

The current expenditure in connection with the war may be now estimated at approximately £1,800,000 per month, and it is again a matter of congratulation that the country continues to be able to bear the heavy strain placed upon it without difficulty, and that the people of the Dominion have so loyally responded to the demands which have been made upon them from time to time.

By arrangement with the Imperial Government, the War Office advances the money for the maintenance of the troops in the field, and subsequently claims the cost from the Dominion Government. Up to the end of September the claims from the Imperial Government under this heading amounted to £12,630,000.

It will be remembered that during the short session of Parliament in April the House was asked to grant authority to the Government for raising a further loan of £20,000,000 for war purposes. A considerable proportion of this authorization has been raised, and there is at present an unexhausted authority remaining amounting to approximately £13,000,000. I propose to ask the House this session for further authority to raise £10,000,000 for war purposes. I sincerely hope that it will not be necessary, in view of the present improved state of affairs in Europe, for the Government to raise fresh loans to the full extent of this amount. Honourable members, however, will recognize that it is necessary for the Government to possess the power of raising these sums should it prove expedient.

ISSUE OF WAR LOANS FREE OF INCOME-TAX.

As a considerable amount of comment has been offered by the public and in the Press of the Dominion regarding the wisdom of issuing war loans at $4\frac{1}{2}$ per cent. free of income-tax, I will explain to the Committee the reasons which actuated the determining of this question.

Objection has been raised to the present practice on the ground that persons who now pay the highest rate of income-tax—7s. 6d. in the pound—provide for themselves an investment which produces a rate of interest amounting to $7\frac{1}{4}$ per cent. by investing in the war loan. This position, however, applies only to 264 investors, as that is the number of individuals who pay the highest rate of income-tax. A considerable number of these taxpayers are the largest employers of labour.

I leave out from these calculations the public companies, as it is impossible to estimate the individual interests of the shareholders.

The average rate of income-tax amounts to 3s. 1d. in the pound, and, to a person paying the average rate of tax, an investment free of income-tax in a $4\frac{1}{2}$ -per-cent. loan would be equivalent to an investment at the rate of £5 7s. per cent. subject to income-tax.

There are 35,000 taxpayers who pay the average income-tax or less, not including public companies, and there are only 941 persons who pay income-tax in excess of the average, of whom 264 pay the highest rate, as I have said.

It will be seen, therefore, that as far as individual taxpayers are concerned there is not a great number who profit to any extent by investing in a loan at $4\frac{1}{2}$ per cent. free of income-tax.

If we issued a loan at, say, $5\frac{1}{2}$ per cent. subject to income-tax, every person who subscribed, whether liable to income-tax or not, would be entitled to the higher rate. If a person who is subject to income-tax at the average rate of 3s. 1d. in the pound were to invest £100 in a war loan at $5\frac{1}{2}$ per cent. subject to income-tax, he would pay tax amounting to 17s. in respect of his investment. The Government would, however, pay him 20s. per cent. interest in excess of present rate of $4\frac{1}{2}$ per cent. The country would thus lose 3s. per cent., which would mean a total loss of £60,000 annually upon the amount of war loan borrowed in the Dominion up to the present time. This, however, is by no means the full measure of the loss that would result, as many millions of the war loans have been subscribed by persons who are not subject to income-tax at all, and the Treasury would therefore have no means of recovering any portion of the additional 1 per cent. from them. It must also be remembered that the present income-tax rate is a war rate, and may not continue for the full term of the war loans, and the investment may not prove in future years such a profitable one to the comparatively few persons who pay the highest rate of tax as it appears at the present time. The issue of a loan at a higher rate subject to income-tax would not, therefore, prove an advantage from an economical point of view, but, on the contrary, it would prove a considerable disadvantage.

Another argument used against the present practice is that we shall be largely reducing our income-tax revenue for a considerable number of years ahead. This