

The Committee considered also this a legitimate deduction from income, and the following resolution was carried unanimously :—

That in the opinion of the Committee the amount paid for the goodwill of a lease should be admitted as a deduction from income, spread equally over the period of the lease.

EARNED AND UNEARNED INCOME.

61. The differentiation which at present exists, and the manner of its application, is found to be causing considerable dissatisfaction, and strong representations were made by many who are concerned as recipients of military and civil pensions to the effect that such pensions should not be classed as unearned income. It was also urged that income derived from the investment of the savings of a life of strenuous endeavour are equally entitled to be termed "earned income." It has been strongly contended that there is a real difference in "taxable ability" between income derived from personal effort and that from the investment of capital, however acquired. In any case, admitting this to be so, it is extremely difficult to decide under which heading pensions should stand.

The Australian Royal Commission on Taxation (with one dissentient) decided in favour of the principle of differentiation, as also did the British Royal Commission of 1920, in both cases fixing a maximum beyond which it should not apply. It was, however, urged that arguments which fairly apply in older countries, where there is an accumulation of inherited wealth, cannot be held to apply with the same force in a young country, such as New Zealand, where there is comparatively little inherited wealth, but where incomes are either being earned or have resulted from the personal effort and savings of those who enjoy them.

After giving full weight to all these considerations, and recognizing the extreme difficulty of discriminating between the two classes, the Committee adopted the following resolution :—

That, owing to the difficulty of classing earned and unearned income, the distinction should cease.

NOTE.—On final consideration of this subject, Messrs. E. W. Hunt, A. Leigh Hunt, and T. S. Weston dissented from the resolution.

SALES AND TURNOVER TAXES.

62. A considerable amount of evidence was received in connection with the taxes which are in operation in Canada and other countries, generally known as "sales and turnover taxes." A great deal of the evidence went to show that these taxes are being operated in other countries with more or less success, but the Committee concluded that the information available in New Zealand was not sufficient to enable it to arrive at a definite judgment as to the advisability or otherwise of adopting either. The Committee, however, strongly recommends that inquiries be made as to the working of these taxes, and that all possible information should be obtained with regard to them, with a view to ascertaining whether it is worth while bringing either of them into operation, wholly or partially, in this country. The Committee is further strongly of opinion that, even if either tax were adopted, it should not be looked upon as a source of additional revenue, but should be used to relieve existing taxation. It is felt that the country requires less, and not more, taxation to enable it to progress as it should, and that additional taxes, no matter in what form, unless accompanied by reduction to at least an equal extent in other directions, would only add to the already heavy load, more especially if they involve additional cost of collection. It is suggested that the only object of exploring new avenues of taxation should be to ascertain whether their adoption would result in the better and more equitable distribution of the taxation load at present borne by the country.

GENERAL.

63. Representations were made by individuals and others regarding the incidence of taxation on particular interests, regarding which the Committee has no recommendation to make.

The Committee is so strongly of opinion that the reductions in taxation which it has recommended are necessary in order to restore confidence, stimulate production and industry, and promote employment, that it considers that if all efforts to reduce public expenditure and restore the profit-earning capacity of the railways, aided by the small additional taxation suggested, fail to meet the reduction in the revenue of approximately £1,375,000 which it is estimated our recommendations, if adopted, will bring about, it would be better for the Government to face a deficiency in its accounts for even two years, rather than to continue existing land and income taxes on their present scale. The following resolution on this question was carried unanimously :—

That in the opinion of the Committee it would be preferable for the Government, after every effort has been made to reduce expenditure, to face a moderate deficiency for even two years than to continue the existing land and income taxes without giving effect to the recommendations for reduction already made.

64. The present rates of taxation are a tax on industry and production, both of which are essential to the progress and development of the Dominion. To continue these excessive rates will tend to lessen production and consequently the volume of taxation. On the other hand, the Committee is strongly of opinion that a reduction in taxation will attract outside capital to the Dominion, and, by the general increase in the prosperity of the Dominion and its people, will quickly make up for any revenue lost by the reduction in the rate.

65. The Committee wishes to emphasize in the most forcible manner possible that legislation which tends to restrict the earning-powers of the individual must retard the wealth and progress of the Dominion as a whole. In this connection the following views which were recently expressed by Mr. F. Appleton, the Secretary of the British Federation of Trade-unions, may be quoted :—

"The most unhappy of prevailing assumptions is that taxing capital relieves labour. To the extent that the Government needlessly takes capital by way of taxes, it is responsible for unemploy-