

entity. It was then, however, looked upon as a war measure only. War-time taxation cannot be continued in peace-time without destruction of industry, ultimately drying up the sources of revenue.

(r.) As a majority of the Committee we are of opinion that the country should adopt the individual system of taxation, taxing companies on their undivided profits only. It is recognized that such a change, if made at once, would occasion a considerable loss of revenue, or would increase rates to a limit beyond the taxable capacity of individuals having a moderate income. Nevertheless we strongly recommend that the change should be contemplated, and that the finances of the country should, from now onward, be planned so as to make possible the introduction of this very necessary reform at the earliest date practicable. This recommendation does not in any way affect our strong opinion that it is absolutely necessary, in the interests of production and for the benefit of the Dominion generally, to immediately reduce the present graduated rate of income-tax to a maximum rate of 5s. in the pound.

NOTE.—The members adhering to the foregoing views are—Edward Anderson, Peter Barr, John Bitchener, Ewen A. Campbell, Walter Gow, E. W. Hunt, W. D. Hunt. A. Leigh Hunt, however, expresses partial dissent (see pages 14, 16, and 17).

39. *Minority Report on Company Taxation.*—Reasons against the alteration of the incidence of income-tax from companies to individuals:—

(a.) No evidence was heard from shareholders in companies or private traders, both of whose interests would be affected by the change. We must therefore assume that they do not desire any alteration in the present system.

(b.) Companies have the following advantages:—

(1.) Shareholders' liability is limited.

(2.) The transfer of shareholders' interests is greatly facilitated as compared with liquidation of partnership or individual businesses.

(3.) Companies can finance by giving security over floating assets in a way that private traders cannot do.

(4.) Companies do not have to make provision for death and succession duties.

(5.) Aggregation of capital enormously increases the power of companies to trade in a large way.

(6.) The continuity of existence of an incorporated body such as a company enables it to take fuller advantage of the natural growth and expansion of the Dominion than an individual. This enables a company to withstand more easily the effect of an excessive income-tax upon the capital value of its shares.

(c.) It is a fallacy to argue that the individual shareholder is at present taxed at the maximum rate on the profit that he makes. It is not his capital but the aggregation of capital that earns the profit and is so taxed.

(d.) Individual shareholders as such take no part in the profit-earning of a company, but generally invest their savings in such an enterprise in order to secure a tax-free investment, the small shareholders getting the benefit of the larger contributions of capital in combination with their own.

(e.) In view of the foregoing advantages possessed by companies and their shareholders, and the fact that companies are profit-earning units, it is reasonable and fair to other traders that the unit that makes the profit should pay the tax. We believe the soundest principle to follow in New Zealand is to tax the unit which actually earns the profit.

(f.) The transference of the tax from companies to shareholders would operate to the unfair advantage of companies as against private traders in competition with them, and would encourage the growth of powerful companies and combines or trusts to the disadvantage of the general public.

(g.) Even if shareholders received higher rates of dividend or the value of their shares were increased (which is by no means certain) they would have to pay in other ways in order to make up the revenue shortage: *e.g.*, the Commissioner of Taxes gave evidence that the proposed change in the incidence of company taxation would mean that the rate of income-tax on all taxable incomes of individuals between £300 and £2,000 would have to be at least doubled.

(h.) Business during the last thirty years has been based upon the present system of taxing companies instead of individuals, and the proposed change in its nature would lead to many injustices: *e.g.*, holders of preference shares would pay income-tax instead of receiving their dividends tax-free.

(i.) Payment of income-tax by companies ensures ease, economy, and certainty of collection. The opportunity for evasion is limited.

(j.) A heavy income-tax is really equivalent to a levy upon capital. The present income-tax, now that the era of abnormal prices is over, must result in a diminution of the value of the capital employed in every branch of trade and industry, just as the increase in the rate of land-tax affects the value of land. The capital in all trades and manufactures will be ultimately affected, although no doubt the capital employed in some will be affected less than in others, owing to differences of potentiality and latent powers of expansion and the varying nature of individual management. This depreciation of capital values has to be faced by all, whether individual traders or companies.

(k.) The rate of interest prevailing in every country depends upon the amount of capital available therein for investment as compared with the strength of the demand for it. The average rate of interest required for capital in each branch of trade or industry tends to be the same after allowing for an additional percentage to cover the differences in the risk involved in each trade or industry. Whether or not income-tax is paid by the companies or by the individual shareholders, the capital value of the shares of such companies will be determined by these two principles.

(l.) The present problem is not so much the incidence as the weight of the tax, caused by its steep graduation, which we agree should stop at not exceeding 5s. in the pound. It is our opinion that under present conditions this is not relatively an overwhelming tax for companies to pay in