

between classes of shareholders, and this entirely due to that fact that a radical change-over would be attempted in the incidence of taxation. Shares have been issued under various names—ordinary, preference, founders, bonus, deferred, and so on, and the name in itself is practically no positive guide as to the varying conditions under which the shares are actually issued. Another practical difficulty that must be faced would be that of company profits available for distribution at the date of the change-over. Would a distribution of these profits carry an additional dividend-tax, thus paying tax twice, or how could they be so dealt with as to overcome this? These profits may be called—Balance forward in Profit and Loss Account; Reserves; Reserve Funds; Dividend Equalization Account; and so on; and the subsequent distribution of dividend might take only part of these and make up the balance from subsequently earned profits. Then, again, these reserves might have been created by premiums on share issues, and so on: would these have to pay income-tax? A company, instead of paying out dividends, might distribute bonus shares. Would these pay income-tax? A company might go into liquidation and the liquidator distribute the surplus assets by paying what are actually dividends on shares which might really be the result of revenue profits, capital profits, or return of capital. What would be the position as to income-tax? To sum up the change-over, even if a fairly satisfactory general Act were passed and brought into force, the Commissioner would be immediately faced with a fresh lot of loopholes and opportunities for avoidance of tax, fresh injustices that would require adjustment, and so on, whereas now he has a fairly clear-cut method which is familiar to the taxpayers, and he has succeeded by his various amending Acts in closing up most of the openings through which the elusive taxpayer could escape him. I do not propose to enlarge on these practical difficulties, because any one, by a study of the subject, could put doubtful cases almost indefinitely before you; but I say this: that the proper time to tax profits is when they are made and not when they are distributed. Another point for consideration is this: the change-over would necessarily materially affect the market price of company shares, causing capital losses to some holders and capital profits to others. This factor alone is one which would require very careful consideration on the part of the authorities if the alteration were contemplated. If I have not made myself clear in any of the above statements I would be pleased to answer any questions concerning them. In conclusion, I should like to take this opportunity of paying a tribute to the way in which the Land and Income Tax Department is being run. Without exception, in all the transactions I have had with either Wellington or the local Inspectors I have received fair treatment, an attentive hearing, and the utmost assistance; and all the officers that I have come in contact with are, in my opinion, men of outstanding ability, not only in the carrying-out of their duties, but in retaining an open mind. Also the very wide discretionary powers which the Government has given to the Commissioner have proved to have been placed in safe hands. I wish to deal now briefly with one or two matters that I would urge should be altered to make the incidence of taxation more equitable.

1. Abolition of land-tax as a means of raising annual revenue and putting on a special tax for the purpose only of preventing under-aggregation of land, and to burst up any large holdings that can profitably be subdivided. As I understand it, this was the original intention in the introduction of land-tax, and its incidence is such that it acts inequitably when considered as an annual charge. Necessarily a land-tax must be imposed to take effect on a certain day and hour—at present it is 12 o'clock noon on the 31st March in each year. The charge cannot be subject to apportionment in any way, and it works out in practice thus: If a man buys land on the 30th March he pays land-tax on it, but if his purchase is not made until 1st April he escapes tax. This is clearly inequitable, and its nature is such that it is practically impossible to avoid it, more particularly as a reasonable method of apportionment of a graduated land-tax has yet to be suggested.

2. Inclusion as a taxable profit of any profit made on the sale of land purchased within, say, twelve months of such sale. This applies, to my mind, particularly as it affects farm property. This speculation in farms, stocking up to more than the carrying-capacity and then selling out at a profit is essentially bad from a production point of view. The class of farmer that is wanted is one who intends to make his profit by farming, and not by selling his farm, and under the present method of taxation the farm speculator is encouraged, as his profit is not taxed. Moreover, each sale of the farm at a profit makes it more difficult for the ultimate holder to farm profitably, as his overhead charges in the way of interest are so materially increased.

3. Reimposing of tax on income derived from land, and taxation of this form of income exactly as in the case of other income. I cannot see any reason for the exemption of any annual form of income from an annual income-tax, and now that losses are permitted to be carried forward such taxation is absolutely sound and equitable even in the case of a fluctuating business such as farming. As various returns of income have been passing through my hands, I have been more and more impressed with the equity of income-tax on farms as opposed to land-tax. During the slump period, while large losses were being made, the farmer was still called on to pay his land-tax, and sometimes it was extremely difficult for him to do so. To-day when he (more particularly the sheep-farmer) is doing well the amount he has to pay in land-tax is indefinitely too little when considered in comparison with his profit. Income-tax has this definite element of justice: if you make profits you pay tax to the State; if you make no profits you pay no tax.

4. Taxation of all interest on debentures on the same basis as other interest. I cannot see why any differentiation should be made between debenture and other interest in the way it is at present. There does not seem to be any valid reason for it. These variations in methods of assessment permit of efforts being successfully made by some taxpayers to avoid paying their fair shares of tax to the State, and this should, as far as possible, be prevented.

5. Donations made by business firms should be permitted as deductions from income for the purposes of assessment. These donations are in a large measure a form of expense, in some cases as a matter of business policy, in some as an advertisement, and in some from a sense of liberality.