

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." Now, let us deal with this position as it applies to the figures shown in the return of income-tax assessments for 1920-21. These figures are the latest in my possession, and though the more recent figures will vary to some extent, still the underlying principle is the same, and the 1920-21 figures will yield comparative results when taken in round sums. Out of the total tax paid (£8,000,000) companies contributed £5,000,000, and other taxpayers £3,000,000. Putting clause (c) shortly, it states that seven-fourteenths of the companies' capital is owned by people with a non-assessable income; three-fourteenths is owned by those with non-taxable incomes; leaving four-fourteenths with taxable incomes, and the great bulk of these only at a comparatively low graduated rate. Working this out on the figures quoted gives us the following result: Four-fourteenths of the £5,000,000 is £1,400,000. This leaves a deficit of no less than £3,600,000, which, to produce the required total revenue, must be added on to the other taxpayers' contributions, and these taxpayers, even when the rate had a maximum of 8s. 9d., previously contributed only £3,000,000. Can this be contended to be within even a possibility of practical realization? Turning now to subclause (d), it contains the following: "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." That is the end of a quotation from the Federal Commissioner of Taxation when giving evidence before a Royal Commission in Australia. Then the subclause goes on: "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.'" Now, in spite of this definite announcement, what is the position in Australia to-day? The journal *Accounting and Commerce* of the 31st January, 1924, on page 258, states:—

*Federal Income-tax (Australia).*

The Amendment Act passed in September last makes certain amendments of the law, of which the following are the most important:—

*Taxation of Dividends.*—Dividends or other profits derived by a shareholder are exempted from income-tax, except that in cases where a taxpayer, if he were to include such in his individual return, would pay on them at a higher rate than the company pays upon them. In such cases the dividend is assessable to the shareholder, but he will get a rebate in his assessment of the amount which the company is liable to pay upon his dividend.

*Taxation of Companies.*—Companies are now to be taxed upon the total taxable income, instead of upon the portion undistributed in dividends. As explained, the dividend is to be omitted from the assessment of the shareholder. This is a revolutionary provision, and means the recognition of the New Zealand system despite its unpopularity in some quarters in this country.

We must necessarily conclude from this that the Federal authorities, after a thorough examination of all systems of company-taxation, have decided that the advantages and equity of the present New Zealand system are such that they outweigh those of other methods. Before leaving this quotation I would call special attention to the question of increase in working-costs of collection. If we change from our present system, the Commissioner's staff will be called on to handle and deal with thousands of returns and investigations where they now have hundreds; and note this: that these additional returns in the bulk of cases would be practically non-productive of revenue, as I have shown above. There would be the additional labour of checking through endless lists of shareholders when a single taxpayer held a few shares in several companies besides having his ordinary source of income. The returns themselves would also require, to be complete, to show the individual holdings in each company to assist in making the assessment, thus making further complications to be misunderstood by the taxpayers in making returns, with the resulting extra work in the Commissioner's office in giving explanations and instructions. If the system is adopted of the company deducting the tax when paying out the dividend and the taxpayer having to apply for a refund, any one with experience of similar applications to the Inland Revenue authorities in England could give you an idea of the amount of trouble, correspondence, and expense which this entails, and the extremely unsatisfactory results which finally eventuate. Clause 38 (g) gives a forecast that the present system of taxation will prevent company formation and progress: "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