

We have got to this point: that your graduated tax designed to make the person with the larger income pay a larger proportion of tax on each £1 than the person with the smaller income is quite inoperative as far as 70 per cent. of the tax collected is concerned?—No; I am applying it to persons.

But companies are individuals?—No. To work according to your system we could not carry it on for any length of time, because almost any concern would be turned into a company, and they are finding that out in other countries. They have been chopping and changing in England ever since the war started. In Australia and in America they have been trying to change. We have been able to carry on during the war without any change of taxation at all in this respect. Your arguments about tax are really against the weight of tax.

I am not arguing in any way at all. What I am trying to do is to bring out the points of difference. I want to bring out the difference between your opinion and the views held by the authorities I have quoted, and the difference between the results obtained by the English system and by our system. You admit that as far as individuals are concerned—leaving companies out—and, after all, it seems to me that the legislation of the country is for the benefit of the population—there is no spread of the tax between individuals on 70 per cent. of the amount that you collect?—No. I think you are stressing that too far. I would not care to commit myself to that.

Can you point out where there is any difference?—No, not just now.

You further admit that it is correct—and it is correct—that under the New Zealand system the tax collected from companies in the year before last came to 7s. 1d. in the pound of their total income returned, whereas the tax on the total income returned from individuals was 8d. in the pound?—Yes.

And that in England, on the other hand, except for the small corporation-tax, it would have been the same?—Yes.

You quoted Professor Seligman as saying that tax could not be shifted?—Oh, no, no—a general income-tax on net profits.

Professor Seligman's is a pre-war book, written before this steeply graduated system came into force, is it not?—Yes; but that does not alter the principles.

And it did not apply to companies?—Here is a later writer's that does. I have before me an article in the *Quarterly Journal of Economics*, by Professor Adams, of Yale University, on "Federal Income-tax in America." He says here in one part: "Business competes with business, not owners with owners. The partnership and the corporation to a certain extent derive similar advantages from the Government and are the source of similar expenses to the Government. So long as the business world is split into many political jurisdictions and business men continue to live in one jurisdiction and own property or conduct business in other jurisdictions, so long will there continue to be taxes on business and business entities—meaning by business, productive capacity." Then he goes on to say: "All this means in a practical sense that if the income-tax is to be maintained as our principal tax on business it should follow in a general way the structure of the tax which we now have. Corporations cannot be exempted and the tax confined to stockholders. Some form of a proportional or degressive normal tax must be retained. Many plans have been devised in recent months whereby the corporation might be wholly exempted from the income-tax, the distributed income being taxed in the ordinary way to the stockholders. All this is logical enough as regards that part of the corporation income-tax which may be properly regarded as the equivalent of the surtaxes on saved income paid by individuals and in effect by partnerships. But it does not bear critical examination, and it would not bear the test of experience, if applied to the burden or charge represented by the normal tax. It would split, if for no other reason, on the question of taxing the share of the profits assignable to the non-resident stockholders."

I do not see that that is much to the point?—He goes on to say: "Many solutions are proposed. (1.) A flat corporation surtax of 5 or 6 per cent., such as has been adopted in Great Britain. (2.) A flat corporation rate, normal and surtax, of 20 or 25 per cent., the stockholder to include all dividends in income and thereafter take a full credit (dollar for dollar against his tax) of the 20 or 25 per cent. tax which has been paid for him by the corporation. (3.) A flat or proportional tax on the undistributed profits of corporations with explicit authorization of the many forms of 'constructive dividends' by which corporations have been able lawfully to distribute profits but actually hold the funds for reasonable use in the business. . . . All these solutions are marked by very grave defects."

I do not think that that is very much to the point?—Yes. There is the view of a person who has been considering the matter. He says that every one of these solutions is marked by a defect. There are defects in the whole lot.

Supposing I come to you as a company-promoter and put before you a company that I want you to put your savings into. Supposing I said, "This is a good industry that I am going into. Will you put your money into it?" You would say to me, "The average income that comes from companies pays ten and a half times the average income of individuals." That is what it did the year before last. You would say, "Can you show me that you can pay that tax and still earn as much as I can get outside, where I do not have to pay the tax?" And if I cannot show you that you will not put your money into the company, will you?—I agree with you; the tax is too heavy all round.

That shows that I have got to pass it on, and if I do not pass it on you will not put your money in?—This writer has something to say about passing on, too.

But I think that none of these people that have written have had any experience of the New Zealand graduated tax?—They had a heavy graduated tax in the States. The corporation and excess-profits duty ran up to a graduation of 60 per cent. of the net income.

But that excess-profits tax has ended now?—There has been substituted for it a graduated corporation-tax.