

The Deficits and Balances of London Hospitals (continued).

Name of Hospital.	Nominal Number of Beds.	Gross Receipts.	Net Income.	Net Expenditure.	Apparent Position.		Real Position.	
					Surplus.	Deficit.	Surplus.	Deficit.
BROMPTON CONSUMPTION ...	446	£ 29,285	£ 17,035	£ 32,904	£ 6,381	£ 0	£ 0	£ 15,869
MOUNT VERNON ...	220	16,164	15,889	16,112	52	0	0	223
THE CITY CHEST ...	176	16,319	10,628	13,399	2,920	0	0	2,771
THE ROYAL CHEST ...	83	7,655	4,580	6,297	1,358	0	0	1,917
GOLDEN SQUARE THROAT ...	31	5,541	5,041	4,819	722	0	222	0
THE CENTRAL THROAT ...	24	5,559	3,279	3,448	2,111	0	0	169
THE ROYAL EAR ...	20	1,764	1,764	1,870	0	106	0	106
LONDON THROAT ...	14	1,190	1,190	1,452	138	0	138	0
THE METROPOLITAN EAR ...	13	1,084	1,084	997	87	0	87	0
BROMPTON CANCER ...	110	23,342	8,755	15,486	7,856	0	0	6,731
MIDDLESEX CANCER ...	45	9,771	5,321	5,069	4,702	0	252	0
ST. JOHN'S SKIN ...	40	7,042	3,966	6,412	900	0	0	2,446
BLACKFRIARS SKIN ...	10	1,251	1,230	1,266	0	15	0	36
LONDON SKIN ...	8	1,189	1,189	1,014	175	0	175	0
NATIONAL ORTHOPAEDIC ...	87	8,550	7,226	7,270	1,280	0	0	44
NATIONAL HEART ...	26	3,923	2,273	2,916	1,007	0	0	643

huge sums which for all practical purposes are at present wasted. The new wards remain closed because the hospital's credit for all but inevitable needs is exhausted, and their managers, rash as they are, do not dare to admit patients to these wards.]

The leading and most successful exponent of this method of hospital administration is the London Hospital, which, thanks to the energy and qualities of the officials whom it is at present fortunate enough to possess, is able to carry it out with comparative success. But it is a dangerous game, which obviously cannot be played with anything like the same freedom by other institutions; and even the London Hospital, which in the last ten years or so has added to its liabilities by increase of its beds and multiplying its departments, is not unlikely to find itself in extreme difficulties should its present managers give place in a year or two's time to others less capable of conducting affairs on the present principles.

The net result, therefore, is not only that nearly all hospitals are spending every penny they receive from every source, and for whatever purpose intended, and exceedingly few are adding anything to their invested capital, but the aggregate annual deficit is constantly increasing. It looks, therefore, as if within a measurable number of years a large proportion of the hospitals in the metropolis, and indeed of those throughout the kingdom, will find themselves in the most serious difficulties, being burdened with a hopeless load of debt. In that case the State will certainly step in, and rate-supported institutions will take the place of voluntary hospitals. The present position of the London hospitals and the future before them is all the more regrettable because it has not been brought about by any tightening of the public purse strings; on the contrary, the sums received last year, by way of ordinary and extraordinary income, special donations, legacies, and the like, by many institutions were exceedingly large, and, as was shown by Sir Henry Burdett recently, the flow of money towards the hospitals during the past ten years has in no sense slackened.

The exact sums that each institution received in the way of extraordinary income last year will be found on reference to page 1508, but even the table at present under consideration reveals to a considerable extent what large sums the London hospitals have received. Thus, the gross receipts of many hospitals exceeded their net expenditure by very large sums; at Guy's, for instance, by £30,000, and at St. George's by £46,000, and other institutions in proportion. It is in this direction that salvation lies. If all the London hospitals with a deficit on their year's working reduced forthwith their annual expenditure to the sum which they may fairly expect to receive in the way of ordinary income, the surplussage of gross receipts would in

most cases and in a few years' time render them comparatively independent.

Such a step would no doubt mean that none of them could indulge in further luxuries in the way of new buildings, and in most cases a greater or fewer number of beds would have to be closed for the time being. This would in many ways be regrettable, but the net outcome would make the step thoroughly justifiable, for each hospital would end its period of restricted work free of debt and with an assured income from investments behind it. This is all the more desirable, because even of the sources of income on which hospitals may rightly depend for their annual maintenance many are of the most fortuitous description, and the probability is that in the early future the income from them will be much less than has hitherto been the case.

HOSPITALS AND TAXATION.

A WIDESPREAD belief exists in this country that hospitals are exempt from taxation. The origin of this belief is probably to be traced to the natural feeling that charitable institutions ought not to be taxed; and this sentiment, coupled with the knowledge that some exemptions are in fact enjoyed by charities, has resulted in a good deal of misapprehension as to the true position of hospitals and similar institutions in relation to the revenue. In this article it is proposed, after some preliminary general observations, to deal separately with the different taxes that directly or indirectly affect hospitals, and to consider the extent of the exemptions from each tax enjoyed by these institutions.

PRELIMINARY OBSERVATIONS.

In order to obtain a clear view of the question to be examined, it is necessary to refer briefly to equitable considerations as well as to the strictly legal position. The claims of a hospital on grounds of equity to exemption from taxation are the claims of all charities. It is asserted that the property and revenues of charities, being devoted to the relief of the poor, or other philanthropic purposes, and producing no profit to individuals, except those who are themselves the objects of charity, their funds, which are too often insufficient to meet legitimate calls upon them, should not be depleted by the exactions of the tax-gatherer. Or, to put the matter more briefly, public institutions which benefit the community generally should be freed from public burdens. On the other hand, the arguments for taxing hospitals are not without weight. These arguments were stated with great force by Mr. Gladstone, in 1863, when he was proposing to charge with

income tax the revenues derived by charities from their endowments. Mr. John Morley, in his *Life of Gladstone*, summarized the position thus:

What is their exemption but the equivalent of a gift to them from the general taxpayer? He has to make good the sum that ought in reason and in equity to have been paid by them, as by other people, to the Government that protects them. Why should this burden be compulsorily cast upon him? What is the quality of an endowment for a charitable purpose that constitutes a valid claim for such a boon?

This side of the question may be referred to here in a little more detail, because it helps to explain why hospitals are subjected to certain taxes. In principle the argument that the general taxpayer has to make good the amount of any relief allowed to charities applies both to imperial and to local taxation, but the effect of the exemption is much more apparent in the case of the latter than in that of the former. Take as an illustration the case of a small country parish containing a large mansion, two or three farms, and a few cottages, and suppose that the owner of the mansion decided to turn it into a hospital and to hand it over to a charitable trust. The parochial expenses would still have to be met by the inhabitants of the parish, so that the exemption of this one large building from local rates might not improbably increase the burden of other property in the same rating area by 50 per cent. or more. The same result might follow from the exemption of any large property from land tax, because, although this impost is a national and not merely a local tax, the annual sum payable by each parish is fixed, and has to be made up by an equal rate on all taxable property situate within the parish. The exemption of any single building or class of building from a national tax, such as the income tax, would not be felt to the same extent, because the loss of revenue would be spread over the whole body of taxpayers, and the increase in the burden of any individual would generally be inappreciable.

Leaving this question of the arguments for and against the taxation of hospitals, we come to the existing state of the law on the subject. In dealing with this it is desirable to start with an unobscured appreciation of the methods usually followed by the parliamentary draftsman in preparing the clauses of a taxing bill. The charge is laid on all classes of property alike, whatever their character may be, and irrespective of the purposes for which they are used; and is then limited, as far as is deemed expedient, by specific exemptions of particular properties or classes of property. It follows that neither the fact that revenues have to be applied only to charitable purposes, nor the fact that property is occupied by a charitable institution, confers any title to relief from taxation, unless there is in the Act imposing the tax, or in some subsequent enactment, a specific exemption for charities. Speaking broadly, it may be said that hospitals are in general liable to be charged with local rates in common with other property, but are specifically exempted from imperial direct taxes.

PARTICULAR TAXES AFFECTING HOSPITALS.

The principal taxes affecting hospitals are:

- (a) Income tax;
- (b) Inhabited house duty;
- (c) Land tax;
- (d) Customs and excise duties, and establishment licences;
- (e) Stamp duties;
- (f) Local rates and dues.

Hospitals and Income Tax.

Under the Income Tax Acts hospitals enjoy a special and extended exemption, considerably wider than that applicable to charities generally. The "public buildings, offices, and premises" belonging to a hospital, and not occupied by any individual officer personally liable to the tax, are relieved from income tax, Schedule A. An allowance is also made for "the repairs of any hospital . . . and of the gardens, walks, and grounds for the sustenance and recreation of the hospitaliers . . . repaired and maintained by the funds of such hospital," but this clause is of little practical value and is, in fact, almost inoperative. The buildings occupied by charitable institutions other than hospitals, public schools, almshouses, and certain literary and scientific institutions, are not exempt from income tax.

The income of hospitals from endowments is relieved from taxation under an exemption applicable to all

charities alike. This exemption extends to rents and profits of lands, and to annual interest and dividends, so far as they are applied to charitable purposes. Owing to the system of collecting the tax in force in this country, under which income is charged at its source, as far as possible, without regard to the circumstances of the persons ultimately entitled to it, a considerable proportion of the total revenues of hospitals from endowments is taxed in the first instance, but repayment is made on application to the authorities at Somerset House.

Notwithstanding the comprehensive exemptions enumerated above, a hospital may, in certain circumstances, be chargeable with tax on income received. This would happen in any case in which a trade or business of any kind could be said to be carried on, the profit being taxable even though applicable solely to charitable purposes. The leading case on the subject is *The Trustees of Psalms and Hymns v. Whitwell*, in which it was held that profits derived from the sale of a hymn-book, and distributed under a trust deed among widows and orphans of missionaries, were chargeable with income tax. "I think," said Mr. Justice Stephen, in delivering judgement in this case, "that the intention of the Legislature was to exempt the income of charitable bodies from the income tax; but I do not think they have done it." It is not often that a hospital for the sick would come within the scope of this charge; but a liability would in strictness arise from the sale at a profit of, for example, goods made by the inmates of asylums for the blind, cripples, etc. The income-tax authorities, however, have sometimes shown that they possess a blind eye in such cases.

The general exemptions from income tax for hospitals being as extensive as they are, the only question that has come prominently before the courts in connexion with their liability is that of the meaning to be given to the word "hospital" for the purposes of the tax. In the case of *Needham v. Bowers* it was held that a lunatic asylum founded by charitable donations but supported by receipts from patients, some of whom paid more and others less than the cost of their maintenance, was not exempt as a hospital. Mr. Justice Charles stating that "the language in the Income Tax Act must be restricted to hospitals supported wholly or in part by charity . . . and does not extend to a hospital which is self-supporting." On the other hand, the Nottingham Lunatic Hospital, which was founded by charitable donations and substantially supported by funds derived from charitable sources, was held to be exempt, although the receipts in a particular year from patients and sales of farm produce were in excess of the expenses. In this case Baron Pollock stated that the exemption is intended to apply to "any institution that is practically of the character of a hospital, being of an eleemosynary character." In a more recent case, *The Mary Clark Home v. Anderson, Mr. Justice Channell*, in an interesting judgement, traced the meaning of the word "hospital." He pointed to an ancient meaning signifying "little more than a resting-place, or, at any rate, a guests' place." In the time of Lord Coke, "it clearly included institutions for the relief or alleviation of mere poverty, and certainly of the aged." "At the present time, the word 'hospital' in all ordinary parlance . . . is used solely in reference to an institution for the relief of the sick, either for physical ailments or physical injuries."

Hospitals and the Inhabited House Duty.

The duty on inhabited houses was first imposed in 1778, and the Act contained an exemption for "any hospital or house provided for the reception and relief of poor persons." This phrase, in the slightly altered form, "any hospital, charity school, or house provided for the reception or relief of poor persons," was adopted in the Act of 1851, under which the tax is now levied. An un repealed, but practically obsolete section of the House Tax Act, 1803, requires managers of hospitals claiming exemption from the tax to give notice to the assessor, presumably with the object of enabling that officer to inquire into the claim annually before it is allowed. Mr. Justice Channell has expressed the opinion that the income tax and the house-tax exemptions for hospitals are identical. The cases quoted above may therefore be taken as applicable to both taxes, as far as they go, and have in fact been so treated. The extent of the exemption of the buildings of a hospital was raised in the case

of *Jepson v. Gribble*, where it was held that a detached house within the boundary of a lunatic asylum, provided for the use of the resident medical superintendent, was included in the exemption from house tax of the asylum itself. The same view was taken in a later case.

Hospitals and Land Tax.

The land tax was made annual and perpetual in 1798, and in its present form dates from that year. It is an unequal and little-understood tax, producing a small and diminishing revenue, and probably doomed before long to be swept out of existence by a reforming Government. It has two peculiarities: (1) A power of redemption is given to the taxpayer, and (2) the amount of revenue to be raised annually was settled in 1798, and divided among the parishes of Great Britain according to their relative wealth and importance at that time. Since 1798 the annual quota payable by each parish has been a fixed sum. As towns like Liverpool and Manchester were in 1798 little more than villages, while Norfolk and Suffolk were rich agricultural counties, the unfairness of continuing to the present time the apportionment then made can easily be imagined.

The Act of 1798 exempts from land tax the sites of all hospitals, or any buildings within the walls or limits thereof. The same Act also contains special exemptions for "any houses or lands which, on or before the 25th March, 1693, belonged . . . to Christ's Hospital, St. Bartholomew's, Bridewell, St. Thomas's, and Bethlehem Hospitals . . . and any other hospital or almshouse . . . for . . . any rents or revenues which on or before the 25th March, 1693, were payable to the said hospitals." Thus all lands, rents, and revenues belonging to a hospital which were assessed in 1692 remain liable to assessment, but lands, etc., which were not then assessed were made exempt. These provisions are quaint, and at first sight a little bewildering, but the explanation is historical. The references to 1692 and 1693 are due to the fact that the Acts of those years placed the land tax on something approaching a modern basis.

With regard to the meaning of the word "hospital" for land-tax purposes, Baron Channell stated in *Lord Colchester v. Kewney* that the word must be taken in a popular sense. "We understand rather an institution for the relief of the sick or aged, than for the maintenance or education of children." It was decided in this case that the exemption in the Land Tax Acts does not apply to the sites of hospitals which have become such since 1798. This decision was explained in *Cox v. Rabbits*, where it was laid down that the exemption is an exemption of the land itself, and remains unaffected by the removal of the hospital to another site. In other words, specific lands which belonged to hospitals in the year 1798 were exempted, but other lands which subsequently became the sites of hospitals did not thereby come within the scope of the exemption. The principle underlying these decisions is to be found in an appreciation of the system of fixed quotas of tax payable by each parish. If lands became the site of a hospital after 1798, and were thereupon relieved from tax, the charge upon the rest of the parish would have to be increased to make good the deficiency. This was held not to have been the intention of the Legislature.

Customs and Excise Duties, and Miscellaneous Charges.

There are no special exemptions under these heads in favour of hospitals, these (with unimportant exceptions) being liable to pay the duties in the same circumstances as individuals. Customs and excise duties are a form of indirect taxation, and are paid by consumers as part of the price of the article taxed, frequently without their knowing, or at any rate realizing, that a duty is being paid at all. Establishment licences include licences for carriages, male servants, and armorial bearings, all of which may affect hospitals in certain circumstances. The liability is not doubtful and has seldom been contested. The question was, however, brought into prominence recently in connexion with a prosecution of the South Devon and East Cornwall Hospital for keeping a male servant without a licence. In this case the hospital authorities were held liable to take out a licence for a hospital porter, it being pointed out that there was no exemption by law in favour of charitable institutions. The position as regards stamp duties is much the same. If the officials of a hospital have occasion to execute an instru-

ment requiring a stamp, they are liable to pay the appropriate duty. An exception is made in the case of receipts for subscriptions and donations to hospitals, it being the practice of the Inland Revenue Department to allow these documents to be given unstamped.

Local Rates.

The taxes already dealt with have one feature in common—they are one and all taxes imposed by the Imperial Government for national purposes. Local rates, on the other hand, are imposed by parochial authorities in order to meet local expenses, and the Imperial Government, while retaining certain powers of control and audit, exercised mainly through the Local Government Board, takes no direct part in their collection and administration. Questions of law may, of course, be brought before the courts in the usual way.

The exemptions from liability to local rates extend to Crown property, churches and chapels, certain literary societies, Sunday and ragged schools, etc., and from this list it might be supposed that an exemption would be found to exist for charitable institutions. Indeed, prior to 1865 it was generally thought that charities were not rateable, the Courts having decided in 1760 that St. Luke's Hospital was exempt. This case was quoted as a leading case on the subject for more than a century, but was definitely overruled in 1865 by the House of Lords. The question then directly in dispute was the liability of the Liverpool docks to be rated, exemption being claimed on the broad ground that property occupied and held for the public, from which no individual could benefit, except as the object of charity, was exempt. The exemption of hospitals in the St. Luke's case was based on the same ground, the contention being that a hospital must be regarded not only as a charity, but as a public charity; that there is no beneficial occupier except the public, and consequently no person liable to be rated in respect of the institution. In the Liverpool cases (for there were two of them) the House of Lords made an exhaustive examination of the legal aspects of the question, and decided almost unanimously that the title to exemption could not be maintained. Their lordships held that there was no exemption from rating on account of the public nature of the interest, and that the trustees, or other governing body of a public institution or corporation, must be considered as taxable on its behalf, as the legal occupiers of its property. The liability of a hospital to be rated to the relief of the poor was directly in issue ten years later, when the question was definitely settled in favour of the taxing authorities, St. Thomas's Hospital being held to be rateable.

Having established a legal right to rate hospitals, however, many local authorities have exercised their powers in a forbearing manner. The actual amount payable in respect of any particular rateable subject depends on its annual value, and rating authorities have been content to rate hospitals and similar institutions on sums considerably below their full values. The result is that while the legal liability to pay rates is maintained, these institutions are frequently treated in a generous manner as compared with other buildings in the same area when the valuations are fixed, a settlement which may, perhaps, be considered to do substantial justice to all parties concerned.

CONCLUDING REMARKS.

A person studying for the first time the position of hospitals and charities in relation to the revenue would probably regard the state of the law as paradoxical. It certainly cannot be defended on strictly logical grounds, and the history of the subject must be looked to for an explanation. Different taxes have been separately imposed at long intervals of time, and considerations that have been looked upon as weighty at one time have been treated as unimportant or ignored altogether at another. In some cases the intention of the Legislature to grant an exemption has not been carried out in the Act which is supposed to embody its wishes; in others an exemption originally conferred remains, but in a different form from that which it took at first. In hard cases the practice is in general more lenient than the strict law. The result is a mixture of liability and exemption based on no single principle, but commanding a fair measure of acceptance as a reasonable compromise between opposing theories of taxation.