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*"To the solid ground
Of Nature trusts the mind which builds for aye."*—WORDSWORTH.

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Taxation of Research.

THE question of the taxation of educational and scientific institutions has very recently come prominently before the public, and indications exist that the Treasury is contemplating an important change in connexion with the policy hitherto pursued in granting exemption from income-tax to such institutions. The recent judgment of the House of Lords in the case of the Brighton College *v.* Marriott amounts to a declaration that any profits of an educational establishment which are used for educational purposes are the result of carrying on a trade and therefore taxable. The judgment in question may have far-reaching consequences, for it must be remembered that Brighton College is not only a public school, but also a "charitable institution." Following closely on the above-mentioned judgment comes the public announcement from responsible officers of the Chemical Society of the receipt by this Society of a notification that the Inland Revenue authorities are about to challenge its right, as a "charitable institution," to recover the tax deducted at the source from the interest on its invested capital (see NATURE, June 19, p. 859).

The matter was carried a stage further on June 21, when the question of exempting certain classes of educational institutions from income-tax in respect of any profits forming part of their income which was applicable to educational purposes *only*, was raised in the House of Commons in connexion with the suggested new clauses to the Finance Bill (see "Parliamentary Debates," vol. 197, No. 86). The Chancellor of the Exchequer, in dealing with the matter during the debate, indicated that he was unwilling at the present time to extend the limits of exemption of 'charities,' and admitted that, in view of the judgment in the Brighton College case, it was likely that some institutions which in the course of previous years had not been called upon to pay, might, during the course of the year, on the merits of the particular case, be brought into the ambit of taxation for the first time.

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Although unable to hold out any expectations that he would make any proposal before the report stage of the Bill, Mr. Churchill stated that he could not feel that the present restrictions, though necessary, were the last word that should be said in defining what was a 'charity' deserving of exemption from income-tax and what was not; he undertook, therefore, to examine very carefully whether the frontiers of charitable exemptions could not be defined with some nearer approximation than at present.

The question of the exemption of 'charities' from income-tax is briefly reviewed in the Report of the Royal Commission on the Income Tax (1920, Cmd. 615, p. 67; H.M.S.O., 3s. net); *inter alia*, the Commissioners say: "The issues involved in this matter are very wide; we have taken no evidence on the general question and we think it is not covered by our Terms of Reference. We therefore content ourselves with expressing the opinion that for the purposes of Income Tax 'charities' should be specifically defined by Parliament." It is to this recommendation, then, that Mr. Churchill has undertaken, if it is possible effectively to do so, to give effect. It is perhaps significant that the Commissioners point out that "attempts made in the past, notably by Mr. Gladstone in 1863, to repeal or curtail the relief enjoyed by charities aroused strong opposition and that in the end nothing was done"; they further state that "any proposal for limiting the exemption would have a serious effect upon the available income of many institutions." It is hoped that Mr. Churchill will give due weight to the foregoing observations.

The legislature has not entirely overlooked in its taxing statutes the claims of scientific institutions, as such; indeed, in the first of the Income Tax Acts, that of 1842 (5 & 6 Vict. c. 35), provision was made for exempting from income-tax certain premises of institutions existing for the promotion of education, literature, science and the fine arts. Again, in an Act of 1843 (6 & 7 Vict. c. 36), provisions were inserted entitling such institutions, under extremely strict conditions, to exemption in respect of local rates. Later, when corporation duty was, as a compensatory measure, first imposed under the Customs and Inland Revenue Act 1885 (48 & 49 Vict. c. 5) upon the yearly value, income or profits accruing from real and personal estate permanently vested in bodies, corporate and unincorporate, which escapes liability to probate, legacy and succession duty, provision was again made for exempting such institutions from the duty in question. At the present day a scientific institution, as such, is entitled to exemption from income-tax under Schedule A (property tax) in respect of any building which is the property of such institution and is used solely for its own purposes. No payment may, however, be demanded or made for any instruction therein by lectures or otherwise, nor may the building be occupied by any officer or other person paying rent

for the same (Income Tax Act, 1918, 8 & 9 Geo. V. c. 40).

A latent intention on the part of the legislature to benefit scientific institutions to some extent, great or small, is certainly present in the statutes referred to above, and at various times scientific institutions have endeavoured to avail themselves of the privileges in respect of exemption from taxation which seem to be offered to them. But how extremely difficult it is for such institutions to satisfy the Courts that their constitution and activities are of the character to qualify them to obtain the benefits which, to an ordinary layman, it seems that the legislature intended such institutions to enjoy, can be gathered from an examination of the cases in the Law Reports which relate to the claims for exemption from taxation made under the provisions of statutes particularly applying to them. It will be found that even on a particular set of facts, eminent judges have sometimes held opposing views in regard to the right to exemption.

Briefly stated, to obtain exemption from income-tax or corporation duty under the provisions of the above-mentioned statutes, a scientific institution has to satisfy the Courts that the primary object of such institution is the promotion of science in the abstract; its property and income are legally appropriated by a Royal Charter or other compelling instrument and applied in fact to that object; and further, if the object of the professional interest of its members is to be inferred, this must at least be secondary to the main and chief object. In consequence of the foregoing state of affairs, the important partial exemptions from income-tax which accrue to scientific institutions, as a rule, are granted, not by reason of the provisions of the statutes conferring privileges specifically on such institutions, but under the provisions of taxing statutes containing an exemption in favour of property dedicated to 'charitable purposes,' an expression which in a legal sense has an extremely wide meaning and is applied to all trusts known to the law of England as 'charitable uses.'

The great value of the work done by the members of the leading scientific institutions has not been contested at any time. It is fully recognised that such institutions are great clearing-houses of specialised knowledge and that they greatly stimulate scientific research. In thus promoting the advance of science and the development of industries, scientific institutions confer considerable benefits, indirectly it is true, on the whole community, and it is desirable therefore that nothing shall be done which may restrict their usefulness. A strong case can really be made for giving the widest interpretation to the exempting clauses of statutes under which scientific bodies are at present entitled to enjoy remission from taxation; further, it is certain that the national exchequer would gain more from measures taken to secure this end than from the adoption of a course which may result in seriously cutting down existing privileges.