

But the corporation-tax is nothing like it ?—They had experience of it for several years. It was on the companies. The corporation-tax and excess-profits tax ran up to 65 per cent. of the net income. They had experience of it.

But they have wiped it out ?—Partly.

That excess-profits tax has been wiped out everywhere ?—Yes. It was a war measure.

(The Commission adjourned for lunch at 12.30 p.m. and resumed at 2.15 p.m.)

*Mr. Hunt.*] You were contending, Mr. Clark, that a company is the same as an individual, but is there not this difference : Supposing I am an individual with an income of £10,000 a year, and I object to the tax that I am paying in one direction : I must put my capital into some other investment, must I not ?—If you can.

I must invest in the country or else I must look for some outside country where the tax is less, and as the taxes on individuals are pretty high everywhere I would have a difficulty in finding an outside country that was fit to live in where I could invest my money. But a company is different from an individual, because it can break up and return its capital to its original investors, or, in the case of a new undertaking being considered, the company need never be formed. The company need not continue to exist. That is so, is it not ?—It would have some difficulty in disposing of its assets. It would have the same difficulty as the private trader. You have not complete mobility of capital, as a matter of fact.

But if the company can dispose of its assets it can break up ?—Yes, if it can dispose of its assets.

Now we come to the “passing on” point. I argue that tax can be passed on, and you argue that it cannot be ?—Not to any great extent normally.

Supposing that a company has to pay the heavy tax that it pays now, which is 5s. 10d. in the pound. It is obvious that the tax must come from somewhere. It must come out of the profits the company would have, or else it must be passed on to its customers. It must be one or the other ?—Yes.

Your contention is that it comes out of the profits that the company would have ?—My contention is that the indications are to that effect.

Therefore the company's profits are reduced by the amount of the tax ?—Yes.

Now, as companies are only aggregations of individuals, and as individuals need not put their money into companies or leave it in companies unless they like, is it not obvious that if the tax is going to materially reduce the profits—to reduce them below a point that the investors think profitable—there will be a gradual shifting of capital into other investments which are not taxed so highly ?—If they can do so.

And companies will not be formed to enter into a particular enterprise if investors think the profit is not sufficient to pay the tax and leave a margin as well ?—That would be so.

Then, with the gradual shifting of capital it follows that in the industries that must be run by companies the competition will become less and less gradually ?—Yes.

As the competition grows less and less it will enable those companies that remain to widen their margin of profit ?—That would be the effect of high taxation, if there is a non-taxable investment to shift to.

Assuming that is the case, even if companies cannot now “pass it on,” which I think they can, ultimately they would be passing it on through the operation of the shifting of capital and the lessening of competition ?—Yes, that is the way they would pass it on if the tax remained high and there was a tax-free investment available. I have stated that already with regard to the tax-free war-loan stock.

As such a large proportion of the capital in companies is provided by small people they have tax-free investments. All their investments, or almost all, are tax-free, except companies. If I am a man with £5,000 to invest, that is tax-free if I lend it on mortgage. If I put it into a business or into a farm, as far as income-tax is concerned I am practically free ?—Yes, if you have no other income. It is only the incomes below a certain minimum that are exempt from tax. All income from whatever source above a certain minimum is liable to tax.

Even when the tax is put on by way of a new tax, like it is now, ultimately by that shifting of capital away from those taxed investments the competition will be lessened until they can pass it on ?—That will be the effect if that state of things continues.

The continuation of the present system will ultimately mean—?—No—a continuation of the present rates, not the present system.

Well, the present rates—will ultimately mean a shifting of capital until the customers of those companies pay it ?—When I say the present rates I mean the late rates, because I am doubtful if the other advantages of company-formation would not outweigh the slightly lesser return to shareholders.

You would not call 33½ per cent. on capital a slightly less return, would you ? It is very nearly one-third ?—I do not follow you.

Five shillings and tenpence and two-fifths in the pound is almost a third, is it not ? Six shillings and eightpence would be exactly a third ?—But all companies are not paying that.

Practically all large companies are paying it ?—If they are making the profits, yes.

Another point. What is the reason why a small company should pay a lesser tax than a big one ?—Because it has a smaller income. It only pays it if it has a smaller income than the big one.

Is it not a fact that if you were to take the average holding in small companies—small companies are mostly private companies—you would find that the average holding in small companies is bigger than the average holding in big companies ?—Probably it would be.

So that the smaller companies are another source of shelter for the man with large wealth ?—My suggested amendment would meet that sort of case.

At the present time it is so ?—Yes, without that modification.