A company with small capital may be very rich, and a company with large capital may be very poor: that is the case is it not?—It depends upon the definition of capital. If you take capital as the surplus of assets over liabilities——

Take earning-power. Take a company with £10,000 or £20,000, which, we will say, is a small company, but if it is earning 50 per cent. it is not a poor company, though it may be small?—Yes; but you would not call an individual having £10,000 a small man.

A man with £1,000 a year would be comparatively poor?—No; he is out of the stage for the special exemption of £300, so that the incidence of taxation recognizes him.

But I mean a man with a capital of £1,000 not an income of £1,000. A man with £100,000 would be a rich man?—Yes.

But in that respect you cannot compare companies with individuals; they are different. A company with a small capital may be rich?—Yes.

Is that not one respect in which companies are quite different from individuals?—There is a distinction to some extent. But take a man with small capital; he may have a large earning-capacity through his ability, and he becomes a wealthy man; whereas a company may have a small capital to start with and is exploiting some individual process and so becomes a wealthy company. In that respect they are similar.

But what is the justification for graduating the tax upon companies according to the amount of income?—For the same reason that you graduate the individual according to his income and not according to his capital.

Take the small company which is earning 50 per cent. on its capital: that is a very rich company from an investing point of view?—Yes.

Another company with a huge capital may be earning only 3 per cent.: that is a poor company from an investing point of view?—Yes.

Why should the one pay a smaller tax than the other?—To some extent that is parallel with the individual. Take the professional man without capital. A man may have a large capital and pay a high rate of tax. Take an investor with a large amount of capital sunk in unfortunate investments; he pays a small rate of tax. In that respect the case of the individual is parallel with that of the companies you referred to.

But in that case the one with the small capital and the large income pays the high graduation?—The graduation is based entirely on income, irrespective of capital.

Talking about limited liability companies, take one earning, we will say, a very large return—say, 25 or 50 per cent., as against another company with large capital that is only earning 3 or 4 per cent.: what is the justification of taxing one lightly and the other heavily?—I think that the position is parallel with that of individuals. Individuals may have a similar amount of capital and quite a different earning-capacity, and their tax is in proportion to their income in each case, the same as with companies.

Is it not the case that the individual can hardly get into that position? The individual with £100,000 will not get interest on it unless he absolutely moves away the capital altogether. He will not have income to pay it on; but an aggregation of capital earning a very small return pays the maximum tax?—That is more a question of the unfortunate investment of that individual, I take it, than a fault in the incidence of taxation. The individual takes up his shares with the idea of getting a good return from his investment. If he fails to get that return it is his misfortune. It is not so much a question of the company being penalized by the rate being levied at a graduated scale on its income.

The misfortune in the case of an individual would result in his paying little or no tax, but the misfortune of the company is penalized to a large extent so long as it earns an income?—Yes.

You think the cases are quite analogous?—To a large extent. I think that the taxation of income from the point of view of the unit that earns the income is the soundest basis.

Then, you think that companies should be treated entirely as individuals for taxation purposes?—Yes.

At the end of your statement you suggest that "to arrive at the graduated rate for income-tax all forms of income be included—share dividends, tax-free debenture interest, and so on." You say that the company is the entity, is the individual, and is to pay the tax; and yet on that income in other hands you propose to impose another tax?—No. My proposal is that you should include your share dividends and tax-free interest for the purpose of getting your graduated rate, which would only be levied on the taxable income, not on the tax-free income.

But if you claim that a company is an individual for this purpose, that income is done with; it has paid its tax, and it is finished with?—Yes.

But now you propose to add it on to other income in order to put a higher graduation on the income of another individual altogether?—Yes.

Why should you add an income from one individual and put it on to another to increase his tax?—It comes back to the question of the justification or otherwise of a graduated tax; but in a case like that I consider that the taxpayer in receipt of taxable and non-taxable income is able to pay at the graduated rate on that portion of his income which is subject to taxation.

Of course he is able to, but why should he have to? That income has already been taxed on a graduated scale in the hands of another individual?—I do not agree with that, because this is only a portion of what has been taxed.

But it is not his. The individual that earned it has already paid the tax on it?—Yes, and I propose that the ultimate recipient of this should not pay the tax on it.

It is practically the same thing. You use that to put up his graduation on what is left?—Yes.

Because you recognize that the company-tax is not giving you a proper graduation on private incomes?—No, that is not the reason.