interest charged on borrowed capital. Thus a tax which took equal percentages from all species of interest would be in part a tax on insurance against risk, and the tendency must be for such a tax to fall on the borrowers of capital. Suppose at any time a perfect security yields 3 per cent. and one with greater risk 6 per cent., then 3 per cent. represents the estimated value of the insurance against risk. A tax which reduces the net yield on the first to 2 per cent. would reduce the net yield on the latter to 4 per cent. In order, then, for the insurance against risk to remain the same, the rate yielded by the latter must rise from 6 to 7½ per cent. It follows, then, that a tax levied on all forms of interest (no allowance being made for risk) would tend to check investment in proportion as risk was involved, and would thus check industrial enterprise. This result would follow even although the rate of interest on perfect security, owing to the causes mentioned above, were raised in proportion to the tax.

A tax on that part of profits known as earnings of management would, if imposed generally, fall in the first instance on the *entrepreneurs* or employers of capital, and with similar indirect consequences to those just noticed in regard to interest. Capital would tend to flow abroad, and accumulation would be checked, since in general the employers of capital are also to a large extent the owners. So far as profits, in this sense, are of the nature of rent (a view recently advocated as regards all profits by Prof. Walker), a tax on profits would be analogous to a tax on rent. If the differences in the net advantages of different methods of employing capital are supposed to remain constant (according to Prof. Marshall’s view of earnings of management), a proportional tax on profits must be in part transferred to the consumers of the articles produced, in the same way as a tax on interest with risk was shown to fall on the borrower. It will be seen from this general survey that the incidence and effects of a tax on profits (taking the term in its common acceptation without analysis) are extremely difficult to determine, and the practical difficulty is still greater than the theoretical. For, as M'Culloch and others have shown, profits are always fluctuating and difficult to estimate. So great, for example, is this difficulty felt to be as regards farmers’ profits that in the income tax it is assumed that such profits bear a certain proportion to the rent paid for land on a purely empirical rule, which may happen to hit the mark in a majority of cases, but is much more likely to be unequal and unjust in its operation.

A tax on some particular form of profits (as distinct from a general tax on profits) will, it is generally said, fall on the consumer of the article produced, on the ground of the tendency of profits to equality. This view will be noticed below under taxes on consumable commodities.

*Taxes on Capital.—*In early English history taxes upon capital of a very simple kind played an important part. A grant, for example, of certain fractional parts of movables, commencing with the famous Saladin tithe (on both rent and movables) in 1188, and gradually settling down to a fifteenth for the counties and a tenth for the towns, prevailed for more than three centuries. In 1334 a fifteenth and tenth was fixed at a certain sum for each township, and after this date a grant of one or more “ fifteenths and tenths ” meant simply a grant according to the scale then fixed (Dowell, vol. iii. p. 75). But in our own times taxes on capital are levied principally when property changes hands, and may be divided, as they are by Adam Smith, according as they are levied when pro­perty passes (*a*) from the dead to the living, (*b*) from the living to the living.

It is obvious, as regards incidence, that taxes of the first class (*a*) are the most direct of all taxes, in the sense that they cannot be transferred to other persons by the beneficiaries. The principal difficulties connected with the “death duties,” as they are often called, arise in connexion with the canon of equality of taxation. Opinion is still divided on the proportions which ought to be paid by personal and real estate respectively, as well as on the advisability of the taxes being made progressive according to the value of the property, and there are still greater difficulties in connexion with life interests in settled pro­perty. Mill was strongly in favour of making the death duties very heavy and also graduated. “ I conceive,” he says (*Pol. Econ.,* bk. v. ch. ii. § 3), “that inheritances and legacies exceeding a certain amount are highly proper subjects for taxation, and that the revenue from these should be made as great as it can be made without giving rise to evasions by donation during life, or concealment of property, such as it would be impossible adequately to check. The principle of graduation, that is, of levying a larger percentage on a larger sum, though its applica­tion to general taxation would be in my opinion objec­tionable, seems to me both just and expedient as applied to legacy and inheritance duties.” The principal objec­tions urged against such taxation are, that a stimulus would be given to personal extravagance and a check placed on accumulation, and that in consequence indirect production would be lessened, partly by want of capital and partly by the check placed on production on a large scale. As regards the want of capital, apart from the check placed on saving, there would be a tend­ency to send it abroad. A heavy tax on large capitals at home will place a premium on investments abroad, in which evasion would be easy. Perhaps, with the present rate of accumulation, the objection may be made light of, as it is by Mill ; but the second, if less obvious, is more important. All our great staple manufactures are necessarily conducted on a large scale, and in many respects also large agricultural capitals are most productive. In manufactures, as a rule, the larger the scale of operations the more extended will be the division of labour in production, and the greater the facilities for ready sale in foreign markets. Of all the causes which contribute to our commercial prosperity, perhaps the most important is the large scale on which our operations are conducted. We are able to employ machinery where the foreigner, working on a smaller scale, is obliged to use manual labour. There can be little doubt that graduated taxation, even on the modi­fied form proposed by Mill, would tend to check produc­tion on a large scale. Indirectly it might artificially foster joint-stock companies. (*b*) Taxes on the transference of property from the living to the living cannot, as Adam Smith points out, be very easily taken directly, as such transactions for the most part actually are or might be secret. This has led to the invention of stamp and regis­tration duties. The penalty of invalidity attaching to unstamped documents of various kinds has proved a very effective deterrent to evasion. A tax on sales will vary in its incidence according to the nature of the commodity and the degree of competition or monopoly *(cf.* H. Sidg­wick’s *Principles of Pol. Econ.,* bk. ii. ch. x.). The most important case is that of taxes on the transfer of land. Theoretically it seems that, just as the farmer who takes land on rent offers more or less rent according to the burdens imposed on the land by rates, &c., so the purchaser of land will consider any expenses connected with its acquisition as part of the capital value, and thus any taxes on transfer will really fall on the sellers. If, however, the taxes are imposed in such a way as to fall less heavily on land when sold in larger than in small