

# THE ROLE OF INCOME TAX IN THE GENESIS OF THE TAX PROFESSION

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## Abstract

This paper has two main aims: first, to show how and why, from a functionalist perspective, income tax, especially after 1842, contributed to the development of the accounting profession; and, second, to show how, by this, the seeds of a specialist tax profession were sown. It examines the nature of the legal and commercial difficulties associated with income tax as revealed by the academic literature, then goes on to use newspaper and other press reports and articles to show how accountants were involved in helping to resolve such difficulties on a day-to-day basis. It does this for a key period of development for both income tax and the accounting profession: between 1798 and 1900. The examination of press materials reveals that accountants' involvement in income tax not only helped towards the development of the profession, but, arguably, drove the development of accounting principles and sowed the seeds for a more specialist tax profession to emerge.

**Keywords:** Income Tax, Accounting Profession Development, Tax Profession Development, Newspaper Reports/Articles.

## INTRODUCTION

The introduction of income tax is listed by Parker (1986) as one of the founding influences in the development of the accounting profession in nineteenth century Britain, along with “the growth of large-scale organizations, and in particular, the railways; the development of the limited liability company; [and] the high rate of insolvencies” (p. 5). As he comments (1986), in a world where there had been predominantly only small owner-managed businesses and no income tax was applicable to commercial profits, there was “little demand for outside accounting services” (p. 4). Parker (1986) also comments that “British accountants have seldom been slow to offer new services as a demand arises” (p. 42),<sup>2</sup> suggesting that their early involvement in bankruptcy work meant that they gained knowledge of how to deal with statute and case law that was easily transferable to tax, along with the skills “to apply the law to particular problems and to express the results in figures” (p. 41). Lawyers, as an older established profession, lacked the same incentive to pursue new work opportunities and were often not numerate (ibid). Parker (1986) points out that the “first standard text” (p. 7) was published by accountants in 1895, later identifying this (p. 40) as *A Guide to Income Tax Practice* by A. Murray and R. N. Carter (London, England: Gee and Company Ltd), although as this paper later reports, there does appear to have been an earlier, more specialist work, likewise written by an accountant. Lamb (2001) also draws attention to this issue, citing Macve's (1994) view that tax and accounting conventions interacted to make the concept of

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<sup>2</sup> An exception was cost accounting, as it was aligned with trade rather than public practice (Parker, 1986, p. 42). This trend continued into more modern times. For example, Dezalay (1991) comments that, in the twentieth century, lawyers did not take on tax law consultancy work in Europe, although it fell theoretically into the legal domain, and as a consequence, it “was progressively appropriated by accountancy firms” (p. 795).

income tax workable practically, and noting that tax influence has been considered as (i) a “cause of accounting theories and source of calculative technique”; (ii) a “negative influence on the development of commercial accounting practices”; and (iii) a “body of law or practice that was (essentially) separate from accounting” (Lamb, 2001, pp. 275-276).<sup>3</sup> Frecknall-Hughes (2015) has shown that accountants were not slow to colonise the new work domain offered by income tax and that this type of endeavour was regarded as “proper work” for their emerging profession (p. 46). Tellingly, Anderson, Edwards and Chandler (2005) cite the 1894 example of “Mr A. C. W. Rogers, who enquired [of the Institute of Chartered Accountants in England and Wales (ICAEW)] whether he could add the words ‘Income Tax Adjustment Agency’ to his sign” as a chartered accountant (p. 43). The ICAEW denied the request, as it did not think agency was a fitting work concept for an accountant, but was happy with the idea of income tax.

This colonisation by accountants of the income tax domain as part of their “proper work” was what Abbott (1988) refers to as an expansion of “cognitive dominion by using abstract knowledge to annex new areas, to define them as their own proper work” (p. 102) and plays a crucial role in the development of a profession. Abbott (1981) actually suggests, as a working definition of a profession<sup>4</sup>, that it is “an exclusive occupational group marketing a specialized skill based in some way on esoteric knowledge” (p. 820). There seems to be a common acceptance that knowledge and skill play important roles in all professions, even if that acceptance is inherent (Morris, Crawford, Hodgson, Shepherd, & Thomas 2006; Saks, 2012). Abbott later goes on to say that the occupational group applies “somewhat abstract knowledge to particular cases” (1988, p. 20) and that “[f]rom time to time, tasks are created, abolished, or reshaped by external forces, with consequent jostling and readjustment within the system of the professions” (1988, p. 33). Much has been written on the development of professions and reference to what (incipient) professionals actually do in their day-to-day jobs is important from the functionalist perspective of a profession. The functionalist perspective is of particular relevance for this article, as it “attends to professions as integrated communities whose members undertake highly skilled tasks that are crucial for the integration and smooth operation of society” (Willmott, 1986, p. 557).<sup>5</sup> However, the importance of, and interaction between, the legal, economic, and political environments as the context for professional development must not be ignored (Maltby, 1999; Stacey, 1954; Walker, 1995; West, 1996; Willmott 1986).

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<sup>3</sup> See footnote 6, citing variously, Napier (1996), Watts and Zimmerman (1979), and Edwards (1976, 1989).

<sup>4</sup> Providing a definition of a profession capable of universal acceptance is an impossible task, and to attempt to do so is “to invite controversy” (Cogan, 1955, p. 104). Abbott (1981) commented that, were he to begin with defining the concept of a ‘profession’, “it would keep us from ever reaching the matter of interest” (p. 820). Many would contend that it is pointless to try to define a profession (Johnson, 1972, cited in Saks, 2012, who points to Sciuilli, 2010, and Brante, 2011, as notable exceptions).

<sup>5</sup> Willmott (1986) discusses three perspectives on professional development: critical, functional, and interactionist. The critical perspective sees the “emergence of professional bodies ... as a means of achieving collective social mobility by securing control over a niche within the market for skilled labour”, and is a “strategy for controlling an occupation, involving solidarity and closure, which regulates the supply of professional workers to the market”, also allowing a basis for domination of other bodies and associations operating in the same or a similar work domain (Willmott, 1986, p. 558). Interactionism, on the other hand, looks at professions “as interest groups that strive to convince others of the legitimacy of their claim to professional recognition” (Willmott, 1986, p. 557). Willmott (1986) goes on to suggest that “before the early 1970’s ‘functionalist’ and ‘interactionist’ perspectives were dominant”, but since then a “more critical approach has developed which draws heavily upon the work of Weber and Marx” (p. 557). As has been argued elsewhere (see Frecknall-Hughes, 2016), it is feasible to look at these perspectives as “successive phases in professional development. For example, striving to claim professional status and recognition (interactionism) might be followed by a critical and then a functional phase or, indeed, they might be synchronous” (Frecknall-Hughes, 2016, p. 134).

The purpose of this paper is twofold. It aims: (i) to examine how and why, from a functionalist perspective, income tax, especially after 1842, contributed to the development of the accounting profession, by reference to the legal and commercial environments prevailing at the time; and (ii) to show how, by this, the seeds of a specialist tax profession were sown. The remainder of the paper is structured as follows. The next section considers the introduction and development of income tax, and is followed by sections detailing contemporary legal and commercial issues which have been identified in academic literature as driving the need for professional help. A discussion of the methods used to obtain data (contemporary press materials) then follows and, afterwards, an exploration of the data obtained to address the purposes of the paper is provided. The final section offers concluding remarks.

## BACKGROUND

The UK income tax was introduced in 1799 to fund war with Napoleonic France. It was repealed in 1802 but reintroduced by Addington in 1803, amended considerably in 1806, repealed again in 1816, and introduced once more in 1842, with the 1842 reintroduction mirroring the 1806 legislation (see, for example, Seligman [1921] for an extensive discussion of the tax's development). After 1842, income tax remained as a permanent tax, although it was nominally classed as temporary and had to be reimposed every year. The 1842 reintroduction by Sir Robert Peel was to help government finances through a period of difficulty following reforms of indirect taxes and Gladstone had originally intended to abolish it in 1860, as indicated in his 1853 Budget. However, after the Crimean War (1853-56), it became clear that income tax would not be abolished. The justification for its retention (Daunton, 2001, p. 167; Sabine, 1966, p. 90) was the abolition of the excise on paper and the import tariffs that remained in force at the time (Stebbing, 2009; St John, 2010, p. 96). Gladstone was, however, still calling for the abolition of income tax in 1874 (Sabine, 1966, p. 116).

The UK had been accustomed to a wide variety of different taxes up until 1799, both direct – on carriages and riding horses, on land, and on windows – and indirect – customs duties on imports (tea, rum, wine, tobacco, and raw silk); excise duties on goods produced domestically (coal, candles, salt, beer, malt, and printed cloth); and stamp duties (on newspapers, bills of exchange and fire insurance). There were also death duties – probate, legacy, and succession duties, and settlement estate duty (see Lamb, 1997, p. 196; O'Brien, 1988, pp. 9-10). Lamb (1997, p. 196) also comments that there had been many experimental taxes by the late eighteenth century, including taxes on certain kinds of income, such as the *aide* of 1692, which taxed “*inter alia*, income from certain non-mili[t]ary office and income from merchandise and goods”. The idea, at least, of tax on income was not new, with Sabine (1966) seeing it as “a gradual development” of “the theory and practice” of the past (p. 25). The basic problem with taxing income, however, was that income was seldom visible or recorded and, in the case of business profit, was not easily calculated (see later). Property that was visible and immovable was thus easier to tax – and some of it (such as land, windows, houses, carriages, horses, etc.) was, indeed, a reasonable proxy for determining who was wealthy and therefore able to pay: expense and/or consumption were thus taxed because of these visibility and calculation problems. As Adam Smith commented (1904/1776), “[t]he state not knowing how to tax directly and proportionately, the revenue of its subjects, endeavours to tax it indirectly by taxing their expence, which, it is supposed, will in most cases be nearly in proportion to their revenue” (p. 399).

The 1799 tax required a (self-assessment) return of total income, with an applicable tax rate of 10% on income in excess of £200 per annum. Income between £60 and £200 was taxed at a graduated rate, from 0.83% up to 10%; income below £60 was not taxed. Numerous deductions/allowances were permitted for children, annual interest/annuities payable, and life assurance premiums and assessed taxes paid. The Schedules and Cases introduced in 1803 by Addington were designed to compartmentalise tax, so that sources could be kept separate and overall income totals would remain unknown, other than to the taxpayer. Addington also introduced deduction of tax at source, notably on Schedule A rent and Schedule C income. By 1842, the various Schedules and Cases charged tax on: annual produce from land and buildings (Schedule A); farming profits (Schedule B); and annuities payable from public revenues (Schedule C). Schedule D and its Cases dealt with: any income, annual profit/gains not otherwise taxed arising from any trade, manufacture, adventure or concern in the nature of trade; income and/or annual profit/gains from professions, employments or vocations; profits of an uncertain annual value, not charged in Schedule A (rent); interest on securities relating to British dominions, and from overseas (unless assessed under Schedule C); and annual income/profits/gains not falling under the above rules and not charged anywhere else. Schedule E taxed charges on income from certain offices, employments, annuities, and pensions (see Lamb, 1997, p. 207 and pp. 265-266). *The Illustrated London News* (10 May 1842) notes, in an article titled “The Income-Tax, with All Its Most Obnoxious Clauses...”, how unpopular Sir Robert Peel’s 1842 reintroduction of the tax was, and says that it “will, ere long, be regarded with universal loathing” (p. 10). It was, however, greeted with far less opposition than Pitt’s tax, which did not raise the expected amount of revenue and was easily avoided/evaded (see Cousins, 2018).

## THE LEGAL AND COMMERCIAL DIFFICULTIES

### Legal Difficulties

Given the societal constraints of the late eighteenth and nineteenth centuries, which lacked the instant communication media to which we are nowadays accustomed, making members of the general public aware of new tax obligations represented great challenges. Stebbings (2009) comments:

The accepted deal was that the primary legislation be sufficiently intelligible to enable [taxpayers] to familiarise themselves with the safeguards the law provided for them and to allow them to invoke them if necessary. They should be able to find out the nature of the charge to tax and whether it applied to their own situation or not. If aggrieved by an assessment or other decision of the tax, they should be able to ascertain whether they had a right of appeal and, if so, how to set about putting it in motion (p. 147).

She comments further that, before the Victorian era, tax legislation was physically “inaccessible to the ordinary taxpayer”, although “educated propertied and professional classes” had access to statutes, as “some were published and others privately copied and distributed” (Stebbing, 2009, p. 40). She cites the example of a paper manufacturer in 1835 who wanted to see the (excise) laws which affected his trade, which neither he nor his agent could access or obtain, with the taxpayer eventually having to go to the Record Office “to copy them out” (Stebbing, 2009, p. 148). Much of this continued into the Victorian period (Stebbing, 2009, pp. 146-152) when, in many respects, things just got worse. Copies of statutes, though often incomplete, could be found in libraries and reading rooms, and

newspapers – both national, such as *The Times*, and local – reported on new legislation, carried relevant articles and correspondence, and detailed tax cases.<sup>6</sup> Often, items first appearing in a London newspaper would be repeated or reported in a regional newspaper (see later), which was one way of disseminating important materials. As well as being physically inaccessible, the legislation was intellectually inaccessible, as the whole of the law might not be contained in one particular Act, and provisions were complex, lengthy, illogically ordered, and archaically expressed, and “the intellectual preserve of the lawyers” (Stebbing, 2009, pp. 40-41). These kinds of difficulties were evident too in the kinds of forms the taxpayer needed to file, with Form 11, the return for commercial income in the mid-1800s, “being notorious” in its complexity (Stebbing, 2009, p. 151). As Stebbing (2009) comments:

And in income tax ... the taxpayers realised the laws were “spread over a vast variety of statutes, extending to several reigns, and [requiring] a great knowledge of the statute book ... to know what the law is”.<sup>7</sup> A contemporary commentator observed that “[a]n Englishman is generally satisfied if he is quite clear what is the law, whether he likes the law or not, but now no Englishman is satisfied that he gets quite the right law in income tax matters” (p.152).<sup>8</sup>

Local tax tribunals, in the resolution of disputes, might provide taxpayers with some idea of how tax law worked in theory and practice, although the processes of appeal were often unknown, very difficult, and reliant on formal notices being issued and published – frequently by means of being affixed to church doors (Stebbing, 2009, pp. 157-158) – but even “well-informed commercial men, well into the twentieth century” (Stebbing, 2009, p. 159) remained ignorant and confused about the role, for instance, of the Special Commissioners.<sup>9</sup> The 1874 Customs and Inland Revenue Act introduced a right of appeal by way of case stated, which may have had significant impact (especially as regards depreciation – see later) (Stebbing, 1996, p. 616), but there was no entitlement to legal representation before Commissioners until the Taxes Management Act 1880 (Stebbing, 2009, p. 163), so individuals had to represent themselves, which was often a harrowing experience. Lamb (2001) reports the experiences graphically recorded in her diary by Jane Carlyle, the wife of the writer Thomas Carlyle, who in 1855 attended in her husband’s place to appeal before the General Commissioners against an income tax assessment made against him. She frequently refers to one of the Commissioners as “Rhadamanthus”.<sup>10</sup> The General Commissioners did hear her, despite her lack of standing – an issue which is clear throughout her account. Tax officials were often very unpopular, regardless of the tax involved. Basil Sabine (1995), himself a tax inspector, described the activities of a tax surveyor<sup>11</sup> called George White (one of his own forebears), citing the complaint of one William Fennell in 1818:

The villain White called and surveyed my windows and charged me two more than I ever paid. I remonstrated with him. He went away a short time and then returned with the most insulting language, calling me a son of a bitch and threatening he

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<sup>6</sup> Stebbing (2009, p. 40) cites the report of Pitt’s introduction of income tax in *The Times* on 4, 15, and 20 December 1798; 1, and 9 January 1799; and 15 March 1799.

<sup>7</sup> Citing Minutes of Evidence before the Select Committee on Inland Revenue and Customs Establishments, *HCPP* (1862) (370) xii 131, q. 500.

<sup>8</sup> Citing Minutes of Evidence before the Departmental Committee on Income Tax, *HCPP* (1905) (2576) xlv 245, q. 1967, per Arthur Chamberlain JP, representing the Birmingham Chamber of Commerce.

<sup>9</sup> Including Mr Chamberlain, as referred to in the above footnote (see Stebbing, 2009, p. 159, footnote 70).

<sup>10</sup> In Greek mythology, King of Crete and later one of the judges of the dead in Hades.

<sup>11</sup> Tax surveyors were the forerunners of tax inspectors.

would charge me with three more windows, which causes me to attend two more days upon the Commissioners when the last he put on was taken off (p. 2).

Appearing before Commissioners often meant loss of business. Jane Carlyle comments on seeing tradesmen whom she knew when she appeared on her husband's behalf. Tax officials were meant to be upstanding members of their communities. Mr White clearly was not. He was eventually dismissed himself, for tax evasion.

The above clearly shows that the average member of the public, even if an educated individual, might struggle with dealing with tax obligations. Stebbings (2009) comments:

Such was the complexity and technicality of tax law and practice that the need for expert advice and assistance was self-evident. There were a number of sources of such advice, namely the clerk or other subordinate officials of the local commissioners, the surveyor, the central board itself, the members of the legal profession and the emerging accounting profession (p. 168).

Poorer individuals might rely more on tax officials, like the assessor, clerk, or surveyor, while wealthier ones would seek advice from their solicitor (Stebbing, 2009, pp. 168-173), but "the wealthier traders and companies made use of accountants both for advice and to negotiate with the surveyor directly and attempt to arrive at some kind of settlement" (Stebbing, 2009, p. 173). Although accountants did not supersede solicitors as tax advisers during the Victorian period, they gradually took on more work, especially commercial work, which ensured that they held a dominant position after World War I (ibid; Wyn Griffith, 1949, pp. 40-41). Frecknall-Hughes's (2015) study, referred to earlier, has likewise shown that accountants were not slow to colonise the new domain offered by commercial tax work (as "proper work" for the developing accountancy profession). If lawyers were still acting as tax advisers during the Victorian period, in which areas were they involved? Given that taxation falls into the "border territory" between law and accountancy (Freedman & Power, 1992, p. 1), one might expect to see evidence of their involvement in tax, but this remains a largely under-researched area. Frecknall-Hughes (2015) notes that lawyers had long been involved in particular kinds of tax work:

... especially in terms of dealing with death and so on (for example, probate duty had been introduced in 1694, with succession duty and estate duty appearing in the mid- to late 1880s). This was usually and clearly linked to the need for a solicitor when a will was made. The full extent to which the legal profession colonised the newer areas offered by income tax remains to be investigated. Logically, lawyers might be expected to be less proactive than accountants, as their role is typically played at the end of a process, for example, when dealing with a person's estate or when a matter is referred to court ... [absorbing] the additional work as something akin to their existing roles as advocates ... (p. 54).

As tax was imposed by law, it would fall automatically into the domain of lawyers, who, as a long-established profession, did not have the same struggle to establish a work domain as accountants. The legal professional bodies (the Law Society and the Bar Council, founded in 1825 and 1894 respectively) did not "drive the professional development of the legal profession itself or determine its legitimacy, in the same ways as establishing professional bodies validated the accounting profession ... [being] more a recognition of a status quo" (Frecknall-Hughes, 2015, p. 53). Possibly, given their involvement in different areas of tax work, there was less

potential for competition. Such competition as there was seems to have been in the area of insolvency and bankruptcy (see Walker, 2004). It is also quite possible that lawyers considered commercial tax work as socially inferior. The law was deemed a fitting profession for the “spare heirs” of aristocratic families, and solicitors had a long history of dealing with landed estates,<sup>12</sup> so the social stigma and “taint” of trade may have thus deterred them (Frecknall-Hughes, 2015, pp. 53-54; Frecknall-Hughes & McKerchar, 2015, *passim*). Given the present lack of detail on lawyers’ involvement in taxation matters (acknowledged by Frecknall-Hughes, 2015, p. 54, as an area for future research), this paper thus concentrates on accountants’ involvement.

### Commercial Difficulties

Not only was the law difficult to find, understand, and apply, there was the added problem of ascertaining as to what it actually applied. The idea of “income” was problematic. Many writers had given considerable thought to the issue of taxing income. Jeremy Bentham, for instance, in *Tax With Monopoly*, an undated work, but likely to have been published somewhere around 1795, advocated charging taxes on bankers’ and stockbrokers’ profits. Such profits could be easily taxed because sufficient written records of transactions existed to enable them to be calculated, which was not the case for the profits of other traders, where “[t]he difficulty of ascertaining the profit and loss ... would be an endless source of evasion” (Bentham, n.d., p. 371). Bentham also addressed the subject in *Proposal for a Mode of Taxation*, where he also examined different types of income, which Dome (1999, p. 325) analyses as follows:

Property incomes (assured):

- rent from land;
- interest on money lent;
- government and personal annuities; and
- dividends paid by joint stock companies.

Industrial incomes (casual):

- profits from trade; and
- professional incomes.

“Income”, however, in terms of commercial profits, could prove an extremely nebulous concept, compounded by the fact that it was not always visible or recorded, which led to business profits frequently being estimated by tax officials (Lamb, 1996, p. 935; 1997, pp. 261-264). It also fluctuated. In *Tax With Monopoly*, Bentham also suggested dealing with the inequality between incomes by taxing industrial incomes at half the rate of property income. Stebbings (1998) comments on Adam Smith’s opposition to directly taxing commercial income, as to assess fluctuating income correctly, the assessment process had to be inquisitorial (p. 4). If commercial men opened up their books, it exposed their business and income levels to competitors, and could potentially damage their ability to raise capital. Keeping one’s financial affairs confidential (or secret) was a strongly defended liberty.

In the complex social attitudes of the eighteenth century, what a man appeared to be was at least as important as that which he actually was. In both business and

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<sup>12</sup> They would thus be familiar with aristocratic estates which had relatively predictable streams of income and with the difficult trust law problems that would arise in this context. As a consequence, solicitors might have had a natural tendency, for example, to become involved in Schedule A, as a tax particularly associated with land, but this is speculation and needs further research.

everyday life, patronage, connections, and in turn, credit, were all crucial to both professional and social advancement, and disclosure of one's true financial situation would leave no room for pretence (Stebbing, 1998, p.1).

It was also feared that financial disclosure might erode the accepted social hierarchy, reflecting fears about the possible effects of the French Revolution (*ibid*), and it would not be good for children to know if they were in line to inherit fortunes from their parents (Stebbing, 1998, p. 2).

The influence of the above is clear in Pitt's original tax of 1799 and, most especially, in Addington's 1803 deduction of tax at source and development of the Schedules and Cases applicable to different types of income, the latter particularly keeping separate the assessment of income from different sources, and thus ensuring confidentiality, as returns were made to different officials and no one official would know the full extent of anyone's resources (see Stebbing, 1998, pp. 7-8). The very short general return required by the 1799 tax (see Sabine, 1966, p. 28) was a concession to the widespread hostility felt against the tax, and further details of income and deductions were only required if the Commissioners were not satisfied with the general declaration of income (see also Cousins, 2018).

"Income" was difficult to define. The issues revolved round periodic accounting (relevant where income was assessable annually), the distinction between revenue and capital, and hence, the deductibility of items such as depreciation, and thus the value of assets. Harris (2006, p. 134) cites the summary of this by Yamey (1977, p. 22), when speaking of profit and loss accounts between 1500 and 1800:

The balance of a typical profit-and-loss account measured the change, from virtually all causes, in the recorded value of the capital in the business between the opening and closing dates. With few exceptions, the balances of all nominal accounts, the recorded profits or losses on all trading accounts (goods, voyages, etc.), the entries for the owner's additions to or subtractions from the resources of the firm, and the gains or losses on asset revaluations, were entered in (or cleared through) the profit-and-loss account. Or, to express it differently, during the accounting period, or at its termination, all account balances other than those of assets, liabilities or capital were cleared through the profit-and-loss account, the balance of which, in turn, was transferred to the capital account.

Yamey (1977, p. 23) identifies three main ways of dealing with asset valuations:

- (i) Carry forward the asset at original cost, with any payments or receipts (such as rents received from, and expenditure on repairs for, houses) entered into the asset account being transferred to the profit and loss account at the date of drawing a balance.
- (ii) Carry forward the balance on the asset account, without any such transfer as in (i) – so no debit/credit to the profit and loss account.
- (iii) Carry forward the revised value of an asset, after revaluing upwards or downwards at the date of drawing a balance, debiting or crediting the loss on revaluation to the profit and loss account.



A mixture of the above methods could be found in use by the same firm and sometimes for the same asset at different balance dates. Inconsistency was rife, with Yamey (1977) concluding that, in the seventeenth and eighteenth centuries, there was no “strict concept of periodic profit” with realised and unrealised profits, business and non-business costs, and both revenue and capital items being found variously in profit and loss accounts (p. 24). Harris (2006) comments that the sixteenth and seventeenth centuries also showed “diversity of practice”, and that there was “clearly no uniform concept of what [was] ‘profit’ or ‘income’ at this stage let alone any consistency in how to calculate it in practice” (p. 135). Harris (2006) also remarks that even the establishment of chartered companies did not have an impact on accounting practice (p. 135), although it did give rise (p. 133) to an embryonic need to identify profits (in excess of capital), in order to pay shareholders dividends as returns on their investments. This, in turn, engendered a requirement to draw up, if not annually, at least periodically, a profit and loss account to determine how much profit was available to distribute.

Stebbing (2009) notes the “profound economic and social changes in the fabric of national life” that transformed Britain from the beginning of the Victorian era into “the leading industrial nation in the world”, with great strides forward being taken in: communications, via the development of roads and canals; overseas trade (with America, India and the Far East); and the coal, iron and cotton manufacturing industries (p. 7). This all resulted in a “new fund of commercial wealth” (ibid). It was noted earlier that, in addition to income tax, Parker (1986) attributed the development of the accountancy profession to the “growth of large-scale organizations, and in particular, the railways; [and] the development of the limited liability company” (p. 5). These two influences had implications for income tax, as “[t]hey stimulated, in some case, for the first time, discussion about such accounting questions as the distinction between capital and revenue, depreciation, professional audit, uniformity vs. diversity, and disclosure to shareholders and the general public” (Parker, 1986, p. 6). The Joint Stock Companies Act of 1844<sup>13</sup> established a new requirement for the filing of information annually with the Registrar of Companies (see Napier, 2010; Parker, 1986), and also allowed incorporation by means of registration (instead of by Act of Parliament or Royal Charter), with limited liability being added in 1855 (ibid) which led to a growth in the number of limited liability companies – 1,000 by 1858, 2,000 by 1864, 8,692 by 1884, and 18,361 by 1894 – many of which were dissolved very soon after formation (see Parker, 1986, pp. 9-11).

The business of railway, coal, iron/steel, and other manufacturing industries required considerable investment in infrastructure for laying track and digging tunnels and cuttings etc., sinking pits, or in heavy machinery, all of which was expensive. In addition, heavy machinery wore out and needed to be repaired or replaced, while pits became exhausted. This generated considerable problems, particularly with regard to how to deal with depreciation, obsolescence, and wasting assets and buildings, for both accounting and income tax purposes, driven by “the introduction of an annual tax on business profits” (Edwards, 1976, p. 301). There were no rules about how to calculate allowable deductions, either in accounting or in taxation – and even “income” was not defined in the income tax acts (Daunton, 2001, p. 307). Edwards (1976) notes that the fact that England introduced income tax so early “precluded the possibility of any effective contribution from the accounting profession” (p. 302): there were only 11 accountants recorded in London in 1799, with possibly 600 existing in total throughout England and Wales at this date (Stacey, 1954, p. 17), a small cohort, whose numbers increased

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<sup>13</sup> It is significant that the Joint Stock Companies Act of 1844 came two years after the Income Tax Act of 1842. This meant that corporate income tax was developed within a legal infrastructure that had not anticipated modern company law – and, as a corollary, possibly brought more work to accountants as the developing body of corporate accounting and tax experts.

significantly during the mid-1800s (see also Brown, 1905, pp. 232-235). “Therefore, in the absence of any readily available figure for business profit, the tax authorities were obliged to introduce their own rules” (ibid), which was supportable in so far as income tax was just a temporary measure, but not so when it became permanent, effectively, in 1842. The 1842 Income Tax Act allowed for “repairs or alterations” but not depreciation – which led to certain Commissioners (often local businessmen themselves) being willing to accept accounts “which included an unconcealed charge in respect of depreciation” (Edwards, 1976, p. 303) or to allow renewals or replacements to be interpreted as repairs or alterations. It was not until 1878 that the Customs and Inland Revenue Act allowed a deduction for “wear and tear”, after a series of court cases and lobbying, especially by “[t]he prominent accountant, company promoter, and Member of Parliament David Chadwick” (Lamb, 2002, p. 108; see also pp. 141-142), whose concerns that income tax was rendered inequitable because of the lack of a depreciation allowance are reflected in the Parliamentary debates (see Lamb, 2002, p. 108). “Wear and tear” did not cover depreciation (as we understand it currently), so legal cases continued after the 1878 Act.

Lamb (2002, pp. 129-130) discusses seven key cases in depth, namely *Re Addie & Sons* (1875), *Forder v Andrew Handyside and Company, Limited* (1876), *Knowles (Andrew) and Sons Limited v MacAdam* (1877), *Coltness Iron Company v Black* (1879 and 1881), *Caledonian Railway Company v Banks* (1880), *Burnley Steamship Company v Aikin* (1894), and *Leith, Hull, and Hamburg Steam Packet Company v Bain* (1897). The main issues were: depreciation (over their useful lives) of industrial buildings, fixed plant and machinery, or assets used in the trade (such as railway rolling stock or ships); and how to deal with the costs of pit sinking and the reduction in mine value or pit workings through coal or mineral extraction – the latter two issues featuring in the *Knowles* and *Coltness* cases. Claims were extremely rarely allowed, but in *Knowles*, the costs of working a mine were allowed. However, this was effectively overruled in the 1881 *Coltness* case, in which the House of Lords disallowed the cost of making a mine (see Frecknall-Hughes, 2015, pp. 48-49), casting considerable doubts on the *Knowles* decision.

David Chadwick was one of the directors of *Knowles*, and had represented the company at an appeal hearing before the Special Commissioners (Lamb, 2002, p. 136). He explained depreciation in terms of deterioration/diminution in the value of property at the end of a year compared with worth at its beginning, with Cleasby, B. accepting that Mr Chadwick was an expert in such matters (Lamb, 2002, p. 140). It is difficult to estimate the overall influence of David Chadwick, but his commercial experience was undoubted. Baldwin and Berry’s (1999) examination of the accounting practices of four coal/iron companies between 1864 and 1900, among them those concerning depreciation, capital accounting, and revaluation, include three companies (Staveley Coal and Iron Company; Sheepbridge Coal and Iron Company; and Bolckow, Vaughn and Company Limited) in which Chadwick was heavily involved. Staveley was the first he set up, and the others were formed by a consortium led by Alderman Henry Pochin, to which Chadwick provided technical expertise, and which was “to form a dozen or so companies in iron, steel and coal between 1863 and 1867” (Baldwin & Berry, 1999, p. 85), with Chadwick’s accounting firm being usually appointed as the first auditor, with one William Armstrong, an engineering consultant, regularly engaged to advise on valuation of capital assets and on accounting for capital acquisition and depreciation. Chadwick (1821-1895) had an unusual and distinguished career. Baldwin (1994, p. 4) reports that he was a founder member of the London Institute of Accountants, first president of the Manchester Institute of Accountants, and one of the first council members of the ICAEW, as well as being involved in the formation of at least 47 companies, including those with Pochin’s consortium. From 1868 to 1880, he was a Member of Parliament, specialising in matters to do with company law reform

(see also Cottrell, 1984; Edwards, 1992; Edwards, Boyns, & Anderson, 1995; Maltby, 1998). Sabine (1966) comments on another MP, William Chadwick, running an accounting firm concerned, in 1871, in “the auditing and making the Income Tax Returns of upwards of forty or so manufacturing and mercantile concerns, including some of the largest establishments in the country” (p.107)<sup>14</sup>, and also names J.E. Coleman, an accountant (p. 86), as an expert giving evidence to the 1861 Select Committee in Income and Property Tax in 1861 (the Hubbard Committee). Accountants were starting to make their mark in tax matters.

## RESEARCH METHODS AND DATA SOURCES

As indicated earlier, the purpose of this paper is twofold: (i) to examine how and why, from a functionalist perspective, income tax, especially after 1842, contributed to the development of the accounting profession, by reference to the legal and commercial environments prevailing at the time; and (ii) to show how, by this, the seeds of a specialist tax profession were sown. The academic literature reviewed shows that expert advice was required in order to implement income tax and reveals a great variety of commercial problems associated with the tax, by reference, chiefly, to legal cases, sets of financial statements, and Parliamentary material, although some press material is occasionally referenced. Frecknall-Hughes’s (2015) study has shown that accountants were not slow to colonise the new work domain (as “proper work”) offered by income tax, by reference to material in the professional journal, *The Accountant*. One aspect that has not been considered is what might be termed the ordinary and everyday aspect, that is, the one revealed by contemporary press reports. As Bougen, Young and Cahill (1999) say:

There is a considerable temptation to forget that most people neither read this [academic] literature nor do they attend academic conferences, much less are they privy to discussions in the council chambers of the profession. For many people their understanding of who accountants are; of what they do; and of what they should do is much more likely to be shaped and indeed modified by more common means and through more informal interaction (p. 443).

They refer particularly to the press. Press reports provide insight into concerns about the effect of tax in everyday life, and the prominence and importance of various tax issues and the debate about them – and, relevant to the purpose of this paper, what accountants were doing in this context on a day-to-day basis. These issues are not often considered. There are some instances of this in respect of accounting practices (Hopwood, 1994; Maltby, 1998), but Lamb’s (2001) study looking at the effect on Jane Carlyle is one of the few instances of a consideration of the contemporary effect of tax issues on an ordinary person, as evidenced by the provision of an individual’s diary. Not everyone would keep such a record and, if he/she did, the chances of it surviving would be rare, but press reports provide a valuable source of everyday material. Press reports provide a contemporary lens through which to see how both ordinary and high-profile individuals dealt with, even progressed, taxation matters in daily life. They show the human face of taxation and they provide contemporary source material of a different kind in support of Parker’s (1986) contentions about the role played by income tax, and practical examples of how (as per Abbott, 1988) accountants expanded their cognitive domain.

The materials used to address the aims of this paper were drawn from the British Library newspaper databases, either directly or via the library subscription databases provided by Gale,

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<sup>14</sup> This is a direct quote from Hansard 19/V/1871.

containing primary source material for 1600-1900. The databases (which can be searched using search terms) contain the archives of London-based newspapers, such as *The Times* and the *Illustrated London News* etc., as well as city- and region-specific ones, as well as publications such as *The Economist* and various seventeenth, eighteenth, and nineteenth-century periodicals.<sup>15</sup> The period examined for this paper was confined to 1798-1900, which covers the years from the introduction of the first income tax, the 1842 reintroduction, and the early years of the development of the accounting profession, up to some 20 years after the granting of its charter to the ICAEW in 1880. A variety of different, tailored search terms was used to locate relevant articles, such as “income tax” in conjunction with “accountant”, “Schedule D”, “Schedule B”, “depreciation”, “inconvenience”, “inefficiency”, “inequity”, “unpopularity” and “David Chadwick”. The use of “income tax” alone would find thousands of items and would not be sufficiently specific. The use of tailored search terms such as these establishes a priori themes for discussion and analysis, but the terms themselves are sufficiently wide to enable other themes to be picked up which may not have been initially identified, as a number of related, different topics might be discussed within the press articles found. Many hundreds of press items were found, and all were read and appropriately categorised, with some of the most illustrative being used in the next section to evidence accountants’ involvement in the legal and commercial (tax) difficulties identified earlier in the academic literature. While the search was thorough, it is not claimed to be exhaustive. However, a saturation point was reached, identifiable when the different search terms were finding the same press items. For example, “income tax” and “depreciation” would bring up a number of items about David Chadwick. Some terms were followed up as “stand-alone” searches. For instance, searching for “David Chadwick” would find not only his involvement in tax/depreciation matters, but evidence of his wider activities as an MP.

## THE PRESS REPORTS

### Legal Difficulties

The legal complexity and practical difficulties in applying the income tax statutes were acknowledged at the highest level. The Chancellor of the Exchequer, in a piece titled “The Chancellor of the Exchequer on the Income Tax” in the *Derby Mercury* for 28 February 1872, is reported as saying that:

there was enormous room for practical improvement in the working of the tax. There was hardly an act on the statute book so clumsy and difficult to understand as the income-tax – (laughter), – and nothing was more wanted than a proper re-writing of that act, so as to make [it] intelligible and easily read. Its extreme complexity was proved by the fact that they had so many bodies to work it. ... T]he real difficulty was that the tax was always regarded as a temporary tax.

Accountants were allowed, in early years, to advertise their services and actively sought out tax business on the basis of their expertise to help resolve taxpayers’ difficulties. *Freeman’s Journal and Daily Commercial Advertiser*, an Irish paper, carried an advertisement a number of times in the 1860s for the services of one Mr Mahony, of which the example reproduced below, for 10 August 1863, is typical:

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<sup>15</sup> Articles are very rarely attributed to specific authors and sometimes lack titles. The references for the press articles are given in a separate section at the end of the paper. The references given are those provided by the databases on accessing the items.

INCOME TAX—  
IMPORTANT REDUCTION.

By the New Act (26<sup>th</sup> Victoria, cap. 22) A DEDUCTION OR ABATEMENT of the assessment to the extent of the duty chargeable on £60 is allowed on all net incomes ranging from £100 to £200 per annum.

Incomes over £200 per annum are subject to the FULL TAX.

Net Incomes under £100 WHOLLY EXEMPT.

To obtain Remission, secure and equitable assessment, or derive the full advantage of the deductions allowed by the recent act, consult without delay

C. R. MAHONY,  
PUBLIC ACCOUNTANT AND ACTUARY,  
MERCANTILE CHAMBERS,  
66, CAPEL-STREET, DUBLIN

Hours of ATTENDANCE FROM 7 TO 9 O'Clock EVERY EVENING,  
Saturdays excepted.

Communications from the country, enclosing stamps or Post Office Order for Five Shillings replied to by return of post.

OPINIONS OF THE PRESS.

The extensive experience of Mr Mahony in the preparation of the several returns connected with this branch of public finance will be found peculiarly valuable.—*Irish Times*.

In the preparation of the necessary data on which adjudication is based, Mr. Mahony, from his enlarged mercantile experience, has been found highly useful.—FREEMAN'S JOURNAL.

Mr. Mahony had had *special experience* in this department, and without such help it is almost useless to appeal against the arbitrary assessments sometimes made.—*Catholic Telegraph*.

A marked success has attended the labours of Mr. Mahony as Income tax Accountant. In almost every instant in which the schedule returns have been prepared in accordance with his instructions the Commissioners have allowed the reduction or exemption claimed.—*Evening Mail*.

The advertisement gives details of the law, and advertises the location of Mr Mahony and his working hours – presumably evening hours allowed those who worked during the day to consult him, although he was also willing to deal with postal queries from those not in Dublin – and the testimonials provided from other newspapers stress his mercantile experience (he knew about trade), as well as his successful experience in completing returns and in dealing with “arbitrary assessments” from the Commissioners. The advertisement also makes clear that the latter are difficult to deal with without expert assistance. A less fulsome advertisement is found in the Advertisements & Notices of the *Western Mail*, on 7 June 1870, for the services offered by “W. R. CRUMP (Late Surveyor of Government Taxes), ACCOUNTANT” in Bristol, in preparing “INCOME-TAX CLAIMS, &c.”. Similarly, the *West Surrey Times* for 1 November 1856 advertises the services of “T. Lovett, Law Stationer & Accountant”, based in Guildford, for “Income and Property Tax Returns carefully filled up and Exemptions made out. Terms reasonable”.

An advertisement in *The Dart: A Journal of Sense and Satire*, a Birmingham periodical, on 11 September 1891, (p. 13, beginning “The grumblers at the unjust and vexatious assessment of the obnoxious Income Tax are legion...”) recommends a book by Mr James Rhodes, Chartered Accountant, of 34, Waterloo Road, titled *How to Get Over-Assessments Reduced*:

It is a valuable little work, lucidly written, and cannot do other than prove of great assistance to all who are called upon to pay excessive taxation, and more especially those who have cause to object to the over-assessing of their trade profits. It is full of useful information from cover to cover.

The book is advertised (price one shilling), but without any commentary, in several issues of *The Dart* throughout 1891, sometimes under the slightly different title of *How to Get Over-Assessments on Trade Profits Reduced*. In a letter to the editor in Correspondence in *The Economist* (9 June 1855, p. 622), “J. A. Franklin, Esq., Auditor and Accountant” advises of “methods on computing the income tax without the use of tables, which is followed by a letter from “T. J. W.” in Belfast outlining a preferred method of two possible ones “adopted by joint stock companies to collect from their proprietors the property tax due on their dividends”.

Some press articles gave great detail about what taxpayers should do, with practical examples. The *Leicester Chronicle*, for instance, on 23 July 1842 (p. 1, in an article titled “Important to Income-Tax Payers”) not only published the names of the local commissioners, but the full rules and requirements for the collection of income tax, and details of the income from trades, professions, employments, and vocations to which the tax applied, as well as details of deductions permitted and not permitted, with an example of the declaration which should be made. A similar such piece was printed under the title “More About the Income Tax” in the *Blackburn Standard* on 15 May 1880 (p. 2). The piece is specifically about Schedule D, C and E (which rules apply and to what) and sets out what is assessable for traders (including for trading partnerships), which types of business profits are subject to averaging and what is assessable for individual salary earners, including deductions allowed. The writer cites from “Mr. Long’s ... able ‘Guide to Matters relating to the Income Tax’ ” and although no date is given for the Guide, it must pre-date the 1880 date of the press article. However, the following is found in the “Multiple Classified Ads.” section of the *Lancaster Gazette Supplement* for 1 March 1873:

POPULAR GUIDE  
TO MATTERS RELATING TO THE  
INCOME TAX,  
INHERITED HOUSE DUTY, AND THE  
LAND TAX.  
By J. P. Long, Surveyor of Taxes.  
PRICE ONE SHILLING.  
On Sale at the “Gazette” Office.

Likewise, the press carried reminders about important dates, such as in the letter to the editor headed “Income Tax” in the *Morning Post* (1 April 1890, p. 2), from David Rodan, “late Surveyor of Taxes”, reminding those over-assessed for 1888-89 under Schedule D that they must notify their wish to appeal in writing to the surveyor no later than 5th prox., and must submit any claim for repayment for 1886-87 before 6 April or otherwise lose their repayment.

The press reports outlined above show that income tax law was clumsy and complicated – something admitted at the highest level by the Chancellor of the Exchequer – supporting Stebbings’s (2009) comments about its physical and intellectual inaccessibility, and about help being needed to apply it, especially in a commercial context. They also show that accountants, in particular, provided the much-needed technical and practical help, even to the extent of writing “self-help” books, evidencing them offering a new service as Parker (1986, p. 42) suggests and annexing new work areas (per Abbott 1988, p. 102).

The inquisitorial nature of income tax, as part of the legal administration process of tax, had always been resented by Schedule D taxpayers, and this resentment very quickly reappeared after its reintroduction in 1842. An article titled “Income Tax & Schedule D” in the *Hampshire Telegraph and Sussex Chronicle* for 29 November 1845 carried a piece originally published in the *Worcester Chronicle* about the behaviour of Commissioners.

We have known tradesmen who were compelled to stand for two or three days in a cold lobby, in the month of November, thereby losing more in a pecuniary point of view, in the value of their wasted time, than five times the amount of the surcharge against which they appealed ...

The above supports the experience reported by Jane Carlyle (see Lamb, 2001), who noted the presence of local tradesmen whom she knew when she attended an appeal before the General Commissioners on behalf of her husband, and confirms the difficult nature of the administration process and of the nature of appeals, as reported by Stebbings (2009). The writer of the *Worcester Chronicle* article also comments on these same Commissioners refusing to hear someone who appeared to appeal on behalf of an “old lady, who was confined to her bed” and says that several house owners were assessed wrongly. The *Hampshire Telegraph and Sussex Chronicle* writer comments that if “this string of dirt enquiry and cruel extortion [were pulled] a little tighter ... the cry will be so universal against this inquisitorial schedule that ‘the powers that be’ will be compelled to abandon it altogether”. Jane Carlyle’s experiences were far from uncommon.

Various suggestions were made to address this issue, which involved the services of accountants. For instance, a letter under the heading “Income Tax. Schedule D”, from one John H. Sizer to the editor of the *Essex Standard, West Suffolk Gazette, and Eastern Counties’ Advertiser* for 1 December 1883, draws attention to a formal complaint about the same issues made by the Council of the National Traders’ League to the Commissioners of Inland Revenue, with the League’s recommendation:

In order to obviate these grievances the National Traders’ League ask the Commissioners of Inland Revenue to make an order to the effect that on any trader producing a statement of his accounts certified by a chartered accountant, it shall be held as conclusive evidence and binding upon the District Commissioners, who shall base their assessment thereon.

The idea that the view of an accountant ought to be “conclusive” for tax purposes is very striking, if not aggressive, and is an indication of the value placed on the work of an accountant, by commercial men, for both financial statement and taxation purposes. The Anti-Income Tax Association was reported by the *Morning Post* (26 March 1870, p. 3) as lobbying the Chancellor on these issues (and also on abolishing the tax completely, although the Chancellor,

while sympathetic to the needs of businessmen, made it clear that the tax via Schedule D raised too much revenue to be abolished).

A further suggestion about the services of accountants comes in an article in *The Dart: A Journal of Sense and Satire* (7 April 1898, p. 9), under the heading of “Reforms in the System of Assessment of Uncertain Incomes for Income Tax”, which comments that, where a surveyor is prepared to accept a chartered accountant’s certificate (things had moved on from 1883), it could cost four or five guineas, which was very expensive for a small trader, so the paper was proposing a reform:

Where the assessment is under £500, the taxpayer should be required to show his books *at his place of business* to a qualified accountant sent by the department. This would remove the cause of much irritation to small traders. In the case of businesses producing incomes over £500, a chartered accountant’s report might be required, and in such cases all firms would actually be in the habit of having their books audited periodically by a responsible accountant, and the additional expense of preparing a return for Income Tax purposes would not be oppressive.

Somewhat tellingly, *The Dart* article also comments that the Commissioners “are unable to make ‘head or tail’” of a trader’s books anyway without the assistance of an accountant “and yet have to adjudicate in a haphazard fashion”.

From these examples, which represent feelings commonly expressed across a range of different press materials country-wide, it becomes clear that the services of an accountant were increasingly used, valued, and deemed necessary.

### **Commercial Difficulties**

The inquisitorial nature of the income tax also caused commercial difficulties. The article entitled “Income Tax & Schedule D” in the *Hampshire Telegraph and Sussex Chronicle* for 29 November 1845, referred to earlier, comments on the fact that the questions asked by the Commissioners were very annoying and intrusive:

“How do you live?” “In what style do you live?” “Are these returns consistent with the appearances you keep up?” – and so forth. In the name of common decency, are independent Englishmen, having anything like the stomach of their ancestors, to be baited in this manner, and after exposing their most secret affairs to a knot of Commissioners, to be insulted into the bargain for daring to put on an appearance which all who know anything of business life must admit to be necessary in the great majority of cases to the very existence as well as credit and solvency of the tradesmen.

There seemed to be quite a lot of confusion about who actually had the right to look at sets of books, with John Hitchings of The Rate and Taxpayers’ Assessment Protection Association writing to the editor of the *Western Mail* on 24 November 1892 (item headed “Income-Tax Appeals. How to reach the Special Commissioners”) clarifying that taxpayers did not need to submit books in the first instance to any tax official, and that it was preferable, if one could, to submit any appeal to the Special Commissioners, as they were not local, meaning that any assessment would then be unknown to them and confidentiality would be maintained. A letter immediately below that of Mr Hitchings (sub-headed “A Case in Point”) from a correspondent



with the name “Consistency”, about a bank manager sitting as a local commissioner, reinforces the point made about confidentiality:

You can easily imagine how many people avoided the exposure of their affairs to a gentleman with whom they possibly banked, and had, therefore, to submit to the surcharge of the surveyor, who, by the bye, made himself so objectionable in this respect that he was removed. To have a commissioner in your own trade to assess your income no doubt facilitates matters from an Income-tax point of view, but hardly from the payers’.

Given that a system of self-assessment operated, it was prone to abuse, so the inquisitorial nature of the Schedule D assessments can be understood, as can possibly the irascible nature of some of the Commissioners (individuals like Basil Sabine’s Mr White were not rare). *The Economist* (“The Frauds Under Schedule D, In The Relation To The Equalisation Of The Income Tax”) on 5 October 1861 comments that “the defalcations of the trading class are in the aggregate very serious”. However, the inquisitorial nature created an understandable worry about commercial confidentiality, in that the Commissioners could be competitors, and so could gain trade advantages from their being able to enquire into rival traders’ books and, potentially, damage their ability to make profit, raise capital (the “Consistency” writer refers to a banker), and obtain credit, as well as their creditable standing in the community, which, as Stebbings (1998) makes clear, were significant concerns.

Another commercial difficulty frequently highlighted by press articles is that of ascertaining income. David Chadwick addressed the Social Science Congress on this very issue, saying, for tax purposes, it is “the clear annual amount, after deducting all necessary outgoings, received from any property or investment of capital; or from any trade, profession or occupation; or from any annuity or other source, leaving at the end of each year the capital or source intact” (in the article “What is Income?” in *Capital and Labour* for 17 November 1880, pp. 612-613). However, in practical terms this could be fraught with difficulty. In a letter under the heading “Income Tax Assessment” in the *Daily News* for 27 October 1871, a clerk of many years standing to the Property and Income Tax Commissioners of a provincial district, using the pseudonym Lex, writes:

Many of your readers cannot conceive the difficulties which often beset a case of appeal, and the Commissioners are thrown on their mere notions of what the claimant makes per year. I was at first greatly astonished, but now I feel surprise no longer, at the number of appellant tradesmen who on examination are obliged to confess they never, or very rarely, take stock, and who have no system of keeping books that can possibly prove what they have gained or lost during the past year.

Lex goes on to comment on the haphazard and irrational character of the deductions such individuals make against their income, and concludes it would be better “to assess simply on a man’s trade returns [i.e., sales]”, although “[c]ases of manufacture would have to be differently dealt with” (Lex, 1871).

An article titled “The Income-Tax Debate”, in the *Ipswich Journal* for 2 March 1878, summarises this issue in terms any reader could understand:

The Income-tax is at once the best and the worst of the means employed to raise money for State purposes. It is the best because it is the simplest and, in principle,

the fairest. Could we know at a glance every man's net income we should need no other means of raising money, and successive Chancellors of the Exchequer have too readily assumed this knowledge and inferred therefrom that to raise millions all they needed was to turn a little tighter the Income-tax screw. Precisely because we do not know men's incomes, or because after all the income is only one of the means of determining a man's ability to contribute to the burdens of the State, a tax on income is the worst and the most irritating of taxes. A constant wrangle is kept up between Her Majesty's lieges and Her Majesty's Surveyors of Taxes as to the principles on which incomes should be calculated. All men are not in receipt of salaries, and when income is made up of profits from many complicated transactions, or from several sources, there is room for wide differences of opinion.

The article continues by commenting on the "peremptory style" of Government officers and the fact that Commissioners, to whom appeal is made, are prone to favour the views of Government officers. It further states: "In fact, nothing is so difficult as to ascertain what a man's income really is, except in the comparatively small number of cases of annuitants and salaried men" ("The Income-Tax Debate", 1878).

The piece goes on to consider the problems presented by individuals living on their capital, by fluctuating business profits and farming, and by different types of income (for instance, a realised [capital] gain, as opposed to the same amount being earned as salary). Those who earn wages are often at the poorer end of the income scale and are frequently beset by difficulties which are ignored when abatements are considered. The writer comments that a State which can ascertain details of people's lives for the purposes of elementary education could extend the same principles to finding out similar details so as to alleviate the hardship of the income tax impost: "But no ingenuity of this kind has ever been applied to the Income-tax mainly because it has been regarded as a temporary measure" ("The Income-Tax Debate", 1878). The anonymous writer of the article concludes by concurring with others that there would be little hope of ever seeing the income tax abandoned.

Fluctuating incomes (trade profits) were regarded as problematic and there was strong feeling that it would be difficult to deal with them, as an article on income tax under "Multiple News Items" in the (*London*) *Standard* for 25 March 1863 makes clear. The tax pressed unequally on fluctuating, as opposed to fixed, incomes – and also on those who had little income, such as "the widows and orphans for whom a slender provision has been made of the hard savings of professional men" (same source, but for 26 March 1863).

The press articles referred to above clearly demonstrate the difficulties of calculating business profits for tax purposes. Traders did not always keep records or adequate records – a situation exacerbated by the fact that trading profits varied and fluctuated over time, which made the tax seem unfair when compared with its more predictable effect on fixed income. This was also a period when basic accounting principles were being established, as Harris (2006) and Lamb (2002) show, particularly in terms of allowable deductions. A key deduction under consideration for both accounting and tax purposes was depreciation, which is not surprising in the light of the growth of railways, shipping, coal, iron/steel, and other manufacturing industries, as highlighted by Parker (1986) and Stebbings (2009).

The press contains a vast amount of material discussing and/or reporting on issues to do with depreciation. An article headed "Glasgow Chamber of Commerce" in the *Glasgow Herald* for 12 May 1875 is typical of the concerns felt by businessmen, which gathered particular

momentum in the lead-up to the 1878 Customs and Inland Revenue Act. The article reports on the meeting of the committee in Edinburgh with the “Comptroller-General of the Inland Revenue Department respecting an allowance for depreciation under the Income Tax Act”. Depreciation was not allowed on “the works, machinery, utensils, and apparatus employed, but ... deduction was allowed for repairs and maintenance actually expended by the parties” (ibid). It was put forward that:

a deduction for depreciation was very generally made by manufacturers throughout the country, as being a fair charge on the yearly profits, to provide for the depreciation, which necessarily took place, and for the renewal of items for which said deduction was claimed; that such a deduction in ships and steam vessels was virtually allowed under a minute of the Treasury; and it was suggested that whenever the partners had in *bona fide* made a deduction for depreciation on any particular items of capital which were being exhausted or deteriorated in value before striking their balance of profits, such deduction should be allowed to an extent not exceeding, say 10 per cent (“Glasgow Chamber of Commerce”, 1875).

This encapsulates widely felt concerns about depreciation, obsolescence, and wasting assets that were being debated at the time. There were clearly many different practices/calculations in evidence. Depreciation was not easily understood by the non-accountant, but it was easily manipulated. Difference in figures resulting from the use of different concepts/methods could conceivably have provided an incentive to improve accounting practices, so that the Inland Revenue would become less suspicious of the idea of depreciation, more comfortable about its accuracy, and, therefore, readier to sponsor a change in the law. However, this is a period when, as the cases cited by Lamb (2002) show (as referred to earlier), the distinction between capital and revenue was gradually being established by (predominantly) case law for tax purposes, so actual rates and individual practices seemed secondary to the establishment and clarification of concepts. The Inland Revenue was clear in its adherence to the then existing law, expressing concerns about, for example, the difficulties of calculating depreciation on an annual basis. However, some press reports are rather vague about what was actually allowed or not, and Stebbings (1996) suggests that a possible reason for the right of appeal by way of case stated introduced in the Customs and Inland Revenue Act of 1874 might have been “that it came to be realised that the General Commissioners were deciding questions of law of some moment, and that the final determination of such questions by a lay tribunal was unsatisfactory” (p. 616). It seems that the General Commissioners were tacitly allowing claims for depreciation, maybe disguised as repairs and maintenance (see Edwards, 1976, p. 303). While the appeal was expected to protect taxpayers, when the courts insisted on adherence to the Income Tax Act 1842, the process actually restricted the depreciation allowances that businesses were getting in practice. This was unanticipated and provoked lobbying by the likes of Chadwick, resulting in the 1878 Act – but, as soon as it came into force, it was felt to be inadequate. An article headed “The Chancellor of the Exchequer on the Income-Tax (Schedule D)” in the *Leeds Mercury* for 28 March 1879 reports on a deputation sent by the Manchester Chamber of Commerce, accompanied by several Members of Parliament, to see the Chancellor of the Exchequer about extending the principle of depreciation so as to apply to buildings and reservoirs etc. The Act (to which they appeared not to have full access) was unclear on the specific treatment of such assets, and while some Commissioners appeared to allow a five percent deduction in some cases, this was regarded as insufficient. The Chancellor’s response, as reported, seems to indicate the wording of the Act had been drawn deliberately widely so as

to allow discretion to Commissioners to allow what was fair in different circumstances.<sup>16</sup> There are several reports of the amount allowed for steamship depreciation being regarded, likewise, as inadequate. The “Report of the Clyde Steamship Owners’ Association” in the *Glasgow Herald* for 7 January 1895 makes this clear. The surveyors “made it known” that they would allow a rate of five percent on cargo steamers, but the custom in the district had been to allow seven and half percent on steam and five percent on sailing ships. Test cases brought before different Commissioners resulted in an Appeal to the “Exchequer Division of the Court of Session”, which did not resolve the matter. A further article in 1896, under the heading of “Clyde Steamship Owners’ Association”, in the same newspaper for 9 January, shows an on-going saga. Further appeals and test cases resulted in one appeal to the Commissioners for the Upper Ward (City Parish) of Glasgow agreeing to seven and half percent. The article continues:

As you directors had learned from the principal surveyor for Scotland that it was the intention of the income tax authorities to bring down the rates allowed to one level, viz., 6 per cent. passenger steamers, 5 per cent. cargo steamers, and 4 per cent. sailing ships, they thought the time had come to request the Chamber of Shipping to take the matter up on behalf of the general body of shipowners. The executive council dealt with the subject by sending out circulars to all the associations requesting them to appeal against the proposed reduction, and to contend (1st) for the rates allowed in London, viz., 6 per cent. steamers and 5 per cent. sailing ships on the original values; or failing that (2d) for the rates allowed by the Commissioners for the City Parish of Glasgow; and they understand that a very general agitation is going on (“Clyde Steamship Owners’ Association”, 1896).

Some of the correspondence on specific figures for depreciation for the Peninsular and Oriental Navigation Company was published in the *Dundee Courier* for 28 December 1895 (p. 3) under the heading of “Shipowners and Income Tax”.

Dissatisfaction was evident across a range of different industries. A report on the annual general meeting of the Glasgow Landlords’ Association in the *Glasgow Herald* for 24 January 1895 comments that the association’s directors “had combined with other associations in asking the Chancellor of the Exchequer to make an allowance off property-tax for repairs to and depreciation of property, and the result was that an abatement of 6 per cent was granted”. It is noteworthy that the secretary of the association, Mr James Wilson, was a chartered accountant – and perhaps also that the meeting was held in the “Accountants’ Hall”. Companies often reported the amount they charged for depreciation as a separate item, for example, as in the case of the Market Weighton Gas Light and Coke Company which wrote off five percent (as reported in the “Commercial Reports” section of the *Leeds Mercury* for 19 February 1887); or the Bristol Tramway Company writing off additional amounts in respect of “horses, &c.” (“The Tramway Dividend”, in the *Bristol Mercury* for 8 September 1880).

Given the prominence of David Chadwick in the mid- to later nineteenth century, it is not surprising to find him mentioned in the press in reference to issues of depreciation, and he appears numerous times. In a piece titled “The Chancellor of the Exchequer on the Income Tax” in the *Derby Mercury* for 28 February 1872, he is reported as a member of a deputation,

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<sup>16</sup> An article titled “The Budget Bill” in the *York Herald* for 18 April 1878 (p. 6) states it will be “lawful for the Income-tax Commissioners, in assessing the profits of trade, &c., under the rules of Schedule D, ‘to allow such deduction as they may think just and reasonable for depreciation in respect of the wear and tear of any machinery or plant used for the purposes of the concern, and belonging to the person or company by whom the concern is carried on’.”

going, with other delegates including MPs, to see the Chancellor “shortly after the conclusion of the Associated Chambers of Commerce Conference ... with a view of obtaining an inquiry into the mode of levying, and the incidence of the income tax” with reference to “the objections felt by the mercantile community”, particularly “the mode of assessing and levying the tax and the mode of conducting appeals”. An article titled “Income-Tax Assessment” in the periodical *Capital and Labour* for 17 April 1878 (p. 248) inserts a letter, at Mr Chadwick’s request, which was also sent to *The Times* in the previous week,<sup>17</sup> wherein he says that he has been asked:

to specify some of the classes of charges in the cases of short leases and depreciation on mills in which immediate alteration and depreciation could be made. The decision of the Court of Exchequer in Knowles’s appeal case has practically settled the question that capital, when consumed or repaid by annual or other instalments, is not liable to be assessed to income-tax, although such capital has been erroneously and illegally charged for thirty years.

Mr Chadwick goes on to give a series of calculations. He comments that “there is no valid reason why [depreciation] should not be allowed in all cases” and reports that he was one of a special committee appointed in 1875 “to consider the practicalities of adopting a common measure of value in the assessment of direct taxation, local and imperial”. He continues that “[it] is high time that some equitable and approximately correct system should be applied in lieu of the unequal, unjust, and arbitrary methods now attempted”. In the letter to *The Times* previously mentioned, Mr Chadwick gives his view on the *Knowles* case, and cites his speech in the House of Commons on 26 February 1878 and the fact that the Chancellor of the Exchequer took note of it, given that the ramifications of the *Knowles* case were wide. However, he comments that the decision in *Knowles* does not extend to “allowing depreciation annually on steam engines, boilers, machinery and plant”.

The press reports show the difficulties associated with depreciation claims both before and after the 1878 Customs and Inland Revenue Act. The granular level of detail of some of the reports is often unexpected and they cover a wide range of industries across the country, though shipbuilding is associated most usually with Scotland. Given David Chadwick’s career as an accountant, MP, and company promoter, it is not surprising that he features prominently in the reports, and his expert accounting knowledge is drawn on in helping to define income and appropriate allowances (especially depreciation) in terms of taxation, and taking the debate forward. Again, this shows the increasing necessity for, use of, and value placed upon the work and expertise of accountants.

## CONCLUDING REMARKS

The academic literature reveals a number of legal and commercial themes emerging in respect of income tax and accountants: the physical and intellectual inaccessibility of income tax law (Stebbing, 2009), and the practical difficulties of dealing with it on a day-to-day basis, especially with appeals and the inquisitorial nature of General Commissioners, as Jane Carlyle’s experience before them testifies (Lamb, 2001), such that help was needed. In addition, there were commercial difficulties caused by that inquisitorial process, in that Commissioners might be business rivals and so gain advantage from the process, with consequent damage to the profits, potential to raise capital and credit, and standing in the community of the traders whose books the Commissioners inspected. In addition, business

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<sup>17</sup> See Chadwick, David. (1878, March 30). Income-Tax Assessment. *The Times*, p. 8.

profits fluctuated and were not easy to calculate for tax purposes, owing to lack of/inadequate records and the ongoing development of accounting and tax principles, especially as regards depreciation.

The press reports, in general, provide information, often in a surprising level of detail, about how accountants played active roles in helping (especially) commercial taxpayers in all of these areas. For instance, they helped, in various ways, with the legal difficulties inherent in dealing with income tax, which even the Chancellor himself acknowledged were prevalent. The media reports concerning the accountants Mr Mahony, Mr Crump, and Mr Lovett show them advertising their services (although this was later disallowed). We see accountants not only writing the “first standard text” on income tax in 1895 (Parker, 1986, p. 7), but we see, perhaps, a more general guide in Mr Long’s *Popular Guide to Matters Relating to the Income Tax, Inherited House Duty, and the Land Tax* – and, in the case of Mr Rhodes’s book, titled *How to Get Over Assessments Reduced*, the appearance of a book focussed on a more specialised topic. There is advice and information variously given by accounting-informed writers in the press, and the day-to-day tax problems are made very clear: the confusion, anxiety and, sometimes, shame caused by having to attend hearings before Commissioners, and how onerous this was in terms of losing business; and the resentment at, and misunderstanding over, the inquisitorial nature of the tax. Not being able to attend in person if one was ill, for example, meant things could get much worse. Many of the problems could be addressed, suggest the press, if the Inland Revenue would accept a chartered accountant’s certification of accounts (which some Commissioners themselves did not understand), or an accountant’s inspection of a trader’s books in the latter’s place of business. There is an indication of the ever-widening use and appreciation of an accountant’s services. Moreover, these suggestions would also address the commercial concerns felt about keeping financial matters confidential, and protecting trade, creditworthiness, and community creditability.

Accounting expertise (as especially evidenced by David Chadwick) could address the difficulties in keeping records and defining income (and dealing with different kinds), most particularly business profits, generated by the growth of Victorian industry in terms of the railway, coal, iron/steel, mills, and shipping companies. This is covered extensively in the press, with depreciation and obsolescence being key issues; and we see this in minute detail. The press reports also make clear how particular groups got together to try to improve things, and the various suggestions they put forward, so we see the Anti-Income Tax Association, and various trade bodies, such as Chambers of Commerce, shipowners’ delegates or landlords’ associations, lobbying the Chancellor of the Exchequer. The involvement of David Chadwick and other accountants, such as William Chadwick, as MPs with expert commercial and accounting knowledge is evident. This is all their everyday activity – their function – and forms the “back story” to the law and how it was applied and, in due course, changed. The press items make their roles evident and describe them in considerable depth.

The press evidence examined in this article shows just how income tax influenced the development of the accounting profession and accounting principles (and, arguably, vice versa), but, equally, it reveals how accountants drove forward the development of income tax law with their day-to-day involvement in the granular details of individuals’ affairs, often offering help proactively. Would there have been, for example, any sort of Act of Parliament in 1878 to allow depreciation, without the intensive involvement of men like David Chadwick? The press reports make clear that not only did accounting require expert knowledge and skills, but that dealing with income tax did as well, and that accountants put their skills at the service of those who needed it: in this is the germ of a more specialist profession. It seems clear that

we are seeing individuals who can “apply the law to particular problems and to express the results in figures” here (Parker, 1986, p. 41) and with the “marketing [of] a specialized skill based ... on esoteric knowledge” (Abbott, 1981, p. 820): having “accounting” or “accountants” mentioned or advertised in the press would make people aware of the services that they offered (their “function”), and would help accountants with their colonisation of the income tax domain. They are clearly dealing with “tasks ... created, abolished, or reshaped by external forces” (Abbott, 1988, p. 33), in terms of the need for their skills generated by the legal and economic circumstances of the time, particularly the state/understanding of tax law, and the huge growth in industry and the need for record-keeping that drove the development of financial statements and concepts like depreciation: all this was, as Willmott (1986) says, “crucial for the integration and smooth operation of society” (p. 557).

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