

Now, from what we heard this morning one would imagine that companies were being forced out of existence, and that there is a general reluctance on the part of business people to form their businesses into companies. Now, curiously enough, I have a return here showing the registrations of companies for the past few years and the new companies registered in each year. In 1918 there were 200 registered, with a capital of £3,055,000; in 1919 328, with a capital of £5,942,000; in 1920 501, with a capital of £9,562,000; in 1921 (number not given), with a capital of £3,498,000; in 1922 417, with a capital of £13,125,000. Now, of those registrations no less than 1,307 of the companies were private companies, with capital ranging from under £1,000 up to £50,000 and over, and 476 were public companies. In the last year (1922) there were 126 public companies registered, with a capital of £11,273,000.

*Mr. Hunt.*] Those are all small companies.

*Mr. Shirlcliffe.*] They are not all small companies. In 1922 there were sixteen companies formed, with a capital of £10,415,000. At any rate, those figures go to show that even the present scale of taxation is not by any means preventing the formation of new companies?—No.

*Mr. Hunt.*] No one ever said it did.

*Mr. Shirlcliffe.*] Then I misunderstood you.

*Mr. Hunt.*] No; I said large companies. It is only the companies with the large incomes that are affected. The companies with the small incomes are getting off. Small companies are being formed by men who have large incomes.

*Mr. Shirlcliffe.*] That seems to be one of the defects of the proposals. Take all these private companies, of which 1,307 were formed during five years, if they are relieved from taxation they may consist of only two or three members——

*Mr. Hunt.* Each one will be taxed on his share, added to his other income.

*Mr. Shirlcliffe.* Only on the amount paid out in dividends: to the extent to which that company is relieved of taxation, the profits of the company would be also relieved of taxation.

*Mr. Hunt.* No; they would be taxed on the flat rate.

*Mr. Shirlcliffe.*] I say that to the extent to which you relieve the company, the profits paid out would be relieved of taxation.

*Mr. Hunt.*] The company would pay a flat rate on its undivided profits, and its dividends would be added to the income of the shareholders?—(Witness) Yes, the flat rate would be at a lesser rate than he is taxed on.

*Mr. Shirlcliffe.*] I understood, this morning, Mr. Hunt, that you were aiming at the shifting of the taxation from companies to shareholders.

*Mr. Hunt.*] Only on the dividends.

*Mr. Shirlcliffe.*] However, it does seem to me that through the formation of these private companies the payment of tax can be largely avoided.

*Mr. Hunt.*] It is being avoided now.

*Mr. Shirlcliffe.*] Only as regards the rate, but the tax has to be paid on the total amount of profits earned.

*Mr. Shirlcliffe.*] If you have got £10,000 a year, and you invest part of your capital in a small company earning £2,000 a year, you get your dividends taxed at the lower rate?—(Witness) There is another illustration. Take a partnership consisting of two partners. They form their business into a company. They divide their income by drawing directors' fees and leaving the balance in the hands of the company; whereas when they were partners they paid on the total net profits, including their salaries. When they turn the concern into a company they divide that income, part of it being taken as directors' fees, the balance being left to the profits of the company. But you would gain more, because instead of assessing them on the graduated rate you assess them at the flat rate, which would be less than the graduated rate.

*Mr. Hunt.*] That is only the undivided profits; you do not have the same protection that they have in England?—That is inoperative. It was tried in the United States, and to a great extent it will be found inoperative in England. Who is to say what proportion of a company's profits should be retained?

You can say that not more than one-third should be retained?—It would be a very grave injustice.

*Mr. Begg.*] Could you not fix a schedule rate?—No. You could not know the circumstances of the different companies.

*Mr. Shirlcliffe.*] An instance came under my notice within the last few days. I had a balance-sheet before me of a private business in which the paid-up capital is not more than £1,500. It is a partnership. They made £1,500 during the last half-year?—A large part of that would be personal earnings, salaries. They were working themselves?

But they made their profit of £1,500 during the half-year. They drew very little out of it themselves. Their net profit was £1,500, 200 per cent. per annum. If that were a private company and they only had to pay a flat rate and tax on their own drawings it would probably mean no tax at all. The whole of the balance would escape taxation, except on the flat rate?—Yes.

So that a great deal of the income-tax would be lost to the Department, taking that as an illustration?—I do not think there is any doubt about that. Of course, in those small companies if you take the total profits before charging the partners' salaries the percentage of profit appears very high, but to compare the rate of profit of a company like that with that of a large company you must charge the partners' salaries. That is a thing that is generally overlooked. Another thing that is generally overlooked in the discussion of the question as to taxation between individuals and companies is this: the general opinion is that an individual income is considered to be a cash income. It may be in the case of a salaried person, but in very few others. Even in a professional