and these dividends are distributions of net profits after the company has paid income-tax. The examination of a list of share-prices issued by a stock exchange will bear out this statement. Is this shareholder entitled to a refund of tax, or is it not rather an attempt on his part to obtain more than that to which he is entitled ?

"2. Turning now to the small shareholder in class (*a*) (original shareholders)—and this argument also applies to the shareholder in class (*b*)—he has recognized that union is strength, and so he has taken up shares with the idea of deriving benefit from combining his small sum with other amounts in order that he may obtain a higher return from his money than he would receive from an ordinary small safe investment. The purchase of shares being a speculation, he knows the risk he runs; he knows that the company may fail, and he would then lose the whole of his venture; and he knows that companies are legally, in every way, separate entities and have been taxed as such for many years past. As he undoubtedly receives the benefits from his share in the 'union,' so also must he accept the disadvantages.

"For the reasons riven above, the writer contends that any amendment to the system of taxing companies as separate entities is not equitable, the more so because any decrease in revenue from this source will probably have to be made up by other payers of income-tax who should not justly be called on for such extra contributions.

"A glance at the official figures of new companies registered will give sufficient answer to the argument that the incidence of taxation which has been adhered to for years past is having a restricting influence on this form of business control."

Those statements dealing with a question of fundamental principles are equally true to-day as they were when written. I now propose to deal with some of the effects that would arise in practice if the incidence of taxation were changed. Take the case of a company having a paid-up capital of £550,000, made up of 300,000 ordinary shares of £1 each and 250,000 5½-per-cent. preference shares of £1 each, both classes of shares being taken up under the existing law. Let us assume that this company makes a profit of £48,000 for the year ending 31st March, 1923. Under the present incidence this amount could be allocated as follows:—

	£
Amount of carry-forward considered safe for distribution	4,750
Profit	48,000
Total	£52,750

	£	
Income-tax, 7s. 4d. in the pound	18,000	
Ordinary shares: Dividend	21,000	= 7 per cent. tax-free.
Preference shares: Dividend	13,750	= 5½ per cent. tax-free.
Total	£52,750	

We will now assume that the incidence of taxation is altered according to the ideas of the authors of the majority report. The preference shareholders will then receive their £13,750 *subject to taxation* instead of tax-free, while the ordinary shareholders will receive £39,000—that is, over 13 per cent.—also, of course, subject to taxation. This result would, I have no doubt, delight the ordinary shareholders; but would the preference shareholder be equally pleased ? His rate of income-tax would be materially increased on account of the loss to the public revenues, as I have previously explained, and in addition the rate of tax on the whole of his income, quite apart from these dividends, would also be increased, because their inclusion would affect the graduation of his income-tax. The wide differences of effect on the various classes of shareholders in companies is a point that has not been sufficiently stressed and gone into. Take the case of a man with an income of £600 per annum who wishes to invest £5,400 in the company I have mentioned. If he takes up 5½-per-cent. preference shares he will then pay, according to the present law, £15 income-tax on his whole income (£900), and the same tax if he takes up the ordinary shares paying 7 per cent. (total income £978). This would give him a net income of either £885 or £963. Now, change the incidence of taxation in the manner urged, and what is the result ?

1. If he has bought preference shares, his income-tax will then amount to £63 15s., leaving him with £83 5s.—that is, an additional tax of £48 15s.

2. If he has bought ordinary shares, his income will then be—

	£
(*a*.) Ordinary income	600
(*b*.) 5,400 ordinary shares at 13 per cent.	702
Total	£1,302
Less tax	114
	£1,188 — an additional gain of £225.

Where is the equity ? The result would be that the preference shareholder would be penalized by an additional £48 15s., without any additional income, while the ordinary shareholder made an additional clear profit of £225. To my mind, it would be almost an impossibility to so frame an Act, which must necessarily deal with general principles, to avoid creating serious injustices and inequalities