Mr. Hunt.] It is an extreme case, but is it not quite possible for a man with £10,000 a year to distribute his capital amongst a number of small companies and escape a very large amount of taxation ?—That is provided against to some extent in the Act, which leaves it optional for the Commissioner of Taxes to make joint assessments when companies are owned—that is, a certain proportion of their capital—by the same shareholders.

A man can be in quite a number of small companies, where the tax is very much reduced ?—Yes. But the assumption is that a man is making his investment for the purpose of the avoidance of tax. An ordinary individual makes his investment for the purpose of income, and when he has got his income he uses his brains to try to avoid the tax.

He is out for net income, is he not ?—Yes.

Is it not true that he will take the tax into account in fixing his investments ?—That is so ; but the average man, when he is speculating in shares, looks for much more than a normal rate of interest. He expects a larger rate, and he takes the risk.

The bulk of the companies that have been floated have been small private companies : is that not true ?—I believe that is true.

There have been practically no companies floated during the last two or three years with a large paid-up capital. I do not take any notice of a large nominal capital, because nominal capital is not paid-up capital. Is not that so ?—I could not tell you. I have not seen the recent figures of large-company flotation.

You refer in your statement to a big company. You say : " 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." Do you know of any such company having been floated since the high graduated tax came in ?—No.

So that all these big companies would have been floated before the graduated tax came in ?—I presume so. No ; pardon me. Before the graduated tax came in, or before the high graduated tax came in ?

Before the high graduated tax came in ?—Yes.

When did the graduated tax come in ?—I was under the impression that the graduated tax was in operation before the war.

Mr. Hunt : Before the war it was hardly a graduated tax. It was a flat rate, with lower rates on the smaller incomes. It was a flat rate of 1s. 4d. in the pound as a maximum in pre-war days. Is that not so, Mr. Clark ?

Mr. Clark : No ; in 1910 it was graduated, but not to the same extent as at present. The maximum was 1s. 4d. in the pound.

Mr. Hunt : And that was reached at a comparatively low income ?—Yes.

Mr. Hunt (to witness).] So that in practice, although the tax was graduated up to 1s. 4d. at a low income, it meant that 1s. 4d. was the amount paid by all companies ?—But that is more a question of the justification or otherwise of having the graduation, and also a question of the justification or otherwise of having a high maximum.

But 1s. 4d. was the maximum when any of these large companies were floated ?—Yes.

You referred to the big profit that a company would make on its ordinary shares if this change took place, and suggested that it would increase its dividend up to 13 per cent. Would competition come in between those companies ?—Competition to a very large extent is governed by the law of supply and demand. An ordinary trading concern fixes the price of its commodities at what it can get.

But the profit is largely fixed by competition, is it not ?—Yes.

And competition between companies fixes the profit in very many concerns, does it not ?—Yes.

If the companies were going to earn 13 per cent., would it not mean that capital would immediately flow into that very profitable industry ?—You are dealing now with the question of the justification of a high rate of tax.

No. What I am dealing with is the ordinary fluidity of money. Is it not true that capital tends to leave the unprofitable industries and flow to the profitable ones ?—Yes.

If companies could get a 13-per-cent. return, would not that be very profitable ?—In that illustration I was giving you it was only on half the capital that that 13 per cent. was made.

If ordinary shares could earn 13 per cent., would not that be a very profitable industry ?—If you distribute the profit that I show in that instance over the whole of the capital it is not 13 per cent. It is only about 8½ per cent.

I mean it is a very profitable investment and would tend to make more money flow in that direction ?—Not with a return of 8½ per cent. only.

But the 8½-per-cent. return can easily be converted into a much more profitable one on ordinary shares, because most companies have preference shares or debentures ?—The question I was dealing with there was the question of the inequality produced between the classes of shareholders, not the question of the increased profit that would be available for distribution over the whole of the capital.

An ordinary shareholder should receive more than a preference shareholder, should he not, because of the risk he is taking ?—Yes, I admit that, but not to the extent that it would mean in a case such as this.

But do you not think that if a company could make 13 per cent. for its ordinary shareholders it would tend to make more capital flow into that form of industry ?—No, I am not prepared to admit that.

I think it would ?—The total profit available in a company of this nature would approximately average 8½ per cent., which is not an abnormal return from a company investment.

That is not the average. It is a very great deal more in this case. It works out to very nearly 10 per cent. ?—Yes. Ten per cent. is not an abnormal return for a trading concern. I do not think