$50,000-----	36,962	39,270	29,182	28,999	29,046	29,269
\$100,000-----	85,650	88,020	70,409	70,304	70,266	70,493
\$500,000-----	475,650	478,020	438,661	438,494	438,150	438,941
\$1,000,000-----	963,150	965,520	³ 887,525	³ 887,096	³ 885,978	³ 888,365

MARRIED COUPLE—2 DEPENDENTS

\$2,000-----	\$34	\$100				
\$3,000-----	245	386	\$133	\$133	\$145	\$145
\$4,000-----	575	755	368	355	387	397
\$5,000-----	944	1,125	614	584	629	653
\$8,000-----	2,249	2,744	1,415	1,319	1,432	1,492
\$10,000-----	3,430	4,024	1,940	1,822	1,962	2,018
\$15,000-----	6,705	7,514	3,574	3,349	3,566	3,666
\$20,000-----	10,330	11,424	5,513	5,203	5,465	5,619
\$25,000-----	14,280	15,554	7,666	7,314	7,584	7,786
\$50,000-----	36,530	38,924	22,012	21,765	21,853	22,141
\$100,000-----	85,218	87,674	57,499	57,280	57,220	57,682
\$500,000-----	475,218	477,674	413,709	413,543	413,204	413,992
\$1,000,000-----	962,718	965,174	876,229	875,943	875,204	876,792

¹ Under \$10,000 assumed to be the same for both Federal and State tax purposes. For classes \$10,000 and over the net income for State tax purposes is that shown with the Federal tax being computed on the net income less State tax paid.

² Assumes all income earned.

³ Taking into account the Federal maximum effective rate limitation of 88 percent.

B. CORPORATE TAXES

The United Kingdom collects a profits tax on corporations on their net income in excess of £2,000 (\$5,600 or \$7,000). This tax prior to the budget proposals was composed of the two following rates: 10 percent on all profits and an additional rate of 40 percent on distributed profits. In the case of the 40 percent tax on distributed profits, however, both the 10 percent tax and the 40 percent tax itself are allowed as deductions in its computation. For that reason the 10 percent and

40 percent profits tax rates on distributed profits are really the equivalent of a 35.71 percent tax instead of a 50 percent tax.⁶

After the payment of the profits tax, corporations then paid the same "income tax" at the standard rate of 47½ percent which is applicable to incomes of individuals. This tax, however, applied only to the profits remaining after the deduction of the profits tax. Moreover, with respect to distributed income this income tax in effect is a "withholding tax" for the stockholder on his dividend income since he does not have to pay the "income tax" on dividends again. He includes the "gross" dividend (i. e., the dividend received plus the 47½ percent tax paid on the dividend by the corporation) in his income and takes a credit against the tax so computed for the 47½ percent tax paid by the corporation. Then, if he has less than the amount of the dividend income taxable at the standard rate he receives a refund of part of the tax paid by the corporation; if he is subject to surtax he pays additional tax on the dividend income.

The combined effect of the profits tax and the "income tax" was a total tax of 52.75 percent with respect to undistributed earnings and a tax of 18.75 percent plus a 47½ percent withholding tax with respect to distributed earnings.⁷

The budget proposals provide for the imposition of an excess-profits tax and also make some changes in the profits tax itself. The combined profits tax and "income tax" on undistributed profits is to be a flat 50 percent in lieu of the 52.75 percent which previously prevailed and the combined tax on distributed profits is to be 17.5 percent plus a 47.5 percent withholding tax instead of 18.75 percent plus the 47.5 percent withholding tax. Thus, the combined profits and "income tax" on undistributed profits is reduced by 2¼ percentage points while the tax on distributed profits is reduced by 1¼ percentage points. The method of computing the profits tax and "income tax" also is simplified considerably by the budget proposals. No longer is the profits tax computed first and then deducted before computing the "income tax." Under the budget proposal both taxes will be taken off at the same time. The tax on undistributed corporate profits is to be expressed as a 2½-percent tax and the tax on distributed profits as a 17½-percent tax, both to be taken concurrently with the 47½-percent "income tax." The reason given by the Chancellor of the Exchequer for the reduction in the profits tax is as follows:

It would, however, be asking too much that industry should carry the excess-profits levy in addition to the profits tax at the present very high rates. I propose, therefore, that some compensating reduction should be made in the profits tax as a corollary of the introduction of the levy.⁸

⁶ A release of the British Information Service, dated December 1951, ID 729 (Revised), indicates that the 10 percent tax applying to total profits is computed first and then deducted in arriving at the base for the remaining 40 percent tax. It also indicates, however, that the 40 percent tax itself is deducted from the tax base in computation of the 40 percent tax. Thus, in terms of a tax on net income this additional 40 percent tax can be expressed by the following equation: Tax on distributed profits = 0.4 (90 percent of profits minus the tax on distributed profits). The solution to this equation is 25.71 percent which when added to the 10 percent tax on total profits gives the 35.71 percent referred to in the text above.

⁷ In the case of undistributed profits the tax rates involved are the 10 percent profits tax and the 47½ percent income tax. The 10 percent profits tax is computed first and then deducted from the tax base in computing the 47½ percent tax. Thus, the base of the 47½ percent tax is 90 percent of the profits of the corporation. Ninety percent of 47½ percent is 42.75 percent. Adding the 10 percent profits tax to this gives a total tax of 52.75 percent in the case of undistributed profits. In the case of distributed profits it was previously explained that the profits tax was in effect imposed at a rate of 35.71 percent. This leaves as a base for the income tax 64.29 percent of the profits. Thus the income tax is 47½ percent of 64.29 percent, or 30.54 percent of total profits. When the profits tax of 35.71 percent is added to this, a total rate of 66.25 percent is obtained for distributed profits of which 47.5 percentage points is treated as a withholding tax. This leaves a tax of 18.75 percent which is strictly the corporate liability.

⁸ Parliamentary Debates, op. cit. p. 1293.

Mr. Butler in his budget statement indicates that he believes an excess profits tax should be imposed because:

At a time like this sacrifices should be equally borne. We are not prepared to see excessive profits being made as a result of the injection of rearmament into the economy.⁹

Although not identical, the excess profits tax levy (called levy to distinguish it from the World War II excess profits tax) is quite similar to the excess profits tax presently imposed in United States. The United Kingdom excess profits levy is effective as of January 1, 1952, and applies to "companies and other bodies" but does not extend to proprietorships or partnerships as it did in World War II. The levy is charged on amounts by which current profits exceed "standard profits." These "standard profits" are equivalent to the "excess profits credit" under the United States tax. The ordinary base for determining standard profits under the United Kingdom tax is the average of a corporation's profits for the years 1947, 1948, and 1949. Under the United States excess profits tax the most often used base is 83 percent of the average profits in the best 3 out of 4 years of the period 1946 through 1949.

In both the United Kingdom and in the United States the rate of the excess profits tax is 30 percent and in both cases the excess profits tax is imposed on top of the regular taxes payable by corporations. In the United Kingdom this means that the maximum rate which will be imposed on any undistributed profits subject to the excess profits levy is 80 percent. This rate is composed of the 30-percent excess profits tax, the 2½-percent profits tax, and the 47½-percent "income tax." In the case of profits which are distributed, the maximum combined tax imposed in the United Kingdom is to be 95 percent or 47½ percent, depending upon whether the income tax paid by the corporation for the stockholder is included or not. This is composed of the 30-percent excess profits tax, the 17½-percent profits tax payable on distributed profits, and the 47½-percent income tax. In the United States the corporate rate of 52 percent combined with the 30-percent excess profits tax result in a top rate of 82 percent on income subject to the excess profits tax.

A ceiling rate of 18 percent is imposed in the United Kingdom. This appears to be identical to the ceiling rate imposed in connection with the United States excess-profits tax.

This [United Kingdom] ceiling will be 18 percent of the total profits; in other words, the excess-profits levy payable will be 30 percent of the excess profits, or 18 percent of the total profits, whichever is the less.¹⁰

The maximum tax on excess profits under the United States law is also either 30 percent of the excess profits or 18 percent of the income before deducting the excess-profits credit. The ceiling rate under the United Kingdom taxes assures a corporation not distributing any of its profits that it will pay in taxes no more than 68 percent of its income, or, in the case of a corporation distributing its profits, that it will pay in taxes no more than 83 percent of its income (including the 47½-percent tax paid for the stockholders). In the United States the 18-percent ceiling rate assures corporations with substantial incomes that they will pay no more than 70 percent of their income in taxes. For corporations with smaller incomes the surtax exemption and

⁹ Ibid., p. 1291.

¹⁰ Ibid., pp. 1292-1293.

minimum excess-profits credit taken together with the ceiling rate have the effect of achieving a sliding scale of ceiling rates varying from 30 percent to 70 percent.

Like the United States law, the United Kingdom law also provides for a minimum excess profits credit, or as it is called there, a "minimum standard." The minimum standard in the United Kingdom is £2,000 which translates into \$5,600 or \$7,000, depending upon the conversion rate used. The United States minimum excess profits credit is \$25,000. This minimum credit or standard permits a taxpayer, after computing his excess profits credit or standard profits in the normal manner, to substitute for that credit or standard the \$25,000 or the £2,000. In the Financial Statement, issued in connection with the United Kingdom budget, it is stated that:

* * * special provisions will apply when the company belongs to a group of companies or when it is a new or recently incorporated company under common control with another company.¹¹

It appears likely that this provision will be similar to, although somewhat more restrictive than, section 121 of the Revenue Act of 1951 in the United States. This section provides that if a corporation transfers after December 31, 1950, all or part of its property other than money to a new corporation, the new corporation will not be allowed to have a minimum excess profits credit (or \$25,000 surtax exemption) if the old corporation or its stockholders own 80 percent or more of the voting stock of the new corporation, unless it can be shown that the corporate split-up was not made with a major purpose of obtaining an additional minimum excess profits credit (or surtax-exemption).

Under the United Kingdom excess profits levy a corporation in computing its standard profits may substitute for the actual profits in any one or two of the 3 years 1947 through 1949 a return of 8 percent of its paid-up share capital or it may substitute 10 percent of such capital for its profits in all three of these years. The United Kingdom levy also permits standard profits to be raised by 10 percent of the profits retained in the business and by 10 percent of the new share capital raised but no increases are allowed for additions to debt. These provisions bear some resemblance to two provisions of the United States excess profits tax law. One of these United States provisions is the invested capital credit which is an alternative to the average earnings credit in the computation of the excess profits credit. Corporations taking advantage of this alternative are allowed rates of return on their invested capital (including retained earnings) varying from 8 percent to 12 percent, depending upon the size of their invested capital. The capital to which the United States and the United Kingdom permit these various percentages to be applied differ in one important respect. Under the United Kingdom excess profits levy, borrowed money is not considered as capital, although the interest payable on such borrowing is allowed as a deduction in computing excess profits. Under the United States law three-quarters of the borrowed funds are treated as invested capital and one-quarter of the interest payments are deductible in computing income subject to excess profits tax.

¹¹ Financial Statement (1952-53), H. M. Stationery Office, March 11, 1952, p. 13.

The United Kingdom rule permitting the substitution of 8 or 10 percent of the capital for profits in the years 1947, 1948, or 1949 also bears some resemblance to the "general relief" provisions pertaining to abnormalities during the base period provided under the United States excess profits tax law. Under the United States law a "substitute average base period net income" is available in computing the average earnings credit if the corporation's average base period net income in one or more years meets certain specified tests of "abnormality." In those cases where the substitute average base period net income is available under United States law, the substitute is computed by multiplying the total assets of the corporation by the base-period rate of return for the corporation's own particular industry in the year or years of the abnormality.

Under the United Kingdom levy new businesses set up on or after July 1, 1948, are given a rate of return equal to 10 percent of their paid-up share capital, retained earnings, and new share capital. New companies, which commenced business during the period 1947-49 but before July 1, 1948, are given an option of taking as their standard profits their average profits in the base period or, as in the case of the new businesses commencing after July 1, 1948, they may take 10 percent as a rate of return on their paid-up share capital, retained earnings and new share capital. Under United States law, new corporations are allowed to compute their excess profits credit by taking 83 percent of their average base-period earnings over their three best years in the period 1946 to 1949, treating loss years and years in which they were not in business as zero; or they may use the ordinary invested capital credit; or they may use the so-called growth alternative. In addition, in their first 5 years of operation they are entitled to special ceiling rates ranging from 5 percent to 14 percent instead of the 18 percent applicable to other corporations.

A system of so-called initial allowances was introduced in the United Kingdom Income Tax Act of 1945. Under this provision 20 percent of the cost of new plant and machinery and 10 percent of the cost of industrial buildings, mines, and oil wells could be written off in the first year. In 1949 the initial allowance on plant and machinery was increased to 40 percent. The budget of last year suspended these initial allowances as of April 6, 1952. This reduced the depreciation on expenditures after that date to the ordinary allowances. Under the excess profits tax levy (but not under the profits tax or "income tax") corporations are to be given the option of taking the initial allowances of 20 percent with respect to plant and machinery and 10 percent with respect to industrial buildings in computing both the standard profits of the period 1947 to 1949 and the income currently subject to the excess profits levy, or they may take no "initial" allowance in either period.

It is estimated that the corporate tax changes taken together will yield £100 million in a full year of operation. However, in the fiscal year 1952-53 collections from the corporate tax changes are expected to increase revenues by only £1 million.

C. STRUCTURAL CHANGES

The principal structural change made by the budget in the United Kingdom tax system is the elimination of the time limit for the carry-

forward of business losses. This is along the lines of, but more liberal than, the treatment provided for net operating losses by section 215 of the Revenue Act of 1950 in the United States. Prior to this act under United States law a business loss could be carried back against income in the two preceding years and carried forward against the income of the two subsequent years. The Revenue Act of 1950 substituted a one-year carryback and a five-year carryforward.

The other structural changes made in the income and profits taxes are as follows:

1. "Certain additional allowances" are to be given to mining concerns operating abroad.

2. Brewers are no longer to have a special deduction for tax purposes when they let "tied" houses for less than their full value. The expression "tied" houses refers to cases where brewers have leased buildings as "pubs" with the agreement that only their beer would be sold.

3. The limits are increased on the amounts which Lloyd's underwriters may deduct for surtax purposes with respect to sums paid under approved schemes to trust funds to meet future losses. This is an extension of relief from surtax granted to Lloyd's in 1949.

4. A revision is made in the application of the estates duty in the case of estates of members of the armed forces. In the future all ranks are to be treated alike and given total exemption from estate duty in time of war or in warlike operations and no relief is to be given in time of peace.

D. CUSTOMS, EXCISES, AND DUTIES

The most important changes in customs, excises, and duties relate to the increase in the rate applied to hydrocarbon oils, including gasoline, and the revision of the entertainment and motor-vehicle duties.

The budget raises the customs duty on gasoline and other oils used as road fuel by 7½d. per imperial gallon. This raises the duty from 1s. 10½d. to 2s. 6d. per gallon. As a result the retail price of gasoline which previously sold for 3s. 7½d. per gallon was raised to 4s. 3d. per gallon. In terms of dollars and United States gallons the proposed tax is 29½ cents per gallon using the \$2.80 foreign exchange rate or 36½ cents per gallon, using the \$3.50 conversion rate, and the new retail price of gasoline is 49½ cents per gallon at the \$2.80 exchange rate, or 62 cents per gallon at the \$3.50 exchange rate. Thus, the proposed tax will equal about 59 percent of the selling price of gasoline in the United Kingdom. The excise tax on home-produced substitutes for motor fuel was raised by the same amount as the customs duty but the preference of 9d. (8½ cents or 10½ cents in United States gallons), which was previously established with respect to such substitutes, was retained.

The rate currently imposed on gasoline by the Federal Government in the United States is 2 cents per gallon and the State excises on gasoline range from 2 cents to 9 cents per gallon.

With respect to this tax on gasoline, the Chancellor of the Exchequer in his budget speech states:

Since the main objective of the budget is to relieve our balance-of-payments difficulties, I must pay particular attention to a scarce product which costs us foreign exchange.¹²

¹² Parliamentary Debates, op. cit., p. 1296.

He also indicates that he is using this gasoline tax as a substitute for gasoline rationing.

Prior to the recent budget the United Kingdom imposed two entertainment duties. One of these was called the "full scale" and the other the "reduced scale." Among the forms of entertainment to which the "full scale" applied was "racing or trial of speed of animals, vehicles, motor vessels or aircraft."¹³ The second duty, or "reduced scale," applied to other sports and games. The tax on racing under the full scale reached a rate of 100 percent on admissions of around a dollar, and on admission charges of above about 15 or 20 cents the tax rate was 70 percent or above. The reduced scale, applying to other sports and games, began at a level of 1s. (14 cents or 17½ cents). From 1s. to 1s. 5d. (about 20 cents or 25 cents) the tax under the reduced scale was approximately 5.9 percent. For amounts charged in excess of 1s. 5d. the tax under the reduced scale was 20 percent. The budget proposals eliminate the application of both of these tax scales to sports and games and instead tax all sports and games under a single new scale which in the words of the Chancellor of the Exchequer is "rather less than halfway between the present scales."¹⁴ Under this new scale, applicable both to racing and other sports and games, no tax is payable on admissions of 1s. or less (14 cents or 17½ cents); a tax of 1½d. is payable on admissions between 1s. and 1s. 1½d. (about 16 cents or 20 cents); and on amounts over 1s. 1½d. a tax of ½d. is imposed for every 1d. charged. This is equivalent to a rate of about 11 percent at the top of the first bracket and is a tax of 50 percent on amounts paid in excess of this bracket.

The budget also removes the exemption from the entertainment duty for nonprofit educational organizations with respect to "music hall and other variety entertainments."

The tax on admissions imposed by the Federal Government of the United States is 1 cent for every 5 cents or major fraction thereof, or roughly the equivalent of a 20-percent tax. There are, however, in some cases local United States taxes imposed on admissions as well.

The reductions under the United Kingdom racing tax are made effective as of March 30, 1952, and the increases in the tax on other games and sports are made effective as of August 31, 1952. It is estimated that these proposals in a full year of operation will cost about £250,000.

In the United Kingdom the motor-vehicle-license duty in the case of cars first registered prior to 1947 has been based upon the horsepower rating of the engines. Cars first registered since that time were charged a flat annual license duty of £10. The budget abolishes the old horsepower rating for cars registered prior to 1947 and imposes a flat fee of £12 10s. a year on all cars irrespective of when they were first registered. In terms of dollars, the old flat fee of £10 applicable to cars first registered in 1947 or since that time is the equivalent of \$28 or \$35, depending upon the conversion rate used. The new fee of £12 10s., applicable to all cars irrespective of when they were registered, is the equivalent of \$35 or \$43.75, depending upon the conversion rate used. For cars first registered prior to 1947 with more than 7 horsepower, the new fee represents a lower rate of tax than is now imposed. For all cars first registered in 1947 or since that time, as well as for cars first

¹³ Financial Statement, op. cit., p. 15.

¹⁴ Parliamentary Debates, op. cit., p. 1295.

registered prior to 1947 with 7 horsepower or less, the new fee represents an increase in tax. These changes are effective as of January 1, 1953, and it is anticipated that they will cost £850,000 in 1953 and £1,300,000 in a full year of operation.

A loophole is closed in the pool betting duty. The duty previously applied only to bets where "the winnings are determined by the amount of the 'pool' of stake money or by the division of some other amount among the winners, or where the winners or their winnings are to any extent at the discretion of the promoter or some other person."¹⁵ The budget proposal extends the scope of the duty to include any bet made otherwise than at "fixed odds." A provision is also added to cover cases where winnings are made partially in payments in kind. This change applies to bets made with respect to events taking place on or after March 22, 1952.

The budget also reduces the stamp duties on conveyances of property, other than stocks and bonds, where the sales prices are not in excess of £3,450 (\$9,660 or \$12,075, depending upon the rate of conversion). Previously the rate was 2 percent on the conveyances of such property where the amount exceeded £1,500 (\$4,200 or \$5,250). Under the budget proposal conveyances where the sales prices exceed £1,500 but do not exceed £3,000 (\$8,400 or \$10,500) the tax is to be 1 percent; where the consideration exceeds £3,000 but does not exceed £3,450, the tax is to be 1½ percent; and in cases where the consideration exceeds £3,450 the tax will remain at 2 percent of the consideration.

E. PURCHASE TAX

The Central Government in the United Kingdom imposes a wholesale sales tax called the purchase tax. This tax applies to a wide range of commodities, but certain basic necessities like food, utility textiles, and utility furniture are excluded from its application. Also, exemptions are provided for items like liquor and tobacco which are subject to heavy excise duties. The items subject to the purchase tax are classified into three groups which are taxed at rates of 33½ percent, 66½ percent, or 100 percent of the wholesale price.

The current proposals discontinue the existing utility exemptions for certain textiles, namely, the less expensive forms of wearing apparel (including footwear), cloth, domestic textiles, and soft furnishings and beddings. Instead the articles in these categories, whether utility or not, whose wholesale value does not exceed certain specified amounts are to be free of tax, and where the wholesale value of such articles exceed the exempt amount, they are to be taxable at existing rates on so much of the price as is in excess of the exemption. A detailed schedule of exemptions for various classes of textiles is available in the Financial Statement.

The Chancellor of the Exchequer in his budget speech points out that this change in the purchase tax was designed to remove an obstacle to the development of the export trade in the field of textiles. He points out that the exemption of certain utility textiles from the purchase tax has had the effect of hindering the development of a foreign market for textiles which are of a grade which is just above that of the utility items and therefore just subject to tax.

This arises from the fact that the main demand at home has been for utility grades, which have enjoyed complete tax exemption. An article which is just

¹⁵ Financial Statement, op. cit. p. 22.

too expensive to qualify as utility has had practically no sale at home because of the big jump in the retail price caused by the addition of the tax. But many such articles * * * would command a ready sale abroad, if there were also sufficient home demand to make their production an economic proposition.¹⁶

The budget also removes or lowers the tax on certain goods, "including such essential items as rubber boots, oil baize, and a wide range of industrial protective clothing."¹⁷ These articles were previously outside of the utility classification and thus were subject to the purchase tax. The budget brings them into the new textile classification and as a result they will be either nontaxable or taxed at a reduced rate.

The budget proposals also provide that garments trimmed with fur skin in the future are to be taxed at the 33½-percent rate instead of the 100-percent rate.

These changes in the purchase tax are effective as of March 17, 1952. The Chancellor of the Exchequer indicates that the alterations in the purchase tax are unlikely to raise any additional revenue this year.

F. POST OFFICE CHARGES

The budget indicates that increasing costs necessitate the raising of certain post-office charges in order to avoid a postal deficit. With respect to domestic mail, increased charges are imposed on letters weighing more than 4 ounces and on registered letters. Increases are also provided for mail going outside of the United Kingdom in the case of air-mail letters, post cards, commercial matter, and registered letters. Postal-order rates and inland parcel-post rates are also to be raised.

Telephone services which have been nationalized in Great Britain also are under the Postmaster General. Under existing law, in addition to various charges for having a telephone in his home, a subscriber pays a special 15-percent charge which is somewhat comparable to the United States excise tax of 15 percent on local telephone calls. Under the budget proposal this is raised to "approximately 50 percent." The "free call" allowance is also reduced from 100 every 6 months to 50 for every 6 months and certain increases are provided in the charges for telephone connections, removals, and transfers. In the case of certain special telephone services and telegraph service, an existing charge of 25 percent is made over and above various specific charges. This also appears somewhat comparable to the United States tax of 15 percent on telegraph service (formerly 25 percent) or 25 percent on long-distance telephone calls. These charges are increased to 50 percent, the same charge which is to apply in the case of ordinary telephone services.

The postal changes are made effective as of May 1, 1952, and those applying to telephone and telegraph service as of July 1, 1952. Apart from the parcel-post rate increases, it is estimated that the increases made in the charges for postal services and telephone and telegraph services will add £9,635,000 to revenues in the fiscal year 1953, and £13,795,000 in a full year of operation.

¹⁶ Parliamentary Debates, op. cit., p 1279.

¹⁷ *Ibid.*, p. 1280.

V. HISTORICAL RECORD OF RECEIPTS, EXPENDITURES, AND DEBT

Tables 12, 13, 14, and 15 contain certain financial data of the United Kingdom for recent years. Table 12 shows total budgetary receipts and expenditures of the Central Government with the resulting surplus or deficit; table 13, the Central Government's receipts by major revenue sources; table 14, the Central Government's outstanding net debt; and table 15, the gross national product.

TABLE 12.—*Receipts, expenditures, and the surplus or deficit of the Central Government of the United Kingdom, fiscal years 1945-53*

[In millions of pounds]

Fiscal year ending Mar. 31—	Receipts	Expenditures	Surplus (+) or deficit (—)
1945.....	3, 238	6, 037	—2, 799
1946.....	3, 285	5, 649	—2, 364
1947.....	3, 341	3, 836	—495
1948.....	3, 845	3, 210	+ 635
1949.....	4, 007	3, 176	+ 831
1950.....	3, 924	3, 375	+ 549
1951.....	3, 978	3, 257	+ 721
1952 ¹	4, 440	4, 074	+ 366
1953 (estimated) ²	4, 661	4, 150	+ 511

¹ As contained in the budget message of Mar. 11, 1952, for the fiscal year ending Mar. 31, 1952.

² Including effects of proposed tax changes and taking into account the decrease in food subsidy payments of £160 million and the increase in assistance and pension payments of £80 million.

TABLE 13.—*Receipts from major sources, Central Government of the United Kingdom, for fiscal years 1945-1953*

[In millions of pounds]

	1945	1946	1947	1948	1949	1950	1951	1952 ¹	1953 ²
Income taxes.....	1, 390	1, 430	1, 232	1, 281	1, 465	1, 553	1, 525	1, 818	1, 927
Profits taxes.....	510	466	357	289	279	297	268	307	457
Death duties.....	111	120	148	172	177	190	185	180	175
Customs.....	579	570	621	791	823	813	905	1, 000	1, 044
Excise and sales taxes:									
Stamp taxes.....	17	25	38	56	56	51	54	62	58
Motor-vehicle duties.....	30	43	49	49	53	56	61	65	64
Excises.....	497	541	564	630	734	706	725	755	772
Total excise and sales taxes.....	544	609	651	735	843	813	841	882	894
Special contribution.....					80	20	5	3	2
Miscellaneous inland revenue duties.....	1	1	1	1	1	1	1		
Total tax receipts.....	3, 135	3, 197	3, 010	3, 269	3, 668	3, 687	3, 730	4, 190	4, 498
Miscellaneous receipts.....	103	87	331	576	339	237	248	250	163
Total receipts.....	3, 238	3, 284	3, 341	3, 845	4, 007	3, 924	3, 978	4, 440	4, 661

¹ Probable receipts as contained in the Financial Statement of Mar. 11, 1952, for year ending Mar. 31, 1952.

² Estimated, including effects of tax changes.

NOTE.—Figures are rounded and may not necessarily add to totals.

TABLE 14.—*Debt of the Central Government in the United Kingdom on Mar. 31*

[In millions of pounds]

	1945	1946	1947	1948	1949	1950	1951	1952
Net internal debt.....	21,237	23,373	24,967	24,168	23,672	23,612	23,729	23,694
External debt.....	1,269	369	767	1,555	1,595	2,190	2,192	2,166
Total net debt.....	22,506	23,742	25,734	25,723	25,267	25,802	25,922	25,860

TABLE 15.—*Gross national product of the United Kingdom at market value for the calendar years 1944 through 1951*

[In millions of pounds]

Year	Amount	Year	Amount
1944.....	¹ 10,155	1948.....	³ 11,924
1945.....	¹ 10,088	1949.....	³ 12,765
1946.....	² 10,117	1950.....	³ 13,485
1947.....	² 10,944	1951.....	³ 14,196

¹ National Income and Expenditure of the United Kingdom, 1947 (Cmd. 7371), H. M. Stationery Office. Compiled from tables 10 and 13.

² National Income and Expenditure of the United Kingdom, 1946-1948 (Cmd. 7647), H. M. Stationery Office.

³ Preliminary National Income and Expenditure Estimates, 1948-1951 (Cmd. 8486), H. M. Stationery Office.