

## Is the Implementation of First Personal Income Tax in England a Coincidence?

**Ibrahim ORGAN** (<http://orcid.org/0000-0003-4986-0805>), Pamukkale University, Turkey; e-mail: [iorgan@pau.edu.tr](mailto:iorgan@pau.edu.tr)

**Ali Gokhan GOLCEK** (<http://orcid.org/0000-0002-7948-7688>), Nigde Omer Halisdemir University, Turkey; e-mail: [aligokhangolcek@gmail.com](mailto:aligokhangolcek@gmail.com)

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### Extended Abstract

The necessity of the concept of the state and the transition to social life has emerged simultaneously. The emergence of States is the result of the embodying of security, justice and diplomacy needs. In this context, the provision of services by the governments has caused some financial and economic needs. Especially at the financing of public expenditures, states have also imposed several compulsory financial obligations to the public under the management of the sovereign power. Thus, since the emergence of the concept of state finance, individuals have faced taxation on themselves for financing public expenditures. Therefore, tax is a monetary financial obligation that is compulsive, final and unrequited for meeting public expenditures from individuals. As known, taxes are shown as the most important of the contemporary state incomes.

The development of the tax has been accelerated by the development of parliamentary institutions in England. In history, first with Magna Carta, which restricted the powers of the king in 1215, the opinion of “*there is no tax without representation*” emerged. Adam Smith, one of the forerunners of classical economics, has also found several definitions of taxation in his book *The Enrichment of the Nations*, published in 1776. Tax evasion and collection, a field witnessed by state-individual conflict throughout history, has been discussed many times. Serious rebellions, rebellions and even wars have emerged, especially at the point of its subject, addressee and ratio. From the first ages till today, the fairness of tax has been also another discussed issue. The subjects such as who is party liable to tax and on whom it should be reflected are discussed in the 18<sup>th</sup> century as well as today. Economist Anne Robert Jaques Turgot, who was France’s Finance Minister 1774-1776, said that the question of who should pay tax was not a simple question at the core; and that prices, profits, consumption and income are influencing the tax rate. Along with that, Turgot has initiated a reform of the tax system in France, keeping the rich landowners taxed. The English moralist Adam Smith, who lived in a similar period, also found evidence of taxation. The principles of economics, justice, certainty and suitability known as Adam Smith’s taxation principles are generally accepted in the literature. In line with these principles, Adam Smith analysed the period he lived and made suggestions in the context of the United Kingdom.

The 18<sup>th</sup> century is generally known as the period in Europe where political battles have prevailed, especially between Britain, France and Austria. In the wars known as the Seven Year Wars, the struggle of colonial and maritime superiority of Britain and France is the most remarkable. Britain has prevailed over these wars, conquered the French territories of Africa and America, and became the sole dominant

new trade channel in economic terms. But the most remarkable battle was the Seven Years War between 1758 and 1763. To meet the expenses of the Seven Years' War, Britain has had to put a new set of taxes on its colonies, with the intention of alleviating the burden of taxpayers in its own country. This situation pushed the current 13 colonies to unrest and resistance. In this context, the period of Adam Smith's life coincides with the last period of his economic wealth. Nevertheless, there have been profound strains in economic sense with the fight against colonies in America not going well and ultimately, the recognition of the independence of the United States in 1782. In this context, the introduction of new taxation in the UK has begun to be discussed.

Neumark defines income tax as a piece of advanced capitalism. Because before income tax received as simple and primitive, the true form of capitalism has gained with the internalization all over the world. The greatest reason for this was the fact that the detection, supervision and collection of an income tax in a modern sense required a more professional infrastructure than its predecessor. For example, it is possible to talk about modern income tax in the context of certain responsibilities, such as the ability to calculate income accurately, the accounting audit can be carried out, and the bookkeeping can be kept on a regular basis. As a matter of fact, in the UK, where the Industrial Revolution started first and developed faster than other countries, the income tax of the conjunctural movements tried to be spoken modern sense. Especially at the point of financing the 1799-1802 war against Britain by the United Kingdom, the income tax imposed during the year of the war began to be discussed and put into practice as a war.

In this context, the personal income tax imposed in England was adopted by William Pitt, the youngest prime minister of the UK history, in 1799. The impact of the war undertaken with Napoleon and the severe financial strains are significant in the background of tax imposition. Some historians have recorded this development as "the tax that beat Napoleon". Hence, it is possible to see the British income tax as a direct result of the huge fight against France. This tax, also known as the "*Aid and Contribution Tax*", has been provisionally set as legal status and used for short-term financing.

Just as in many European countries, the 18th-century British income system was almost exclusively in the fields of customs and trade. The Medieval taxation system of property and production that much was apparent that taxes on real estate and land, was tied to certain standards during the period in question, and became an ossified structure. The legal regulations for land and real estate taxes that have been implemented have opened the way for personal income tax. For example, to make the real estate tax more convenient and efficient, the members of the commission have separated the country territory and created small areas. A clerk and tax officer was assigned to each area to collect the tax. As seen, an accounting and a bookkeeping habit were formed spontaneously with this system. In addition to the land tax, in the Middle Ages, firstly the exportation and then the mercantilist discourse as well as the customs tax on the importation, thus financing the public expenditures.

The fact that we can say the paradigm shift has emerged exactly at the beginning of the American war, since there was a condition that the introduction of new taxation for the financing of very large expenditures. First, Adam Smith, one of the leading economists of the time, offered a Dutch example and proposed taxing on rented property. However, in the period terms, those who made the most lease transactions were wealthy (propertied), and they were imposed a tax on their luxury consumption. In 1785, Prime Minister William Pitt actualised some reforms on taxation and went on to group taxation. However, during the same period the battles with France were lost and therefore the reforms made were insufficient. The financial structure of the UK failed despite all the reforms. Although various

financial plans were put into practice till 1796, there was no increase in tax revenues. With new taxes added, existing taxes were increased, but income tax remained as an untaxed area. It is precisely from this date that the idea of taxing the wealth of individuals has begun to be seriously debated. But this has not become as sharp and easy as it is today.

Many those were claiming that a new property-based tax - preferring luxury goods- rather than an income tax should be taxed for the most suitable goods for taxation during wartime. The seriousness of the situation was understood with the new fiscal plan prepared by William Pitt during the 1797 budget meeting and necessary ground for income tax has been established. Ultimately, in 1799, the first modern income tax was introduced in England. However, this tax, temporarily imposed because the state of war, was abolished in 1802 from the end of the war with France. When the financial situation worsened due to war again the following year, the Prime Minister Henry Addington had to accept the one-off income tax in 1803.

The reason why the personal income tax, which is a modern first meaning in the study, entered into force in the United Kingdom has been evaluated considering the conditions of the period. The focus of the work was constituted by the historical dimensions of the personal income tax, a fruit of capitalism, and the modernization process. As a result, we have focused on the idea that the application of income tax in the UK is not a coincidence, but rather a result of a more conscious strategy.

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