

1922.
NEW ZEALAND.

TAXATION.

REPORT OF THE COMMITTEE APPOINTED TO INQUIRE INTO THE TAXATION OF THE
DOMINION OF NEW ZEALAND.

Laid on the Table of the House of Representatives by Leave.

The Right Hon. W. F. Massey, P.C., Prime Minister of New Zealand, Wellington.

SIR,

Wellington, New Zealand, 30th June, 1922.

We, the members of the Committee on Taxation, appointed by you to inquire into the taxation of the Dominion of New Zealand, have the honour to report as follows :—

2. The Committee was appointed from names submitted by various sections of the community, as set out hereunder :—

Representing Chambers of Commerce : Edward Anderson, Auckland ; Peter Barr, Dunedin ; Walter Gow, Dunedin ; W. D. Hunt, Wellington ; George Shirlcliffe, Wellington.

Representing Farmers' Unions : John Bitchener, M.P., Oamaru ; Ewen A. Campbell, Wanganui ; A. Leigh Hunt, Wellington.

Representing Sheepowners' Federation : William Barton, Featherston ; Bernard Tripp, Timaru.

Representing New Zealand Society of Accountants : Ernest W. Hunt, Wellington.

Representing Law Society : T. Shailer Weston, Wellington.

Representing Industrial Association and manufacturing interests : C. J. Ward, Wellington.

3. The sittings were commenced in Wellington at 10 a.m. on Monday, the 8th May, 1922, when you were good enough to meet the Committee and address it as to its duties and functions.

4. On your suggestion the election of a Chairman was left to the Committee, and Mr. W. D. Hunt, of Wellington, was appointed to the position.

5. As no order of reference was provided, the Committee prepared a short statement of the work which it was considered necessary to cover, and the following statement of duties was subsequently submitted to you and met with your approval :—

“ That the functions of the Committee are to inquire into—

“ (1.) The taxation of the Dominion of New Zealand in all its aspects ;

“ (2.) The effect of existing burdens of taxation upon the general prosperity of the Dominion, and the directions of change, if any, that are necessary or desirable in the interests of the country.

“ (3.) For the purposes of the above inquiry the Committee will require information from Government Departments as to the revenue and expenditure for each year since 1913, and also the system of taxation in force in other English-speaking countries. The Committee will hear considered evidence and suggestions from representatives of the producing, industrial, and labour organizations, and other classes of taxpayers ; such evidence and suggestions, as far as possible, to be submitted by typewritten statements in triplicate.”

6. The first sitting-day was spent in preparing a list of certain information which it was considered would be required, and this information the Commissioner for Inland Revenue promised to have prepared. It was also arranged that advertisements should be inserted in the newspapers of the four main centres—Wellington, Auckland, Christchurch, and Dunedin—inviting considered evidence on taxation questions.

In order to provide an opportunity for the preparation of the information requested, and to give those who might desire to tender evidence the necessary time to prepare it, the Committee adjourned until Tuesday, the 23rd May, 1922, at 10 a.m.

7. The Committee resumed on the 23rd May, and was occupied continuously in taking evidence and examining returns until Saturday, the 3rd June. The following week from Monday, the 5th June, until Saturday, the 10th June—was spent in discussing all the questions requiring to be dealt with, and resolutions were subsequently adopted covering the various matters considered.

8. A sub-committee, consisting of the Chairman (Mr. W. D. Hunt), and Messrs. Ernest W. Hunt, George Shirlcliffe, and T. Shailer Weston, was appointed to prepare a draft report for submission to the full Committee at a meeting to be held on Tuesday, the 27th June. The final sittings of the Committee lasted from the 27th to the 30th June, when the report was completed.

9. While evidence was being taken and discussed, the Commissioner for Inland Revenue, Mr. D. G. Clark, was in attendance, and gave, or obtained from his own and other Government Departments, information as desired from time to time. Colonel G. F. C. Campbell, Controller and Auditor-General, and Colonel J. J. Esson, Secretary to the Treasury, also provided valuable and necessary information. The Committee here desires to express its thanks to Mr. D. G. Clark for the very able and valuable help and information he cheerfully provided throughout the whole of the inquiry. Without his assistance and co-operation, and the data which he placed at its disposal, the Committee would have found its task much more difficult. The Committee also desires to express its very high appreciation of the evident grasp that Mr. Clark has of the mass of detail relating to his Department's affairs.

10. The Committee also wishes to express its thanks to Mr. W. H. Phillips, an officer of the Inland Revenue Department, who acted as secretary throughout the inquiry, and whose knowledge of the taxation system of the Dominion proved most valuable.

11. During the course of the inquiry thirty-one witnesses appeared before the Committee. Documents and statements prepared by thirty organizations, representing various sections of the community, were examined and considered, as were also seventy-one letters and statements sent by individuals, firms, and companies. In addition, the Committee had placed before it a large number of specially prepared Government returns, and consideration was also given to numerous printed reports of the different Government Departments.

12. The mass of information which was placed before the Committee was supplemented by the personal experience of its individual members during the various discussions and in the preparation of the report.

13. As the result of the deliberations and inquiries of the Committee, the following conclusions were unanimously arrived at:—

- (a.) That the limits of taxation that this country can bear have been reached—indeed, exceeded—and that there is now practically no reserve of taxable capacity.
- (b.) That the higher graduated rate of income-tax has reached such a point that it is drying up the sources of revenue, and, if continued, must result in a reduction of revenue from these sources, must stop progress and enterprise, and impede production and industry.
- (c.) That the income-tax on large companies is the highest in any of the British dominions—considerably higher than in Great Britain, and very much higher than in any other section of the British Empire.
- (d.) That land-tax—particularly in the higher graduated rates—is very seriously affecting production and development.
- (e.) That the rate of taxation on smaller incomes is lower, and the exemptions on these smaller incomes higher, than in any other part of the British dominions.
- (f.) That economies in public expenditure are the principal means by which relief from the present excessive taxation can be afforded.

GOVERNMENT EXPENDITURE.

14. An inquiry into the Government expenditure was not included in this Committee's order of reference. In any case, the time available was not sufficient to undertake such a task. The Committee desires, however, to record these general observations:—

Bases of Taxable National Income.

15. This Dominion is now, and is likely for some time to continue, chiefly a pastoral and agricultural community, and practically all our exports consist of the products of the land. It is with these products that we have to pay the interest and sinking fund upon the whole of our foreign debt, and also for the whole of our imports. Our pastoral and agricultural products are the coin with which we pay our way. In considering the affairs and prosperity of this country, the relative values of these products must be continually borne in mind, and the whole community must in the end adjust itself to these values. Our income from pastoral and agricultural products must necessarily be this country's guide when considering its expenditure, both public and private, and this must continue until we are in a position to develop an export trade in either manufactured goods or in services.

16. The values of our pastoral and agricultural products are fixed by export values, which are world values. The average f.o.b. value of our products to-day is not above the average of 1914. Owing to the higher costs from farm to f.o.b., the net average price that the farmer receives for his products is below the 1914 average. The purchasing-power of farm-products in goods and services is probably as low to-day, if not lower, than for the last forty years, and as a result very little new country is being broken in, and a large proportion of our improved properties are not being maintained and are going back in producing-value, all of which points to a falling-off in production.

17. The published export figures do not disclose the true position. In the 1920–21 season, owing to the shortage of ships and the shipping strike, there was a hold-up in the export of meat and dairy-produce, and, in the same year, owing to the collapse of the wool-market, the wool-sales were

postponed and wool also was held up. During the year ended 31st March, 1922, all previous years' balances were cleaned up, and the shipping of the 1921-22 production was fairly well up-to-date. The safer figures to go on are the actual production in each year. The latest figures for the present season indicate that our production of butter will be much ahead of that of last year, and of cheese a little more. Meat will be about the same, and there will be a falling-off in wool.

In considering these figures it must be borne in mind that the season just closed has been one of the best growing seasons experienced throughout New Zealand for some years past, and it is unlikely that next season will equal it. One of the best barometers of production by farmers is the importation of fertilizers, which for the last year shows a distinct falling-off.

18. The British Board of Trade prepares index numbers in which the average values of Britain's imports and exports are expressed in percentages of 1913 values, the index figure for which year is taken as 100. They are of such interest that we give them here :—

<i>Average Values as Percentages of 1913.</i>					Total Imports.	Exports (United Kingdom Goods).
1920—First quarter	..	..	..	..	284	326
Second quarter	..	..	..	..	285	358
Third quarter	..	..	..	..	289	376
Fourth quarter	..	..	..	..	283	373
1921—First quarter	..	..	..	..	220	334
Second quarter	..	..	..	..	192	283
Third quarter	..	..	..	..	182	241
Fourth quarter	..	..	..	..	170	226
1922—First quarter	..	..	..	..	149	218

These figures show that, relatively, Great Britain is still receiving much higher prices for her exports than she is paying for her imports. During the first quarter of the current year the margin has widened further in Britain's favour, the difference being 69 points against 56 points for the last three months of 1921. The relative values of her imports and exports are really more favourable to Great Britain than the figures given would indicate. These values are taken at British ports. Britain, however, brings in imports and sends away exports in her own ships, and freights are much higher than before the war.

In New Zealand the position is the reverse. We export what Great Britain imports, and import what Great Britain exports. While the average value in New Zealand of our exports is no higher than pre-war values, the average cost of our imports delivered in this country is very much higher. The outstanding feature of our present trade position is the small purchasing-power of our products in the goods and services received from other countries. It is the purchasing-power of our products that governs our whole financial situation.

Expenditure and Loans.

19. The following statement shows the increase in interest, sinking funds, war and other pensions, and ordinary expenditure, between 1914 and 1922 :—

	£	1922. £	1914. £
Total expenditure .. .. .	..	28,466,838	11,825,863
Less—			
Interest and sinking funds	8,442,278	2,887,981	
War pensions	1,722,596	..	
Old-age, widows', and miners' pensions ..	957,729	443,352	
		11,122,603	3,331,333
Ordinary expenditure .. .. .	..	£17,344,235	£8,494,530

Increase in ordinary expenditure, £8,849,705 = 104 per cent.

The following statement shows the increased borrowing since the 31st March, 1914 :—

Public Debt apart from Sinking Fund.

	£
1914	99,730,437
1919	176,076,260
1920	201,170,755
1921	206,324,319
1922	216,827,319

In addition to this local bodies are borrowing heavily, largely outside the Dominion, and are adding at a very rapid rate to the annual foreign payments that the Dominion has to meet.

The Committee emphasizes that borrowing, if continued at the above rate, will add, in four and a half years of peace, as much to our annual bill for interest and sinking fund as the whole amount payable in pre-war days. It would seem desirable, therefore, that until the quantity of the Dominion's exports is largely increased no money should be borrowed either by the Government or local bodies unless the expenditure of such money will certainly be reproductive.

Railways.

20. In the last pre-war year—that is, the year ending the 31st March, 1914—the expenditure on railways was £3,004,181, the gross revenue £4,191,617, and the net revenue left £1,187,436. For the year ending 31st March, 1922, the expenditure was £6,473,233, the gross revenue £6,683,986, the net revenue being £210,753. This £210,753 is the only amount available to meet the interest upon the capital of over £41,000,000 invested in railways. The deficiency has to be made up by the taxpayer out of the Consolidated Fund.

Increase in General Administration Expenses.

21. The increase herein, as already shown, is from £8,494,530 in 1914 to £17,344,235 in 1922, an increase of approximately 104 per cent. The Committee recognizes that the Government has already done a great deal in the way of effecting economies in public expenditure. Indeed, they have done more in this direction than many people, who do not realize the true facts, think necessary. The Committee desires to emphasize that when the country's position is considered in the light of its productive income and the war burdens that it has to carry, more drastic economy than that already announced must be effected. It must be generally recognized that this is not a time for increasing, but rather for decreasing, public services. Taxation at the present level will cripple industry and production, and delay the country's recovery. It cannot be reduced unless strict economy in all public matters, and a reduction of public services not absolutely essential, is rigidly enforced.

22. The Committee ventures to suggest that a sound basis to adopt in connection with the annual Budget would be the "taxable capacity of the country" estimated from year to year according to the general conditions prevailing, thus reversing what appears to be the present method, of first determining the expenditure and then endeavouring to raise the necessary taxation, irrespective of the ability or otherwise of the country to respond.

Income-tax.

23. Of the various taxes imposed in this Dominion, income-tax has since pre-war days been increased to a much greater extent than any other tax. The following table is a comparison between the years ending 31st March, 1914, and 31st March, 1922 :—

Tax.	31st March, 1914.		31st March, 1922.		Increase.	Increase per Cent.
	Amount.	Percentage to Total.	Amount.	Percentage to Total.		
	£		£		£	
Income	554,271	9·37	5,998,885	36·63	5,444,614	982
Land	767,451	12·97	1,635,808	9·99	868,357	113
Customs and excise ..	3,553,785	60·05	5,550,557	33·89	1,996,772	56
Death duties	613,751	10·37	1,514,844	9·25	901,093	147
Other taxes	428,776	7·24	1,675,560	10·24	1,246,784	290

For the year ended 31st March, 1921, the income-tax collected amounted to £8,248,945, which was an increase of 1,388 per cent. over 1914. The reduction in 1922 was caused by reduced income, notwithstanding an increase in the rate of tax.

24. The huge increase which has taken place in the taxation of incomes in this country since the commencement of the war made the income-tax one of the most important subjects of this inquiry.

25. In considering the question of income-tax, the Committee had to keep in mind the vast change that has taken place in the tax since the commencement of the war. Previously income-tax was a comparatively small portion of one's expenditure. The changes in the tax brought about by the war have been mainly in two directions—(a) the enormous increase that has taken place in this country and in all other parts of the British dominions, as well as in most countries of the world; and (b) the introduction of the graduated system, which increases the rate of tax with the income.

26. The graduated or progressive system of income-tax is now almost universal, but only since the war has it been extensively put into force.

27. The world's experience of very heavy and steeply graduated income-tax, which most countries are now called upon to bear, is so short as to make the drawing-up of definite conclusions very difficult. The writers of only a few years ago had no experience of conditions such as we are now passing through, and the conclusions they may have come to in connection with the very much smaller proportionate income-tax of their day cannot be taken to definitely apply to income-tax such as that with which we are now dealing.

28. Notwithstanding the change in the application of income-tax, Adam Smith's four maxims may still be accepted as a sound foundation. These are :—

- (1.) "The subjects of every State ought to contribute towards the support of the Government as nearly as possible in proportion to their respective abilities—that is, in proportion to the revenue which they respectively enjoy under the protection of the State.
- (2.) "The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person.
- (3.) "Every tax ought to be so levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it.
- (4.) "Every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the Public Treasury of the State."

29. While these rules still cannot be disputed, they are hardly sufficient to cover all the problems involved in dealing with the very heavy graduated system of taxation which now obtains. Inequalities and anomalies that were not seriously felt when the tax was smaller and proportional become very serious matters when it is heavy and steeply graded.

30. Other important aspects of income-tax must now be considered. These are—

- (a.) *Incidence.*—The tax must as far as possible be put where it will stay.
- (b.) *Payment.*—The tax takes such a large proportion of income that if payment is long postponed with a fluctuating income it may become due at a time when losses are being experienced and payment therefore is difficult. It is important, therefore, that payment of tax should follow as closely as possible the earning of the income.
- (c.) *Graduation.*—In a steeply graduated tax the percentage of income taken changes so greatly as the income increases that a fluctuating income, unless carefully watched, pays a much higher rate of tax than a steady income of the same average amount.
- (d.) *Losses.*—The percentage of income taken by taxation is now so great that it is absolutely necessary that years of loss should be a set-off against years of profit. All losses incurred during any year should be a set-off against profits made in other directions during the same year.

31. It is very difficult to make a comparison of the exact rates of income-tax on individual incomes in Australia and New Zealand, because the exemptions vary so much in the two countries. Estimates made by the Committee show, however, that the differences are of no material importance. The lower incomes in New Zealand pay less than in most of the Australian States, and very much less than in England, but when £10,000 a year is reached the tax in New Zealand is the highest in the Empire.

32. The difference in methods of dealing with profits of companies in New Zealand and the Commonwealth of Australia makes it impossible to tabulate a comparative statement. While there is little difference in the rates charged against individual incomes in the two countries, the very heavy rate on companies in New Zealand makes the amount of income-tax per head of the population very much higher than in Australia. For the year ended 31st March, 1922, of the total amount of income-tax obtained in New Zealand, 69·8 per cent.—or, say, seven-tenths of the total—came from companies, and three-tenths from individuals.

33. In Australia the States charge the companies direct, but the tax is comparatively small, ranging from 1s. in the pound in the case of Victoria to a maximum of 3s. in the pound in the case of Queensland, this latter amount being paid only where the company's operations have proved very profitable. Shareholders in the Australian States do not pay State income-tax on their dividends. The Commonwealth Government charges companies 2s. 8d. in the pound on their undivided profits, but nothing on the amount they pay out as dividends. Shareholders pay on these dividends the graduated rate that applies to their total income. The recent Royal Commission on Taxation in Australia has recommended that the Commonwealth Commissioner of Taxes should be the only authority to collect income-tax in Australia, the land-tax going to the States. If this recommendation is put into effect it will end direct taxation on companies in Australia, except on their undivided profits.

34. In England there is a corporation-tax of 1s. in the pound, which must not exceed 2s. in the pound on the undivided profits. In most cases, therefore, the tax is something less than 1s. in the pound. In addition to this, companies pay 6s. in the pound income-tax as agents for their shareholders, who adjust direct with the Income-tax Department, and obtain rebates where the graduated rate on their incomes is below the 6s. rate. The recent British Budget proposed a reduction to 5s.

35. Unlike England and Australia, companies in New Zealand are taxed as a distinct entity, and the highest graduated tax is charged on all incomes of £10,000 a year or over, the result being that any company in a large way of business will almost certainly be called upon to pay tax at the maximum rate of 8s. 9½d. in the pound.

36. The foregoing sets out the unanimous opinions of the Committee on the question of income-tax generally, but with regard to company taxation the Committee failed to agree, the following resolution being passed by a majority of seven to three, two members being absent and one not voting:—

This Committee, after hearing and receiving evidence from numerous sources, has arrived at the conclusion that income-tax should be paid by the individual ultimate recipient. The Committee realizes, however, that at the present time this may not be practicable or expedient, owing to the necessity under such a scheme of increasing rates to a limit above the taxable capacity of the individual with a moderate income.

Company Taxation.

37. It is now proposed in regard to company taxation to set out the views of the Committee—first of the majority, and then of the minority—the names of the members adhering to each view being given.

38. The *majority report* on this question is as follows:—

(a.) New Zealand is the only British country which adopts the system of collecting graduated tax from a company as if it were an individual. With the maximum rate of 8s. 9½d. in the pound it means that companies are paying away almost half of their profits in income-tax. The Committee received a very great deal of evidence as to the effect of company taxation in this Dominion, and the whole of this evidence condemned the method, and many examples of its ill effects were given. Although evidence was invited from all taxpayers through the medium of the public Press, none was offered in favour of the present system or against the individual system.

(b.) The principle of graduated income-tax is that the individual with a larger income can spare a larger proportion of each pound for taxation purposes than can the individual with the smaller

income. It is submitted that if this principle is right it should apply to all concerned. It clearly does apply under the English system of income-tax, and, with the exception of the comparatively small company-tax in the Australian States, it also applies to the Australian system. In companies in this Dominion, however, all shareholders, large and small, are taxed alike, and the small investor bears the same rate of tax on his dividend of £10 as the large investor on his dividend of £1,000. There appears to be an impression that large companies are owned by wealthy men, but this is not the case. Large companies in New Zealand and Australia are mainly supported by the savings of people who are either comparatively poor or of very moderate means, and wealthy men appear largely to seek other forms of investment.

(c.) The Commissioner for Inland Revenue, in his evidence before the Committee, stated that, of the total capital invested in company shares of all kinds in New Zealand, one-half was owned by people whose incomes were so small that, even with the dividends on their shares added, they would be free from income-tax on account of being below the exemption rate. Of the remaining half, a considerable portion was owned by people of comparatively small means, and it would take three-sevenths of this remaining half to bring the incomes of those who receive the dividends up to the maximum exemption. Only four-sevenths of this remainder would be taxable, and the great bulk of this at a comparatively low graduated rate.

(d.) The evidence of the Commissioner for Inland Revenue was borne out by the evidence of the Commonwealth Commissioner of Taxation given to the recent Royal Commission in Australia. The Australian Commission considered a proposal that instead of charging companies 2s. 8d. in the pound on their undivided profits only, and charging shareholders income-tax on their dividends, the companies should be charged a flat rate of 2s. 8d. in the pound on all their profits and let the shareholders have their dividends tax-free. The Federal Commissioner stated that this would result in yielding an additional revenue estimated at £1,197,036, and probably save his Department £100,000 per annum in costs of collection; but the Commissioner went on to say,—

“There are slightly over 200,000 shareholders in companies who do not at present pay Commonwealth income-tax, because their total income is less than the amount of the general exemption applicable to their cases. Under this scheme, however, these persons would suffer either—

(1) Reduction of their dividends by deduction by the company of the company's tax applicable to the dividend (even though the company may not be officially regarded as paying tax as agent for the shareholders); (2) reduction in the amount of profits available for distribution by the company; or (3) reduction in the amount available to reserves, and therefore reduction in the value of the shareholders' interest in the company.

“The number of shareholders who are taxable at less than 2s. 8d. in the pound is approximately 25,364. These persons would suffer in similar manner but to less extent than the present non-taxable shareholders. Their rate of tax on other income would be reduced, but their indirect tax on dividends would be increased.

“The number of shareholders who are taxable at more than 2s. 8d. in the pound is actually 2,636. These persons would be benefited by reduction in their rate of tax payable on their income other than dividends, and by their indirect tax on dividends being reduced to the company's flat rate.

“The revenue would therefore increase at the expense of approximately 225,364 persons, and would confer a distinct benefit, by reduction of tax, on 2,636 persons. There would be a considerable reduction in working-costs to the Department. It is extremely difficult to form an accurate idea of the probable reduction in costs, but it should amount to about £100,000 per annum. This gain to the Commonwealth would, however, be achieved at the expense of shareholders in companies who individually would have been non-taxable, or whose rate of tax would be less than the company's rate.”

Both the New Zealand and Australian figures emphasize the fact that, generally speaking, the capital of companies is provided by the savings invested by people of very moderate means. In this connection, the members of the Australian Royal Commission, although in agreement upon very few matters, were quite unanimous in turning down the proposal to tax companies at a flat rate of 2s. 8d. in the pound, the following being an extract from the Australian report on this matter:—

“There is no need to traverse the arguments advanced in support of the method under discussion, beyond saying that its comparative simplicity and greater productiveness are purchased at the cost of so great a degree of inequity that we have no hesitation in unanimously deciding that it is a method that cannot be recommended for inclusion in a system of taxation which it is intended should rest upon ‘a sound and equitable basis.’”

(e.) On the recent returns submitted to the Committee approximately 57 per cent. of the total taxable incomes of New Zealand were from individuals, and 43 per cent. from companies. This 43 per cent., however, would not be taxable to the same extent but for the fact that the profits of shareholders are aggregated for taxation purposes. If the incomes had been treated individually only two-sevenths would have been taxable: that is, under an individual system the taxable income derived from companies would be comparable with the taxable incomes derived from other sources as two-sevenths of 43, or 12, would be to 57; yet under the New Zealand system of taxation the 12 pay 70 per cent. of the income-tax and the 57 pay 30 per cent. In other words, every pound of income drawn from companies that would be taxable in the hands of the shareholder pays as much tax as £11 of income drawn from other sources—a position which is clearly inequitable.

(f.) Although no evidence was offered to this effect, statements have been made that shareholders in companies in New Zealand would object to the tax being put on dividends instead of being paid by the company. The figures set out above prove that any such objection would be erroneous. It must be obvious that if companies do not pay income-tax upon that portion of their profits which they distribute as dividends, they will either have more to distribute to shareholders or more to add to reserves.

(g.) It is submitted that for the effective carrying-on of trade and industry upon a large scale on modern lines, mobilization of capital in joint-stock companies is essential. Countries which have developed this method to the fullest extent are in the lead so far as wealth, power, general comfort, and prosperity are concerned. Trade and industry have grown beyond the ability of individual capitalists to deal with efficiently. The extent to which this development has taken place in New Zealand is shown by a return submitted by the Commissioner for Inland Revenue, which states that 94 per cent. of the capital employed in trade and industry is in joint-stock company form, and only 6 per cent. in private hands. Further development and progress must depend largely upon the extension of the joint-stock method. Whatever is done to discourage such enterprise will retard progress, and, if carried to an extreme, will make it quite impossible for the Dominion to expand as it ought. The motive power which promotes the establishment of any industrial undertaking, or of any company having such objects in view, is the prospect of profit. Necessary capital will never be forthcoming unless the prospect of adequate profit is fairly secure. Such profit must be large enough to assure reasonable return upon the investment, and at the same time to provide such sufficient reserve as will assure investors that the business is being conducted on safe lines. The creation of reserves is essential to the successful carrying-on of any business undertaking. It is the means whereby companies can maintain and extend their business, and to create a condition which prevents the building-up of this precautionary standby must have a very bad effect upon their successful operation and progress. Under the existing basis of taxation the building-up of reserves is almost impossible, and the result is that companies are unable to extend operations, and development is prevented. Reserves are an essential factor in successful company organization, and should be reasonably encouraged wherever possible. If any company, existent or prospective, cannot do this after paying all charges, including taxes, then it is inevitable that it must either restrict its business or cease operations.

(h.) The rate of profit obtained by a company is largely fixed by competition, and if this competition comes only from other companies similarly situated, then, all being on the same level for taxation, they will pass the tax on to their customers. Where, on the other hand, companies are doing a class of business which comes into competition with other organizations such as private firms or individuals who pay very much lower taxes, then unless such companies are very much more efficient in their organization the tax cannot be passed on. A striking example of this is in the case of companies formed to finance farmers. The present company taxation is so high that the tax cannot be passed on because the borrower could not possibly pay it, the result being that if this tax is continued, such companies must cease to lend to farmers, and either find some more profitable form of investment or discontinue business.

(i.) If the present specially heavy tax is continued on investors in companies, the result will be that these investors must get a return from their company investments at least equal to that which they could get in other directions, otherwise they will not invest, and will attempt to withdraw that which they have invested. If, however, a general graduated tax were placed on the incomes of all individuals, no matter from what source derived, it would tend to stay where it was put, for the reason that no change of investment would enable its avoidance. It is clear, however, that one country cannot tax investors for a lengthy period at a higher rate than that charged by another country within easy reach and equally desirable to live in or invest in.

(j.) We are convinced that the taxation of joint-stock companies at the present graduated system and at high rates will seriously affect this form of enterprise. The tax is at a penal rate, far beyond any other in the British Empire. Companies are faced with the alternative of passing the tax on to their customers or ceasing business. In either event it is a loss to the community. From the point of view of the community as a whole, the question to consider is one of service. The community requires a form of organization that will give it the best form of service at the lowest possible cost. There are certain activities which require large capital in order to give efficient service, whilst there are others in which better service can be given by small concerns. If, however, an investor has to pay a high graduated tax if he puts his capital into a large concern, and can escape it by putting it into a small concern, then clearly the former will not get his capital unless it can show him that it is in a position to pass the tax on to its customers. This in turn means a handicap to the customer that may in the end be a greater evil than the handicap to the investor.

(k.) Under the New Zealand system of taxation, individuals with large incomes can, and do, escape the graduated tax applicable to such incomes. On income received from money lent at interest, or used in an individual trade or business, or in farming, or on income earned by personal exertion, the spread between the small and the wealthy man is the full extent of the graduated tax, which in this country at present is 8s. 9½d. in the pound. This is not, however, the position with respect to other classes of income. On income derived from shares in companies, or from Government war bonds, or on income derived from tax-paid company debentures that have been largely issued recently by co-operative companies and others, there is no spread at all, the small and the wealthy being all on the same footing. On income derived from local-body debentures the spread in tax is only 2s. 6d. in the pound, and on income derived from ordinary company debentures 3s. in the pound. It is as well to examine the results this system brings about. Take the case of a wealthy man whose taxable income is £10,000 a year. He pays £4,400 a year income-tax, but decides that he must avoid this, and accordingly calls in half his investments and buys tax-free war bonds. At the present market price these bonds will return him over 5 per cent. net, clear of tax; but in addition to that he has changed his taxable income from £10,000 a year to £5,000 a year, and his taxation-rate from 8s. 9½d. in the pound to 5s. 9½d. in the pound, so that his change of investment not only brings him over 5 per cent. on the best security the country has to offer, but saves him £750 tax on his remaining £5,000 of income, which is equal to another ¾ per cent. interest on his war bonds, making his net return on these equal to 5½ per cent. To take another instance: Assuming the same man changes half his investment (a) to shares in companies that he finds are so situated that they can pass their

tax on to their customers; (b) to company debentures on which the companies have undertaken to pay tax; or (c) to preference shares in companies: in all these cases the saving of tax on his first £5,000 of income which comes about through making the change of investment adds $\frac{3}{4}$ per cent. to the income he gets from the new investment. The same effect, but in a lesser degree, takes place if the same man can change half his investments to local-body debentures carrying 2s. 6d. tax to company debentures carrying 3s. tax, or to shares in small companies carrying a moderate rate of tax. The result is that men of large means are gradually transferring their capital to those investments where there is little or no spread between the small and the wealthy. Under a strictly individual system of income-tax this could not take place.

(l.) Let us illustrate the effect of the present system of taxation:—

In the case of freezing companies it is quite clear that the whole of the taxation must of necessity be passed on, and will ultimately reach the producer. Generally speaking, the freezing industry can only be carried on by companies bearing the maximum amount of taxation, and this is reflected to the full extent in the freezing-charges. To a very great extent, also, expenses incurred by these freezing companies—such, for instance, as the cost of coal, and shipping charges (also affected by the present system of taxation)—adds to the burden which the producer finally pays.

The evidence of gas companies affords an example which indicates how wages and the cost of living are increased by income-tax. These companies in evidence stated that, in costing their gas, income-tax is a regular item in the cost-sheets, and is worked out at so-much per thousand cubic feet of gas. Coal, which is also an important factor in their costing, and which is affected in the same manner, also increases the price of the gas to the consumer, as also do the charges of the shipping companies for the carriage of the coal. It will thus be seen that in the case of these companies the whole of the taxation is passed on to the consumer and materially increases the cost of living. If the position is examined it will be observed that in the end this high rate of taxation on certain classes of companies must finally affect the cost of living.

Ample evidence was submitted by companies on which farmers depend very largely for finance and various other services. The amount owing to stock and station (including farmers' co-operative) companies has been estimated at approximately £25,000,000; but, unlike freezing companies, these concerns cannot pass on the whole of the taxation. The effect on the producer, however, is much the same. With income-tax standing at 8s. 9 $\frac{3}{4}$ d. in the pound, it means that in order to get the pre-war net rate of interest these companies would have to charge from 11 per cent. to 12 per cent. for loans—rates which farmers cannot possibly pay. Consequently no farmer can get a new advance from any such concern at the present time. The companies as they collect the advances must therefore utilize the money for other purposes, and the farmer has to do without the finance.

Other lending institutions—such, for instance, as fire and life insurance and general investment concerns—have in the past advanced very largely on mortgage investment, but they are now driven out of this particular business by the very heavy taxation on the interest they would receive. To get a net rate of 6 per cent. on mortgages they would have to charge 10 $\frac{3}{4}$ per cent., a rate which clearly could not be paid. The effect is that finance is only being carried on by the aid of the Mortgages Extension Act—undoubtedly a most unsatisfactory position. If taxation were placed upon the individual instead of the company a large amount of money would again become available for investment on mortgages at reasonable rates of interest, and do much to hasten the repeal of the Mortgages Extension Act.

(m.) If production and industry cannot be supported on the joint-stock principle, there is no other system to take its place with anything like the same efficiency where the mobilization of capital in large blocks is required. There are very few individuals in this country wealthy enough to take up very large undertakings on their own resources, and under present conditions no wealthy individual would borrow for such a purpose, for the reason that the high graduated income-tax would prevent him from accumulating funds to reduce his liabilities. Further, the heavy death duties that a large estate has now to pay make it altogether too risky for a wealthy individual to carry heavy liabilities during his lifetime, as such duties in themselves form a sufficient liability. A large estate with heavy liabilities having death duties added might easily be forced into bankruptcy.

(n.) The same difficulty stands in the way of private firms operating in a large way. The complications caused by the withdrawal of capital through the death of a partner and by death duties have always to be borne in mind, and these prevent operations on a large scale.

(o.) Manufacture for export—such, for instance, as the manufacture of wool into tops, and other desirable industries, which might easily be undertaken with advantage to the country cannot be undertaken where heavy taxation is placed on companies. Such companies could not compete in the markets of the world against competing companies organized in other countries where the individual system of taxation is operative.

(p.) The injustice of levying an income-tax of 8s. 9 $\frac{3}{4}$ d. in the pound on a company with a large capital, when such company may be earning a very small dividend, was frequently referred to in the course of the inquiry. It was pointed out that it was anomalous that a company with a capital of, say, £200,000, earning £10,000 a year—i.e., 5 per cent. on its capital—should be taxed at the same rate as a company with a capital of £50,000 earning £10,000 a year—a profit equal to 20 per cent. on its capital. No practicable suggestion has been made whereby this injustice can be removed under the system which taxes companies as one unit, nor is it apparent how it is possible under the present system to overcome the anomaly which renders it impracticable for large companies, owing to the high rate of income-tax, to lend money on mortgage, except at a rate of interest the borrower cannot afford to pay.

(q.) The present system of taxing companies, which is peculiar to New Zealand, has been in operation for many years. In pre-war days income-tax was at the low rate of 1s. 4d. in the pound, and was proportional and not graduated. The charge was then carried without difficulty. When the war came the graduated system was adopted, and companies continued to be taxed as one

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

return for the many advantages that they possess, and we believe that they could stand up against it and continue to carry on their important functions with advantage to their shareholders and the community. On the other hand, we are at one with the majority in thinking that most companies cannot continue to exist and return reasonable dividends to shareholders under a maximum tax of 8s. 9½d. in the pound.

NOTE.—The members adhering to the foregoing views are—William Barton, George Shirtcliffe, Bernard Tripp, C. J. Ward, and T. S. Weston.

40. The Committee has unanimously agreed that, in the interests of the prosperity of the Dominion, encouragement of its industry and production, and to prevent unemployment, it is essential that the present maximum rate of income-tax should be reduced to 5s. in the pound. The reasons for this recommendation can be briefly summarized as under:—

(a.) New Zealand is a young country, and has hence not yet accumulated sufficiently large stores of private wealth to enable it to finance public municipal and private undertakings. In this respect the Dominion is behind the States of Victoria and New South Wales.

(b.) An immediate reduction in the rate of income-tax would quickly bring about an all-round reduction in charges, and consequently a reduction in the cost of living, and an improved feeling generally.

(c.) Enterprise would be stimulated, and concerns who are now restricting their activities owing to heavy taxation would be encouraged to go on. The present high limit of 8s. 9½d. in the pound stifles enterprise, and investors subject to such a high rate will not embark on new undertakings or the extension of old ones with the prospect of halving all profits with the Government, and, in the event of failure, accepting liability for the whole of the losses.

(d.) The scale of graduation rises too steeply in New Zealand. Few private incomes exceed £10,000, and the graduated rate reaches up practically to the limit of such incomes. In the United States the graduation is much more gradual. The present heavy graduated tax was imposed as a necessity due to the war, and with the promise that the burden would be lightened at the very earliest moment.

(e.) The present high rate largely prevents the influx of capital from outside.

(f.) The immediate loss of revenue from the reduction of the rate to 5s. in the pound is estimated by the Commissioner for Inland Revenue at approximately £1,000,000. The Committee, from its knowledge of the position of the Dominion, considers that the effect of an immediate reduction of the maximum graduated rate would within a comparatively short period bring in more revenue than the amount likely to be received by the retention of the present rate.

The following resolution was passed unanimously:—

That the Committee is strongly of the opinion that under the present excessive burden of taxation the progress of the country and a return to normal conditions are being retarded, and many business undertakings necessary to the welfare of the country are being seriously handicapped. The Committee is therefore further of opinion that the scale of taxation should be immediately revised to provide for a maximum rate not exceeding 5s. in the pound, and that any deficiency in income from that source should be provided by Government economies in administration. If the reduction indicated is made, the improved feeling that it will bring about will so stimulate production and industry that the loss of income will quickly be made up.

The Committee on this question reiterates that the rate of taxation on smaller incomes is lower, and the exemptions on these smaller incomes higher, than in any other part of the Empire.

Reducing the Exemption.

41. The question of reducing the exemption rate below £300 was fully considered by the Committee, but the expressed opinion of the Commissioner for Inland Revenue was to the effect that the cost of handling the largely increased number of returns would come to considerably more than the income-tax to be collected from new taxpayers. It was obvious, therefore, that it would be useless to lower the exemption rate, and after very careful consideration the Committee decided not to recommend that the present exemption of £300 should be reduced.

NOTE.—From this section of the report A. Leigh Hunt expressed dissent (see pages 14 and 16).

Carrying Forward of Losses.

42. The Committee received a considerable amount of evidence on the question of the carrying forward of losses, or of allowing years in which losses are made to be set off against years in which profits are made. In England traders are allowed to average results for a period of years, but the Committee considers that the method most suitable for New Zealand conditions would be to permit losses to be carried forward to the next year's account. The following resolution was unanimously carried:—

That provision for years of loss should be made by permitting losses to be carried forward for not more than three years unless previously extinguished, and that a start should be made with the income-tax returns that are now coming in and on which income-tax will have to be paid in February, 1923.

Deduction of Losses from Profits.

43. Evidence was received on the question of taxpayers being allowed to set off losses made in certain directions against profits made in other directions in the same year and by the same individual. As an example of this, under the law as at present existing, losses made in business or in farming are not allowed to be set off against salaries or interest, or other profits. The Committee is of opinion

that this is inequitable, and that each individual should only be asked to pay a tax on his net income. It is therefore recommended that, in arriving at net income, losses in one undertaking should be as a set-off against profits made in another direction. The following resolution was unanimously passed:—

Losses made in one or more directions should in all cases be allowed as deductions from profits made in other directions.

LAND-TAX.

44. (a.) Land-tax in New Zealand is charged on the unimproved value of land. The rate is 1d. in the pound on taxable balances of £1,000 and under, increasing at the rate of 1/20000d. (·00005) until £138,000 is reached, when the maximum rate is 7½d. in the pound. These rates are subject to a super-tax of 33½d. Land-tax must be considered with income-tax. In New Zealand in arriving at landowner's taxable income the Department deducts 5 per cent. on the unimproved value of the land on which land-tax is paid.

(b.) Land-tax differs from income-tax in that it is in the nature of a rent charge, payable from year to year, irrespective of any profits accruing from its occupation.

(c.) The right to occupy land in New Zealand is deemed by the State to be a privilege for which the occupier should pay, and such payment becomes a first charge upon the land, and precedes all other debts and liabilities.

(d.) In Appendix A appears a table comparing the land-tax in New Zealand with the combined State and Commonwealth land-taxes, on land of a similar unimproved value in the various Australian States. This table, however, is misleading, as the unimproved values upon which tax is paid are on a much lower basis in Australia than in New Zealand. The Australian Year-book shows that the total amount of land-tax collected in Australia, in State and Commonwealth combined, during 1920 amounted to 11s. 8d. per head of the population, compared with £1 5s. 9d. per head in New Zealand. It gives, too, the total unimproved value of land in Australia, including Tasmania, in 1918 as £200,041,457, whereas the unimproved value in New Zealand was £260,921,812.

(e.) The allowance for improvements in New Zealand is not nearly sufficient. It is a comparatively simple matter to assess the total capital value of land, but the unimproved value is always fixed much too high. It is safe to say that in very few cases in New Zealand could our improved country lands be brought from their absolutely unimproved state to their present improved condition for very much more than the amount allowed for improvement by the Valuation Department. The Committee considers that some means must be devised which would result in making a much greater allowance for improvements.

45. It should be mentioned here that in discussing land-tax the Committee is going into a question which affects the towns almost equally with the country. The general impression, particularly amongst country people, is that land-tax is largely a country matter, and that towns are not so much interested; but this is not the case. Approximately seven-sixteenths of the total land-tax collected in New Zealand comes from towns, and nine-sixteenths from the country.

46. On account of land-tax having to be paid when there are no profits, much of the evidence received was in the direction of substituting income-tax for land-tax. A series of tables has been prepared, and are set out in Appendix B, which shows the advantages and disadvantages of land and income tax, as against income-tax alone at present graduated rates, both on properties of various sizes and on profits of various amounts. This table also shows the crushing effect of the combined graduated land and income tax upon large landowners. The tables are designed from the point of view of the owners of country lands and not town lands. In arriving at the total amount of capital used it has been assumed that under the present system of land-valuation the unimproved value of the land is 60 per cent. of the total investment, and that the other 40 per cent. consists of stock, plant, and land improvements. Some highly improved farms would have a larger percentage in stock, plant, and improvements, and a smaller percentage of the total capital for unimproved land; other very lightly improved properties would have a larger percentage of the total capital in unimproved land-values, and a smaller percentage in stock, plant, and improvements; but on the average it is thought that on the present system of land-valuation the assumption will not be far out. Properties are taken at an unimproved value ranging from £2,400 up to £210,000, and the total capital value ranges from £4,000 up to £350,000. The profits assumed are 2½ per cent., 5 per cent., 7½ per cent., 12½ per cent., 15 per cent., and 20 per cent. These percentages are after deducting all expenses, excepting only land and income tax. The table indicates that it is now practically impossible under present graduated systems of taxation to carry on farming and pastoral operations in a large way in this country.

47. From the evidence submitted to it the Committee was much impressed by the fact that the burden of land-tax, added to the increased heavy charges that the farmers now have to pay, is being felt severely by them, and will probably lead to a reduction in output. A decrease in production would be a serious matter for New Zealand, especially with the large increase which is taking place in our annual bill for interest and sinking funds on foreign debt, and which has to be paid in farm-produce. It is clearly essential that production should increase and not decrease.

48. For the reason stated, the Committee is strongly of opinion that an immediate reduction in the land-tax is necessary, and recommends that this should take the form of the removal of the super land-tax of 33½ per cent. This would mean a loss of £375,000 of land-tax revenue. The following resolution was passed unanimously:—

That this Committee recommends that the super-tax on land which was levied as a war measure be abolished as from the 1st April, 1922.

49. Consideration was given to the fact that a number of landowners have during the past season been obliged to pay their land-tax, or a portion of it, out of capital. There are undoubtedly many cases of hardship in this respect. The Commonwealth of Australia, and some of the States, make

special provision for rebate of the land-tax in certain cases of hardship. The Committee considers that where a landowner can prove conclusively to the Commissioner for Inland Revenue that, without deducting interest on borrowed money, he has no profits with which to pay land-tax, and this notwithstanding the fact that he has worked his property in a proper and workmanlike manner, the Commissioner for Inland Revenue should have power to remit that portion of the land-tax which is really being paid out of capital. The following resolution was carried unanimously :—

That the Commissioner for Inland Revenue be given discretion, by legislation next session, to remit the whole or part of land-tax levied upon an occupier in respect of rural lands which, though worked in a proper and workmanlike manner, have not produced sufficient, after deducting expenses of working (including local rates, but not including interest on mortgage of land or stock, or interest upon the value of such land and stock if unmortgaged), to pay such tax in whole or part.

50. From the evidence put before it the Committee has come to the conclusion that the graduated land-tax, which was originally imposed from the point of view of bursting up large landed estates, is now no longer required, and that it now has the effect of preventing the development of much of our land. A great deal of our hill country in New Zealand cannot produce more by close settlement; in fact, it often produced less in this way, at increased cost to the country for roading, &c. A great deal of this hill country can be more economically broken in and developed in large blocks. It is lands that can be cultivated, or that are suitable for dairying, that produce more when closely settled. Purely pastoral hill sheep-country will often give better results in fairly large blocks. The Committee is therefore of opinion that the present graduated system of land-tax should ultimately be abolished in favour of a flat rate, with a reduction on the smaller holdings, together with safeguards to ensure that the land is properly worked and not merely held for speculation. The graduated income-tax provides a sufficient surcharge on the larger holder. The following resolution was passed unanimously :

That the Committee is of opinion that the graduated land-tax as at present imposed is not in the best interests of the country, inasmuch as it tends to restrict production and enterprise, and that a flat rate should be substituted.

51. It was pointed out that, under the law as it stands, holders of small and moderately sized blocks of land subject to mortgage are escaping both land and income tax by reason of the deductions granted. They are allowed to deduct the amount of a mortgage from the value of their unimproved land for taxation purposes, and thus escape land-tax; and for income-tax purposes they are allowed a 5-per-cent. deduction on the whole of the unimproved value of the land without deducting mortgage. They are also allowed to deduct interest on mortgage. It is obvious that there is one deduction too many, and it was unanimously resolved—

That the allowance of 5 per cent. upon the unimproved value of land allowed in computing taxable incomes be limited to the amount of the unimproved value upon which land-tax is paid.

52. Local bodies owning endowment and other lands pay no land-tax, and this appears wrong in principle. If these lands escape, it means that higher rates have to be paid on other lands to bring in the necessary revenue. There appears to be no reason why local bodies, when they lease these lands and obtain revenue from them, should not pay land-tax in the same manner as private owners. It was unanimously resolved—

That all lands owned by local bodies and leased for revenue purposes to persons, firms, or companies should be subject to land-tax on the same basis as privately owned lands.

53. The question of land-tax levied on Native lands was brought before the Committee. Large blocks of Native lands held in trust for a large number of Natives, and leased by the trustees to Europeans, are taxed on the graduated scale as if they belonged to one owner. The result in many cases is that a very large proportion of the rent, in some cases almost the whole of it, goes in land-tax, and there is often little, and sometimes nothing, left for the Natives. We have not had time to go closely into this matter, and have no recommendation to make beyond this :—

That from the statements made to the Committee it appears as if an injustice has been inflicted on the Natives, and it is recommended that it should be inquired into.

DOUBLE TAXATION.

54. The question of dual taxation on British companies operating in New Zealand was considered. New Zealand is, and will be for many years to come, in the development stage, and the Committee thinks it most desirable that outside capital, and particularly British capital, should be attracted and not discouraged. The Committee was informed that a satisfactory arrangement had been arrived at between the British and Australian authorities with regard to the taxation of British capital invested in Australia. The Committee has been unable to learn exactly what this arrangement is, but feels satisfied that it is not in the interest of New Zealand to permit conditions for the investment of British capital in New Zealand to be less favourable than in Australia. The following resolution was carried unanimously :—

That the question of dual taxation be further considered with the British authorities, and arrangements made that will result in British capital invested in New Zealand being placed in a position at least as favourable as in Australia, provided such arrangement does not put British investors on a better footing than New Zealand investors.

TAX ON DEBENTURES.

55. The question of taxation on the interest received from investments in debentures of public bodies and companies was fully considered by the Committee. At the present time public-body debentures issued in New Zealand pay a tax of 2s. 6d. in the pound, which is met by the debenture-

holders, who have the right to claim on the Department for a refund where their taxable incomes are below the 2s. 6d. rate. The effect of this is that all public-body debentures issued in New Zealand bear a maximum graduated rate of 2s. 6d. instead of 8s. 9½d. in the pound. Similarly, the tax on debentures in public companies is the maximum rate of 3s. in the pound on the same basis. The Committee believes that one object of the differentiation was to encourage the lending of money to public bodies, but does not feel that this is a sufficiently strong reason for treating the resulting income differently from that received from other sources, thereby creating an anomaly, and, consequently, an injustice. Take as an example money lent to farmers to assist production, the interest on which may be taxed at a maximum graduated rate of 8s. 9½d. in the pound. This, in effect, adds to the cost of all money borrowed by farmers, and makes it extremely difficult for them to secure the accommodation they require. The Committee therefore unanimously resolved—

That interest received from investment in debentures of public bodies and companies should be taxed at the same rate as that from other sources, and the separate assessment under subsection (3) of section 112 of the Land and Income Tax Act, 1916, should be abolished.

TAXATION ON GOVERNMENT AND LOCAL-BODY TRADING CONCERNS.

56. The Committee has carefully considered the question of charging income-tax to public bodies and Government trading concerns. Such concerns in general have either replaced or come into competition with privately owned undertakings which have to pay income-tax at the usual rates. Certain public utilities are provided in one town by companies which pay income-tax, and in another town by municipal enterprise which escapes tax, with the result that the town served by a company has to pay increased charges for the services rendered in order to cover the tax, and indirectly, therefore, bears part of the taxation which the other town escapes. It is the opinion of the Committee that, if Government or local-body trading is to operate, it should do so on even terms with private enterprise, and should accordingly bear the charges and taxes to which private undertakings are subject. Under no other conditions is such competition fair, or in the interests of the community. Publicly owned undertakings are carried on with borrowed money secured on the credit of the ratepayers, and therefore cannot be taxed on the same basis as companies. It would therefore be necessary, for taxation purposes, to assume an income based upon a fixed percentage of the total amount of capital employed, and this might be fixed at a lower rate when capital is borrowed within the Dominion than when borrowed from foreign lenders. The following resolution was unanimously carried :—

That income-tax, equivalent approximately to the average rate paid by companies, be paid by all public bodies and Government trading and publicly owned utility undertakings, and the tax arrived at by assuming income based on a fixed percentage of the total amount of capital employed.

Evidence was given to the effect that the State Fire Insurance Department was placed on a better footing as far as income-tax on overseas treaty reinsurances is concerned than is the case with private fire-insurance companies operating in the Dominion. The Committee considered that all should be on the same footing, and unanimously resolved—

That in the matter of treaty reinsurances the State Fire Department should be placed on the same basis as regards taxation as private insurance companies.

PROPRIETARY LIFE-INSURANCE COMPANIES.

57. The question of the taxation of proprietary life-insurance companies was considered. The profits of these companies retained by the proprietors cannot be looked upon in the same light as the surpluses of mutual life-assurance associations, the whole of which are divisible amongst their policyholders, and which receive special consideration. The following resolution was carried unanimously :—

That the income of proprietary life-insurance companies should be treated, in assessing tax in the same manner as that of ordinary trading companies.

BORING OPERATIONS IN COAL COMPANIES.

58. Evidence was put before the Committee on the question of boring operations by coal-mining companies. Money spent in this direction is now treated as capital expenditure, and cannot be deducted as an expense for income-tax purposes. It was pointed out that there is a considerable difference between boring operations to test a new coalfield and boring operations that are continually required to locate the continuity of a coal-seam already being worked, and that this latter class of boring should be treated as working expenditure. This appeared reasonable, and the following resolution was passed unanimously :—

That boring operations in order to prove the position and continuity of a coal-seam already being worked should be treated as working expenditure.

WASTING ASSETS.

59. Representatives of the coal-mining industry claimed that they should be allowed a certain allowance for working out a wasting asset. The Committee considered this claim to be a reasonable one, and passed the following resolution unanimously :—

That a similar allowance be made to coal-mine owners for the exhaustion of coal as is now allowed to owners of areas of milling-bush for the exhaustion of timber.

DEPRECIATION OF GOODWILL ON LEASEHOLD.

60. Consideration was given to the question of allowances for income-tax purposes of the amount paid for the goodwill of a leasehold which must necessarily vanish during the currency of the lease.

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-

ment. Income-tax is said to be the most equitable of all taxes, because it places the burden where the money is. Up to a point when the tax absorbs too large a proportion of the income, the incentive to effort is reduced, and men fail to maintain their maximums. That point has been reached to-day. Thousands of capable men are disheartened, and they are resenting the attempt to place too large a proportion of their earnings at the disposal of bureaucracy. This is bad for everybody, but particularly is it bad for the thousands of unemployed. They, together with those who claim to represent them, should insist upon the tax being reduced, and upon the money remaining where it can be used to promote the good of industry."

RECAPITULATION.

66. The Committee arrived at unanimous decisions on all matters except (a) taxation of companies, (b) earned and unearned income, and (c) reduction of exemption on income-tax.

In the case of (a), "company taxation," the majority favour the taxation of shareholders in companies on their dividends and taxing companies on their undivided profits only, the change to be made at the earliest date that the finances of the country will permit. The minority favour taxation of the companies direct.

In regard to (b), "earned and unearned income," the majority favoured the abandonment of the present distinction, reverting to the old system. The minority favour the present system.

In regard to (c), "reduction of exemption on income-tax," the majority favour the present exemption of £300. The minority, consisting of one member, favours the exemption on unmarried persons being reduced to £200.

67. A recapitulation of the unanimous decisions and recommendations by the whole Committee is set out hereunder—

- (a.) That, as a first step to reduce taxation, it is imperative that further substantial economies in administration should take place, and that the public expenditure of the Dominion should be still further reduced.
- (b.) That, in order to stimulate production and industry and lessen unemployment, the scale of income taxation should be immediately revised to provide for a maximum rate not exceeding 5s. in the pound.
- (c.) That a system permitting the carrying forward of losses should be adopted.
- (d.) That losses made in one or more directions should be allowed as a deduction from profits made in other directions.
- (e.) That the question of double taxation be discussed with the British authorities.
- (f.) That interest from company and public-body debentures should be taxed at the same rate as income from other sources.
- (g.) That all Government and public-body trading undertakings should be subject to land and income taxes, and that the State Fire Department should be taxed on the same basis as private insurance companies in respect to overseas treaty reinsurances.
- (h.) That proprietary life-insurance companies should be taxed on the same basis as ordinary trading companies.
- (i.) That certain boring operations of coal companies should be treated as working expenditure.
- (j.) That coal-mine owners should be treated on the same basis as sawmillers with regard to allowances for wasting assets.
- (k.) That the amount paid for the goodwill of a lease should be apportioned over the term of the lease, and admitted as a deduction from income.
- (l.) That careful inquiry should be made as to the working of the sales and turnover taxes in other countries, with a view to ascertaining whether it is desirable to adopt either of them in this Dominion, but only as a relief to present taxation.
- (m.) That the super-tax on land, which was levied as a war measure, should be abolished as from the 1st April, 1922.
- (n.) That discretion be given to the Commissioner for Inland Revenue to remit the whole or part of the land-tax of an occupier of rural land which, though worked in a proper and workmanlike manner, have not produced sufficient to pay such tax in whole or in part.
- (o.) That the allowance of 5 per cent. upon unimproved value of land be limited to the amount of unimproved value upon which land-tax is paid.
- (p.) That all lands owned by local bodies and leased for revenue purposes shall be subject to land-tax on the same basis as privately owned lands.
- (q.) That, in order to stimulate production and industry, land-tax should be levied at a flat instead of a graduated rate, with deductions on the smaller holdings.

In conclusion, we, the members of the Committee, desire to assure you that we have fully realized the difficulty of the problem set before us, and we recognize that in the final settlement of the question you have no easy task. We hope that the result of our inquiry as presented in this report may prove useful, and that the Government may see its way to legislate in the directions suggested.

We have, &c.,

W. D. HUNT (Chairman).

E. ANDERSON.

PETER BARR.

WILLIAM BARTON.

JOHN BITCHENER.

E. F. CAMPBELL.

WALTER GOW.

A. LEIGH HUNT.

ERNEST W. HUNT.

G. SHIRTCLIFFE.

BERNARD TRIPP.

CHARLES J. WARD.

T. SHAILER WESTON.

RESERVATION.

REDUCTION OF INCOME-TAX EXEMPTION.

As I find myself unable to subscribe to the section of the general report dealing with the above subject, I submit the following statement and recommendation:—

In New Zealand the exemption (£300) allowed on income before taxable income is reached is higher than in Great Britain or in other parts of the British Dominions, as will be seen by the following: Britain, £150; Canada and New South Wales, £250; Queensland, £200; Western Australia, £156 for married persons and £100 for single persons; Victoria and South Australia, £150; Tasmania, £156 for married persons and £125 for single persons.

There appears no reason whatever why this Dominion should adopt a higher exemption than obtains in the countries cited. I am not, however, prepared to recommend its reduction to married men, believing as I do that the burden on the family man is quite sufficiently heavy at the present time. I am, however, strongly of the opinion that the exemption should be lowered to £200 to unmarried persons, and it should be applicable to persons of either sex. I fail to see why persons having no family burdens, who are in receipt of an income of £200 or over, should not contribute their quota to the general expenses of the country. This view was supported by evidence of a number of witnesses before the Committee, and, in fact, the only argument that has been put forth against it is the cost of collection. I fail to see why the cost of collection should be greater in New Zealand than in any of the countries above mentioned. I further contend that in this Dominion the cost should be very much lower than in a densely populated country like Great Britain.

It is, in my opinion, reasonable to assume that the conditions prevailing in the Australian States are very similar to those in this country, and, further, that the policy of a much lower exemption adopted in Australia is sufficient ground for believing that the cost of collection is not excessive. In the case of Western Australia it is found that it pays the State to collect income-tax on an amount as low as even £100. I do not, however, suggest so low a limit.

If legislation provides a sufficiently heavy penalty for the failure to submit income-tax returns, then the cost of collection will be minimized, and should be no greater per taxpayer than it is at the present time. Moreover, the present system could be extended whereby every employer would be required to send in a return to the Taxation Department setting forth the salaries and wages of *all* employees.

It is impossible to secure any actual data on which to base an opinion as to the amount of revenue which would be derived from this source, but I contend that it may be reasonably assumed that the amount would be considerable, and would go towards relieving the undue burdens of other classes of taxpayers. I therefore recommend—

That the income-tax exemption to unmarried persons be fixed at £200.

A. LEIGH HUNT.

RESERVATION.

TAXATION OF COMPANIES.

I find myself unable to fully subscribe to the section, or to concur in the recommendation, of the majority report dealing with the above subject, and I consequently submit the following statement and recommendation:—

Present System of Graduated Taxation.—The present system of taxation of companies is both unscientific and unjust, the application of the tax graduated on the aggregate amount of profit being wrong in principle and unfair in practice. For instance, a shareholder with a small holding whose total income is less than the exemption (£300) pays through the company at the maximum rate of 8s. 9½d. in the pound equally with the large shareholder whose aggregate income would entail his paying the maximum rate. This results from the operation of the present system of graduation, by which a company is taxed on the aggregate amount of profit it makes, irrespective of the relation the profit bears to the amount of capital employed: that is to say, a company employing a large amount of capital and earning only a small percentage of profit has to pay the maximum tax (8s. 9½d. in the pound) because the amount of profit it makes exceeds a certain sum, whereas a group of companies making the same aggregate amount of profit would pay a much lower rate of tax, though their respective percentages of profit on capital employed are much greater. Large companies are commonly composed of a large number of holders of small interests, whereas the holdings in small companies are usually much greater. To levy a tax according to the height or weight of the taxpayer, or to revert to the old English tax, based on the number of windows in the taxpayer's dwelling, would be as reasonable as to perpetuate this method of graduated tax on companies.

Equitable System of Graduation.—The only equitable system of graduated taxation applicable to companies is a tax based on the relative proportion of profit to the shareholders' capital employed in the business: that is to say, a company earning 20 per cent. on its capital should bear a greater burden of taxation than a company earning only, say, 5 per cent., irrespective of the amount of the aggregate profit in each case. The fairness of this method of company-taxation was generally recognized, but evidence of the practicability of its application given before the Committee disclosed apparently insuperable difficulties. An alternative method which is equitable and readily practicable must therefore be found.

Transferring Company Tax to Individual Shareholder.—To entirely absolve companies from taxation would give them an undue advantage over the private trader with whom they are in competition, and who has to pay graduated tax on his trading profits. Consequently, the company being a separate trading entity, should be taxed, if only as agent for its shareholders, but companies should be uniformly taxed. I am therefore unable to recommend the transference of the entire tax to the individual.

Proposed Solution.—To arrive at a method of taxing companies which will avoid the existing discrimination between large and small companies already indicated, I suggest the adoption of a flat rate of tax on all the profits of companies, whether distributed or not. While this fairly adjusts the tax as between large and small companies, it does not, *per se*, adjust the rights of individual shareholders. To achieve this I recommend a modification of the British system (which may be safely followed) whereby the individual shareholder, after receipt of his dividend, may claim an adjustment of the difference between the tax already paid by the company as his agent and the graduated rate which he is entitled personally to pay.

Advantages of Proposed Method.—The advantages of this system are: (a) Graduation now unfairly applied to the aggregate profits of companies (irrespective of percentage of profit to capital) is abolished; (b) the tax is levied on an equal basis on all the profits of all companies; (c) the company is recognized as a trading entity which should pay tax as such, or as agent for its shareholders; (d) the collection of tax from companies, in first instance, enables prompt collection to be made at the source and reduces evasion to a minimum; (e) the provision for adjustments with shareholders ensures that the tax ultimately paid by the individual will be on a just basis, which should be the aim of any system of taxation; (f) the adoption of this system is *immediately practicable*, because it does not involve any revolutionary change in the present method of collection; (g) it fully ensures the provision of whatever revenue is levied through this channel, and eliminates the uncertainty which would inevitably attach to a reversion to direct taxation; (h) any loss of revenue that may be occasioned by the adjustments with shareholders could rightly be equalized by a variation of the graduated tax on individuals.

It has been argued that the work of making adjustments with individual shareholders will entail an expense incommensurate with the benefit to taxpayers, but this is a nebulous bogey, and should not be allowed to interfere with the equitable incidence of the tax. There would necessarily be a minimum amount of rebate fixed, as it would be absurd to make refunds which would be of no benefit to the individual taxpayer, and the retention of these fractions would easily counterbalance the book-keeping expense connected with the adjustments generally. From the fact that such adjustments are part of the established British system it is reasonable to conclude that they involve no undue expense, and that the principle is quite practicable and subject to no serious disadvantage.

Urgency of Change.—The present system of graduated company taxation being unjust, it should be immediately abolished, its retention being intolerable. The alternative system here recommended makes it easily practicable for the change-over to be enacted during the present session of Parliament I therefore recommend:—

- (1.) That the income-tax on companies be levied on the basis of a flat rate on the profits (whether distributed or not).
- (2.) That provision be made for adjustment between the rates of tax payable by individual shareholders and that paid by the company.

A. LEIGH HUNT.

APPENDIX A.

LAND-TAX OF AUSTRALIAN STATES AND COMMONWEALTH COMBINED.

Taxable Amount.	New Zealand.	Victoria and Commonwealth combined.	New South Wales and Commonwealth combined.	South Australia and Commonwealth combined.	West Australia and Commonwealth combined.	Queensland and Commonwealth combined.
£	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
1,000	5 11 1	7 7 0	9 8 8	7 7 0	10 1 2	12 11 1
2,000	11 13 4	15 4 8	19 8 8	15 4 8	20 13 0	27 14 8
3,000	18 6 8	23 13 0	29 18 0	23 13 0	31 15 6	67 18 0
5,000	33 6 8	42 1 8	52 10 0	42 1 7	55 12 7	135 16 7
10,000	80 11 1	97 10 0	118 6 7	118 6 8	124 11 7	305 16 7
20,000	216 13 4	248 6 7	289 19 11	248 6 7	302 9 11	706 13 3
50,000	958 6 8	1,020 10 7	1,124 19 11	1,114 11 7	1,156 4 11	2,364 19 11
75,000	1,958 6 8	2,031 5 0	2,187 10 0	2,177 1 8	2,234 7 6	4,375 0 0
100,000	3,305 11 1	3,208 6 8	3,416 13 4	3,406 5 0	3,479 3 4	6,333 6 8
150,000	6,541 13 4	5,562 10 0	5,875 0 0	5,864 11 8	5,968 15 0	10,250 0 0
200,000	8,722 2 9	7,916 13 4	8,333 6 8	8,323 11 4	8,458 6 8	14,166 13 4

APPENDIX B.

COMPARATIVE STATEMENT OF LAND-TAX AND INCOME-TAX ASSUMING UNIMPROVED VALUE OF LAND IS 60 PER CENT. OF TOTAL CAPITAL IN LAND, IMPROVEMENTS, STOCK, AND PLANT, AND ASSUMING AN EARNING OF 2½ PER CENT. ON TOTAL CAPITAL EMPLOYED BEFORE DEDUCTION OF LAND AND INCOME TAX.

Unimproved Value (60 per Cent.).	Stock, Implements, and other property (40 per Cent.).	Total Capital employed in Property and Stock.	Net Income on Capital before Taxes deducted.	Exem- ption.	5 per Cent. on Unim- proved Value allowed as Deduction from Assessable Income.	Income-tax.		Land-tax on Unimproved Value.	Total Tax.	Percentage Net Income (as before) after Taxes deducted.	Without Land-tax.			Excess of Land and Income Tax over Income-tax only.		Excess of Income Tax only over Land and Income Tax.
						£	s. d.				£	s.	d.	£	s.		d.
£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£ s. d.
2,400	1,600	4,000	100	300	120	..	..	14 5 4	14 5 4	2.14	100	300	..	..	14 5 4	..
4,500	3,000	7,500	187½	300	225	..	..	29 7 7	29 7 7	2.11	187½	300	..	..	29 7 7	..
6,000	4,000	10,000	250	300	300	..	..	41 13 4	41 13 4	2.08	250	300	..	..	41 13 4	..
7,500	5,000	12,500	312½	300	375	..	..	55 4 3	55 4 3	2.05	312½	300	12½	0 15 0	54 9 3	..
9,000	6,000	15,000	375	300	450	..	..	70 0 0	70 0 0	2.03	375	300	75	4 10 0	65 10 0	..
12,000	8,000	20,000	500	300	600	..	..	103 6 8	103 6 8	1.98	500	300	200	12 0 0	91 6 8	..
18,000	12,000	30,000	750	150	900	..	..	185 0 0	185 0 0	1.88	750	150	600	42 0 0	143 0 0	..
24,000	16,000	40,000	1,000	..	1,200	..	..	286 13 4	286 13 4	1.78	1,000	..	1,000	90 0 0	196 13 4	..
30,000	20,000	50,000	1,250	..	1,500	..	..	408 6 8	408 6 8	1.68	1,250	..	1,250	128 2 6	280 4 2	..
42,000	28,000	70,000	1,750	..	2,100	..	..	711 13 4	711 13 4	1.48	1,750	..	1,750	223 2 6	488 10 10	..
57,000	38,000	95,000	2,375	..	2,850	..	..	1,203 6 8	1,203 6 8	1.23	2,375	..	2,375	377 0 7	826 6 1	..
72,000	48,000	120,000	3,000	..	3,600	..	..	1,820 0 0	1,820 0 0	0.98	3,000	..	3,000	570 0 0	1,250 0 0	..
90,000	60,000	150,000	3,750	..	4,500	..	..	2,725 0 0	2,725 0 0	0.68	3,750	..	3,750	853 2 6	1,871 17 6	..
120,000	80,000	200,000	5,000	..	6,000	..	..	4,633 6 8	4,633 6 8	0.18	5,000	..	5,000	1,450 0 0	3,183 6 8	..
180,000	120,000	300,000	7,500	..	9,000	..	..	6,541 13 4	6,541 13 4	..	7,500	..	6,250	2,164 1 2	4,377 12 2	..
240,000	160,000	400,000	10,000	..	12,000	..	..	9,158 0 0	9,158 0 0	..	8,750	..	7,500	2,831 5 0	5,018 15 0	..
300,000	200,000	500,000	12,500	..	15,000	..	..	9,158 6 8	9,158 6 8	..	8,750	..	8,750	3,576 11 2	5,581 15 6	..

COMPARATIVE STATEMENT AS ABOVE ASSUMING AN EARNING OF 5 PER CENT. ON TOTAL CAPITAL EMPLOYED BEFORE DEDUCTION OF LAND AND INCOME TAX.

[illegible]

COMPARATIVE STATEMENT OF LAND-TAX AND INCOME-TAX ASSUMING UNIMPROVED VALUE OF LAND IS 60 PER CENT. OF TOTAL CAPITAL IN LAND, IMPROVEMENTS, STOCK, AND PLANT, AND ASSUMING AN EARNING OF 7½ PER CENT. ON TOTAL CAPITAL EMPLOYED BEFORE DEDUCTION OF LAND AND INCOME TAX.

Unimproved value (60 per Cent.).	Stock, implements, and improvements (40 per Cent.).	Total Capital employed in Property and Stock.	Net Income on Capital employed before Taxes deducted.	Exemption.	5 per Cent. on Unimproved value allowed as Deduction from Assessable Income.	Taxable Income.	Income-tax.	Land-tax on Unimproved Value.	Total Tax.	Percentage Net Income to Capital after Taxes deducted.	Net Income (as before) before Taxes deducted.	Exemption.	Taxable Income.	Income-tax.	Excess of Land and Income Tax over Income-tax only.	Excess of Income-tax only over Land and Income Tax.
£	£	£	£	£	£	£	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£	£	£	£ s. d.	£ s. d.	£ s. d.
2,400	1,600	4,000	300	300	120	..	..	14 5 4	14 5 4	7-14	300	300	..	..	14 5 4	..
4,500	3,000	7,500	562½	300	225	37	2 4 5	29 7 7	31 12 0	7-07	562½	300	262	15 14 5	15 17 7	..
6,000	4,000	10,000	750	150	300	300	18 0 0	41 13 4	59 13 4	6-90	750	150	600	42 0 0	17 13 4	..
7,500	5,000	12,500	937½	..	375	562	38 5 5	55 4 3	93 9 8	6-75	937½	..	937	81 7 6	12 2 2	..
9,000	6,000	15,000	1,125	..	450	675	49 15 7	70 0 0	119 15 7	6-70	1,125	..	1,125	108 5 7	11 10 0	..
12,000	8,000	20,000	1,500	..	600	900	76 10 0	103 6 8	179 16 8	6-60	1,500	..	1,500	172 10 0	7 6 8	..
18,000	12,000	30,000	2,250	..	900	1,350	145 2 6	185 0 0	330 2 6	6-40	2,250	..	2,250	343 2 6	..	13 0 0
24,000	16,000	40,000	3,000	..	1,200	1,800	234 0 0	286 13 4	520 13 4	6-20	3,000	..	3,000	570 0 0	..	49 6 8
30,000	20,000	50,000	3,750	..	1,500	2,250	343 2 6	408 6 8	751 9 2	6-00	3,750	..	3,750	833 2 6	..	101 13 4
42,000	28,000	70,000	5,250	..	2,100	3,150	622 2 6	711 13 4	1,333 15 10	5-59	5,250	..	5,250	1,588 2 6	..	254 6 8
57,000	38,000	95,000	7,125	..	2,850	4,275	1,084 15 7	1,203 6 8	2,288 2 3	5-09	7,125	..	7,125	2,622 17 10	..	334 15 7
72,000	48,000	120,000	9,000	..	3,600	5,400	1,674 0 0	1,820 0 0	3,494 0 0	4-59	9,000	..	9,000	3,735 0 0	..	£41 0 0
90,000	60,000	150,000	11,250	..	4,500	6,750	2,421 11 2	2,725 0 0	5,146 6 8	4-06	11,250	..	11,250	4,950 0 0	196 11 2	..
120,000	80,000	200,000	15,000	..	6,000	9,000	3,735 0 0	4,633 6 8	8,368 6 8	3-31	15,000	..	15,000	6,600 0 0	1,768 6 8	..
150,000	100,000	250,000	18,750	..	7,500	11,250	4,950 0 0	6,541 13 4	11,491 13 4	2-90	18,750	..	18,750	8,250 0 0	3,241 13 4	..
180,000	120,000	300,000	22,500	..	9,000	13,500	5,940 0 0	7,850 0 0	13,790 0 0	2-90	22,500	..	22,500	9,900 0 0	3,890 0 0	..
210,000	140,000	350,000	26,250	..	10,500	15,750	6,930 0 0	9,158 6 8	16,088 6 8	2-90	26,250	..	26,250	11,550 0 0	4,538 6 8	..

4—B. 5.

COMPARATIVE STATEMENT AS ABOVE ASSUMING AN EARNING OF 10 PER CENT. ON TOTAL CAPITAL EMPLOYED BEFORE DEDUCTION OF LAND AND INCOME TAX.

Unimproved value (60 per Cent.).	Stock, implements, and improvements (40 per Cent.).	Total Capital employed in Property and Stock.	Net Income on Capital employed before Taxes deducted.	Exemption.	5 per Cent. on Unimproved value allowed as Deduction from Assessable Income.	Taxable Income.	Income-tax.	Land-tax on Unimproved Value.	Total Tax.	Percentage Net Income to Capital after Taxes deducted.	Net Income (as before) before Taxes deducted.	Exemption.	Taxable Income.	Income-tax.	Excess of Land and Income Tax over Income-tax only.	Excess of Income-tax only over Land and Income Tax.
£	£	£	£	£	£	£	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£	£	£	£ s. d.	£ s. d.	£ s. d.
2,400	1,600	4,000	400	300	120	..	..	14 5 4	14 5 4	9-64	400	300	100	6 0 0	8 5 4	..
4,500	3,000	7,500	750	150	225	375	22 12 0	29 7 7	51 19 7	9-30	750	150	600	42 0 0	9 19 7	..
6,000	4,000	10,000	1,000	..	300	700	52 10 0	41 13 4	94 3 4	9-05	1,000	..	1,000	90 0 0	4 3 4	..
7,500	5,000	12,500	1,250	..	375	875	73 5 7	55 4 3	128 9 10	8-97	1,250	..	1,250	128 2 6	0 7 4	..
9,000	6,000	15,000	1,500	..	450	1,050	97 2 6	70 0 0	167 2 6	8-88	1,500	..	1,500	172 10 0	..	5 7 6
12,000	8,000	20,000	2,000	..	600	1,400	154 0 0	103 6 8	257 6 8	8-71	2,000	..	2,000	280 0 0	22 13 4	..
18,000	12,000	30,000	3,000	..	900	2,100	304 10 0	185 0 0	489 10 0	8-36	3,000	..	3,000	570 0 0	80 10 0	..
24,000	16,000	40,000	4,000	..	1,200	2,800	504 0 0	286 13 4	790 13 4	8-02	4,000	..	4,000	960 0 0	169 6 8	..
30,000	20,000	50,000	5,000	..	1,500	3,500	752 10 0	408 6 8	1,160 16 8	7-68	5,000	..	5,000	1,450 0 0	289 3 4	..
42,000	28,000	70,000	7,000	..	2,100	4,900	1,396 10 0	711 13 4	2,108 3 4	6-98	7,000	..	7,000	2,555 0 0	446 16 8	..
57,000	38,000	95,000	9,500	..	2,850	6,650	2,369 1 2	1,203 6 8	3,572 7 10	6-24	9,500	..	9,500	4,061 5 0	488 17 2	..
72,000	48,000	120,000	12,000	..	3,600	8,400	3,360 0 0	1,820 0 0	5,180 0 0	5-68	12,000	..	12,000	5,280 0 0	100 0 0	..
90,000	60,000	150,000	15,000	..	4,500	10,500	4,620 0 0	2,725 0 0	7,345 0 0	5-10	15,000	..	15,000	6,600 0 0	745 0 0	..
120,000	80,000	200,000	20,000	..	6,000	14,000	6,160 0 0	4,633 6 8	10,793 6 8	4-60	20,000	..	20,000	8,800 0 0	1,993 6 8	..
150,000	100,000	250,000	25,000	..	7,500	17,500	7,700 0 0	6,541 13 4	14,241 13 4	4-30	25,000	..	25,000	11,000 0 0	3,241 13 4	..
180,000	120,000	300,000	30,000	..	9,000	21,000	9,240 0 0	7,850 0 0	17,090 0 0	4-30	30,000	..	30,000	13,200 0 0	3,890 0 0	..
210,000	140,000	350,000	35,000	..	10,500	24,500	10,780 0 0	9,158 6 8	19,938 6 8	4-30	35,000	..	35,000	15,400 0 0	4,538 6 8	..

COMPARATIVE STATEMENT OF LAND-TAX AND INCOME-TAX ASSUMING UNIMPROVED VALUE OF LAND IS 60 PER CENT. OF TOTAL CAPITAL IN LAND, IMPROVEMENTS, STOCK, AND PLANT, AND ASSUMING AN EARNING OF 12½ PER CENT. ON TOTAL CAPITAL EMPLOYED BEFORE DEDUCTION OF LAND AND INCOME TAX.

Un- improved Value (60 per Cent.).	Stock, Implements, and Im- provements (40 per Cent.).	Total Capital employed in Property and Stock.	Net Income on Capital employed before Taxes deducted.	Exem- ption.	5 per Cent. on Unim- proved Value allowed as Deduction from Assessable Income.	Income-tax.		Land-tax on Unimproved Value.	Total Tax.	Percentage Net Income to Capital (as before) Taxes deducted.	Without Land-tax.			Excess of Income-tax only over Land and Income Tax.		
						Taxable Income.	Income-tax.				Exem- ption.	Taxable Income.	Income-tax.			
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.
£	£	£	£	£	£	£	£ s. d.	£ s. d.	£ s. d.	£	£	£	£	£ s. d.	£ s. d.	£ s. d.
2,400	1,600	4,000	500	300	120	80	4 16 0	14 5 4	19 1 4	12-02	500	300	200	12 0 0	7 1 4	..
4,500	3,600	7,500	937½	..	225	712	53 16 6	29 7 7	83 4 1	11-39	937½	..	937½	81 7 6	1 16 7	..
6,000	4,000	10,000	1,250	..	300	950	83 2 6	41 13 4	124 15 10	11-25	1,250	..	1,250	128 2 6	..	3 6 8
7,500	5,000	12,500	1,562½	..	375	1,187	117 18 6	55 4 3	173 2 9	11-11	1,562½	..	1,562½	184 5 6	..	11 2 9
9,000	6,000	15,000	1,875	..	450	1,425	158 10 7	70 0 0	228 10 7	10-98	1,875	..	1,875	250 15 7	..	22 5 0
12,000	8,000	20,000	2,500	..	600	1,900	256 10 0	103 6 8	359 16 8	10-70	2,500	..	2,500	412 10 0	..	52 13 4
18,000	12,000	30,000	3,750	..	900	2,850	520 2 6	185 0 0	705 2 6	10-15	3,750	..	3,750	853 2 6	..	148 0 0
24,000	16,000	40,000	5,000	..	1,200	3,800	874 0 0	286 13 4	1,160 13 4	9-60	5,000	..	5,000	1,450 0 0	..	289 6 8
30,000	20,000	50,000	6,250	..	1,500	4,750	1,318 2 6	408 6 8	1,726 9 2	9-04	6,250	..	6,250	2,164 1 2	..	437 12 0
42,000	28,000	70,000	8,750	..	2,100	6,650	2,369 1 2	711 13 4	3,080 14 6	8-10	8,750	..	8,750	3,576 11 2	..	495 16 8
57,000	38,000	95,000	11,875	..	2,850	9,025	3,751 0 4	1,203 6 8	4,954 7 0	7-28	11,875	..	11,875	5,225 0 0	..	270 13 0
72,000	48,000	120,000	15,000	..	3,600	11,400	5,016 0 0	1,820 0 0	6,836 0 0	6-80	15,000	..	15,000	6,600 0 0	..	..
90,000	60,000	150,000	18,750	..	4,500	14,250	6,270 0 0	2,725 0 0	8,995 6 8	6-50	18,750	..	18,750	8,250 0 0	..	745 0 0
120,000	80,000	200,000	25,000	..	6,000	19,000	8,360 0 0	4,633 6 8	12,993 6 8	6-00	25,000	..	25,000	11,000 0 0	..	1,993 6 8
150,000	100,000	250,000	31,250	..	7,500	23,750	10,450 0 0	6,541 13 4	16,991 13 4	5-70	31,250	..	31,250	13,750 0 0	..	3,241 13 4
180,000	120,000	300,000	37,500	..	9,000	28,500	12,540 0 0	7,850 0 0	20,390 0 0	5-70	37,500	..	37,500	16,500 0 0	..	3,890 0 0
210,000	140,000	350,000	43,750	..	10,500	33,250	14,630 0 0	9,158 6 8	23,788 6 8	5-70	43,750	..	43,750	19,250 0 0	..	4,538 6 8

COMPARATIVE STATEMENT AS ABOVE ASSUMING AN EARNING OF 15 PER CENT. ON TOTAL CAPITAL EMPLOYED BEFORE DEDUCTION OF LAND AND INCOME TAX.

2,400	1,600	4,000	600	300	120	180	10 16 0	14 5 4	25 1 4	14 37	600	300	300	18 0 0	7 1 4	...
4,500	3,000	7,500	1,125	..	225	900	76 10 0	29 7 7	105 17 7	13 59	1,125	..	1,125	108 5 7	..	2 8 0
6,000	4,000	10,000	1,500	..	300	1,200	120 0 0	41 13 4	161 13 4	13 38	1,500	..	1,500	172 10 0	..	10 16 8
7,500	5,000	12,500	1,875	..	375	1,500	172 10 0	55 4 3	227 14 3	13 18	1,875	..	1,875	250 15 7	..	23 1 4
9,000	6,000	15,000	2,250	..	450	1,800	234 0 0	70 0 0	304 0 0	12 97	2,250	..	2,250	343 2 6	..	39 2 6
12,000	8,000	20,000	3,000	..	600	2,400	384 0 0	103 6 8	487 6 8	12 56	3,000	..	3,000	570 0 0	..	82 13 4
18,000	12,000	30,000	4,500	..	900	3,600	792 0 0	185 0 0	977 0 0	11 74	4,500	..	4,500	1,192 10 0	..	215 10 0
24,000	16,000	40,000	6,000	..	1,200	4,800	1,344 0 0	286 13 4	1,630 13 4	10 92	6,000	..	6,000	2,040 0 0	..	409 6 8
30,000	20,000	50,000	7,500	..	1,500	6,000	2,040 0 0	408 6 8	2,448 6 8	10 10	7,500	..	7,500	2,831 5 0	..	382 18 4
42,000	28,000	70,000	10,500	..	2,100	8,400	3,360 0 0	711 13 4	4,071 13 4	9 18	10,500	..	10,500	4,620 0 0	..	548 6 8
57,000	38,000	95,000	14,250	..	2,850	11,400	5,016 0 0	1,203 6 8	6,219 6 8	8 45	14,250	..	14,250	6,270 0 0	..	50 13 4
72,000	48,000	120,000	18,000	..	3,600	14,400	6,336 0 0	1,820 0 0	8,156 0 0	8 20	18,000	..	18,000	7,920 0 0	..	..
90,000	60,000	150,000	22,500	..	4,500	18,000	7,920 0 0	2,725 0 0	10,645 0 0	7 90	22,500	..	22,500	9,900 0 0	..	..
120,000	80,000	200,000	30,000	..	6,000	24,000	10,560 0 0	4,633 6 8	15,193 6 8	7 40	30,000	..	30,000	13,200 0 0	..	..
150,000	100,000	250,000	37,500	..	7,500	30,000	13,200 0 0	6,541 13 4	19,741 13 4	7 10	37,500	..	37,500	16,500 0 0	..	..
180,000	120,000	300,000	45,000	..	9,000	36,000	15,840 0 0	7,850 0 0	23,690 0 0	7 10	45,000	..	45,000	19,800 0 0	..	..
210,000	140,000	350,000	52,500	..	10,500	42,000	18,480 0 0	9,158 6 8	27,638 6 8	7 10	52,500	..	52,500	23,100 0 0	..	..

COMPARATIVE STATEMENT OF LAND-TAX AND INCOME-TAX ASSUMING UNIMPROVED VALUE OF LAND IS 60 PER CENT. OF TOTAL CAPITAL IN LAND, IMPROVEMENTS, STOCK, AND PLANT, AND ASSUMING AN EARNING OF 20 PER CENT. ON TOTAL CAPITAL EMPLOYED BEFORE DEDUCTION OF LAND AND INCOME TAX.

Un-Improved Value (60 per Cent.).	Stock, Implements, and Improvements (40 per Cent.).	Total Capital employed in Property and Stock.	Net Income on Capital employed before Taxes deducted.	Exemption.	5 per Cent. on Unimproved Value allowed as Deduction from Assessable Income.	Taxable Income.	Income-tax.	Land-tax on Unimproved Value.	Total Tax.	Percentage Net Income to Capital (as before) after Taxes deducted.	Without Land-tax.			Excess of Land and Income Tax over Income-tax only.	Excess of Income-tax only over Land and Income Tax.	
											Net Income (as before) Taxes deducted.	Exemption.	Taxable Income.			
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.
£	£	£	£	£	£	£	£ s. d.	£ s. d.	£ s. d.	£	£	£	£	£ s. d.	£ s. d.	£ s. d.
2,400	1,600	4,000	800	100	120	580	40 0 5	14 5 4	54 5 9	18.64	800	100	700	52 10 0	1 15 9	..
4,500	3,000	7,500	1,500	..	225	1,275	132 5 7	29 7 7	161 13 2	17.84	1,500	..	1,500	172 10 0	..	10 16 10
6,000	4,000	10,000	2,000	..	300	1,700	212 10 0	41 13 4	254 3 4	17.45	2,000	..	2,000	280 0 0	..	25 16 8
7,500	5,000	12,500	2,500	..	375	2,125	310 15 7	55 4 3	365 19 10	17.07	2,500	..	2,500	412 10 0	..	46 10 2
9,000	6,000	15,000	3,000	..	450	2,550	427 2 6	70 0 0	497 2 6	16.68	3,000	..	3,000	570 0 0	..	72 17 6
12,000	8,000	20,000	4,000	..	600	3,400	714 0 0	103 6 8	817 6 8	15.91	4,000	..	4,000	960 0 0	..	142 13 4
18,000	12,000	30,000	6,000	..	900	5,100	1,504 10 0	185 0 0	1,689 10 0	14.37	6,000	..	6,000	2,040 0 0	..	350 10 0
24,000	16,000	40,000	8,000	..	1,200	6,800	2,448 0 0	286 13 4	2,734 13 4	13.17	8,000	..	8,000	3,120 0 0	..	385 6 8
30,000	20,000	50,000	10,000	..	1,500	8,500	3,421 5 0	408 6 8	3,829 11 8	12.34	10,000	..	10,000	4,400 0 0	..	570 8 4
42,000	28,000	70,000	14,000	..	2,100	11,900	5,236 0 0	711 13 4	5,947 13 4	11.50	14,000	..	14,000	6,160 0 0	..	212 6 8
57,000	38,000	95,000	19,000	..	2,850	16,150	7,106 0 0	1,203 6 8	8,309 6 8	11.25	19,000	..	19,000	8,360 0 0	..	50 13 4
72,000	48,000	120,000	24,000	..	3,600	20,400	8,976 0 0	1,820 0 0	10,796 0 0	11.00	24,000	..	24,000	10,560 0 0	236 0 0	..
90,000	60,000	150,000	30,000	..	4,500	25,500	11,220 0 0	2,725 0 0	13,945 0 0	10.70	30,000	..	30,000	13,200 0 0	745 0 0	..
120,000	80,000	200,000	40,000	..	6,000	34,000	14,960 0 0	4,633 6 8	19,593 6 8	10.20	40,000	..	40,000	17,600 0 0	1,993 6 8	..
150,000	100,000	250,000	50,000	..	7,500	42,500	18,700 0 0	6,541 13 4	25,241 13 4	9.90	50,000	..	50,000	22,000 0 0	3,241 13 4	..
180,000	120,000	300,000	60,000	..	9,000	51,000	22,440 0 0	7,850 0 0	30,290 0 0	9.90	60,000	..	60,000	26,400 0 0	3,890 0 0	..
210,000	140,000	350,000	70,000	..	10,500	59,500	26,180 0 0	9,158 6 8	35,338 6 8	9.90	70,000	..	70,000	30,800 0 0	4,538 6 8	..

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