

person's income there is a great difference between the income that is assessed and the income that is actually received. It is the same with companies. When a private person is in business a great part of his income is locked up in stock and book debts, but very few people realize that. You frequently hear people say that they would have no hesitation in taking away from an individual who makes a certain income a large proportion of that income, but they might take away from him more than the cash he makes during the year.

*Mr. Hunt.*] And destroy his earning-power for the next year?—Yes. It is the effect of the heavy taxation. It applies to large businesses whether they are run by an individual or a company, and that is one of the reasons why I do not think a company should be treated differently from an individual. You should consider the individual in business as well as the company.

*Mr. Shirlcliffe.*] It would be possible for you to make up an approximate estimate of the rates of land and income tax, and the amounts that they produce, on the lines of this very interesting report of yours?—Yes.

To show what the rates would be in order to maintain the present aggregate of tax?—Yes.

You might be able to do that in the next few days?—Yes.

With regard to this question of passing on the tax, I would like to read what I think Mr. Clark intended to read this morning. This is by Professor Adams, who says: "The repeated charge that business men figure income-taxes as a part of their cost and then charge the customary percentage of profit on the increased cost basis is next to absurd. If it were true it would only be necessary for Congress to increase the income and profits taxes in order to increase business profits. Taxes were responsible in only minor degree for the high cost of living. The cost of living went up before tax rates were increased, it stayed up when tax rates were reduced, and it will come down in the future whether tax rates be increased or reduced. The argument that 'all taxes are shifted; therefore ignore equity and select the simplest tax,' is particularly misleading. Even though we may be certain that some part of the tax may be shifted or diffused in the long-run, its initial incidence is of enormous importance. Property-taxes on buildings are shifted in the long-run, but this does not make the tax a matter of indifference to the owners of buildings."

*Mr. Hunt:* All my argument was that if you are going in for a special tax on an investment, that investment will possibly cease to exist.

*Mr. Shirlcliffe:* But this is not a special tax.

*Mr. Hunt.*] It is a special tax on large companies, and if that tax cannot be passed on by those large companies, then in the long-run it may be passed on to the customers, because if it cannot be passed on immediately capital will gradually leave that investment?—(Witness) The tendency would be inclined to drive out the least efficient producer.

*Mr. Weston:* They would economize and turn out their turnover with the same staff.

*Mr. Shirlcliffe.*] I do not agree that income-tax is passed on?—But Mr. Hunt is quite right in his statement. If the tax is so applied that the capital cannot produce a sufficient return, that cannot last for very long, and the tax must come down or the person will go out of business.

Then it resolves itself into a question of the weight of the tax?—Yes.

*Mr. Weston:* There is no doubt that some businesses suffer more than others because they have not the necessary resources.

*Mr. Shirlcliffe.*] That is so. You would think that businesses like gas companies, which are monopolies, could pass that tax on?—The argument is that a monopolist can fix his price no matter whether there is tax or not. You must assume that he is getting as big a price as possible, and if the tax is put on he cannot get any more.

Does it not come back to this: that the profits are dependent upon the old law of supply and demand. A merchant gets the best price he can for his merchandise irrespective of taxation. He may be able to sell some goods at a substantial profit because conditions are so much in his favour, but in other lines he may have to sell at cost price or less; but on the average he sells his goods at the market price.

*Mr. Hunt:* That is fixed by competition.

*Mr. Shirlcliffe:* Except in the case of monopolies. I have not been able to see any evidence of income-tax being regarded as part of cost.

*Mr. Hunt:* Take your own merchandise business, which you say is no good: people will get out of it if it is no good, as you say.

*Mr. Shirlcliffe.*] There is no sign of it. You take a general business covering many departments: each department is interwoven with the others?—(Witness) There is no absolutely free competition.

What in?—In any trade.

*Mr. Hunt.*] I think so?—There is no free competition in the grocery trade.

There are a certain number of wholesale articles whose prices are controlled, but in a large number of articles there is free competition?—I doubt it.

*Mr. Shirlcliffe.*] Confining ourselves to conditions in New Zealand, it seems to me that the rate of interest is fixed by the law of supply and demand?—Yes, I think it is largely fixed by that.

I was interested in the discussion just now on your suggestion that you would allocate the various portions of a man's income and charge him the highest rate that he is liable for, based on his aggregate income—on that portion of his income that is earned outside investments?—Yes.

The point seems to be whether you should not, in so charging a man, give him credit for the tax that the company had paid on his share of the profit, because otherwise his total income might pay more taxation than the Department was entitled to receive on it?—This is the section that I had in mind; it applies to land-tax: "In the case of each joint owner there shall be deducted from the tax so payable by him under the provisions of the last preceding subsection (so far as such tax exceeds the graduated land-tax that would be payable by him if he owned no interest in any joint estate) his share of the tax so payable in respect of the joint estate."