

and that amount, as I have said, was below my estimate, and was insufficient for requirements. In place of the excess-profits tax I will ask the House for authority to obtain the additional revenue from a progressive land and income tax. Any system of taxation should be capable of such expansion as will meet all legitimate requirements of the State, and what I propose will, I feel sure, meet this requirement.

PROGRESSIVE LAND-TAX.

From this source we must collect a larger revenue than we did during the past year. The land-tax collected last year was £713,118, out of a total revenue from land and income tax of £4,975,244—roughly, one-seventh. I propose that instead of the present ordinary and graduated land-taxes to levy one progressive land-tax; the tax to be charged on the unimproved value without deduction of mortgages, but allowing exemption as at present of £500 on the taxable balances up to £1,500, and then diminishing so as to disappear at £2,500. In order to prevent hardship upon taxpayers whose lands are of comparatively low value and which are subject to mortgage, I will ask the House to approve an exemption of £1,000 in all cases where the unimproved value does not exceed £3,000. This exemption will then diminish by £1 for every increase of £2 in the unimproved value above £3,000, and will thus disappear when the unimproved value reaches £5,000. This exemption to taxpayers whose land is mortgaged will represent a concession of revenue to the small landowner amounting to about £100,000.

The method of dealing with what is termed the mortgage-tax presents one of the most difficult questions in our taxation system. It is, however, certain that the system which we have to depend upon for the collection of the requisite land-tax revenue must be made effective, otherwise there will be a large loss of revenue, and this loss would assuredly take place under the law as it at present stands. It is therefore necessary to amend it. The rate I propose will be a progressive one, which can be raised or lowered by percentage additions or deductions to meet the requirements of the time. The lowest schedule rate will be 1d. in the pound on the first £1,000 of taxable balance, increased by $\frac{1}{32000}$ d. for each £1 of the increase over £1,000 until it reaches 7d., which rate will be reached at £192,000. This gives a fairer gradation than the present system, the rate of which is broken, and is higher on the lower balances and diminishes on the higher balances. To the schedule rates I propose to make an all-round addition of 50 per cent. The minimum rate will then be $1\frac{1}{2}$ d., and the maximum $10\frac{1}{2}$ d.

I hope to obtain from land-tax £1,250,000.

PROGRESSIVE INCOME-TAX.

I propose to retain the principle of the present graduated income-tax, although with a different graduation without any percentage addition. The extra war revenue required will be raised by special income-tax, which I will explain later.

With regard to the ordinary income-tax, the present graduated rate suffers from the same defect as the graduated rate for land-tax. It is a broken rate, and the increase is severe on the lower incomes. I therefore propose to amend the rate, starting at the present amount of 6d. in the pound up to £400, and then increasing by $\frac{1}{200}$ d. for each £1 increase over £400 up to 3s., which rate is reached at £6,400.

In the method of assessment I propose to make an amendment by abolishing the present exemption of 5 per cent. on the capital value of the land used in producing the income, with the deduction therefrom of the amount of interest paid on any mortgage of such land, and to substitute an exemption of 5 per cent. on the unimproved value of the land used for producing the income—i.e., 5 per cent. on the amount on which land-tax will be paid. This in actual practice will work out more favourably than the present exemption in the cases of taxpayers whose lands are encumbered. The original object of the 5-per-cent. exemption on the capital value of the land was to place freeholders on an equality with leaseholders and to exempt from income-tax income derived from land. Since the passing of the Finance Act of 1915, however, which brought into operation the assessment for income-tax of income derived from land, the exemption as at present constituted is anomalous, and has the effect of exempting from taxation persons letting lands.