

it is proposed to abandon the special land-tax and make all farmers owning or occupying land of an unimproved value of £7,500 or over liable to assessment for income-tax on their farming as well as other income. The provision in last year's legislation whereby the land-tax payable was deductible from the income-tax on farming incomes will also be repealed, and farmers will henceforth be assessed for income-tax on the same basis as other classes of the community.

Further, it is found that the present general provision allowing a deduction for income-tax purposes of 5 per cent. on the capital value of property used in production of the income has given rise to serious anomalies and inequities. This allowance is intended as a set-off for land-tax paid, and also to provide for depreciation of buildings, but the method is too rough and ready to be equitable. For instance, a taxpayer deriving income from rents is at present allowed as a deduction the interest on his mortgage and also 5 per cent. on the full capital value, in which his equity may be relatively small. In many such cases the taxpayers practically escape income-tax, and by reason of the mortgage exemption may also escape land-tax. Again, in the cities, owing to the erection in recent years of large and valuable buildings, the 5-per-cent. allowance has in some cases relieved the business man not only of the amount of his land-tax, but, in addition, of a considerable part of his income-tax. Further, the taxpayer carrying on his business in a steel-frame structure with a life possibly exceeding one hundred years is allowed the same rate of 5 per cent. as the taxpayer using a wooden building with a possible life, of, say, forty years. Even in the latter case 5 per cent. on the capital value is an excessive allowance. Further depreciation is an actual expense and should be allowed as a deduction before arriving at the assessable income. At present it is a special exemption.

Accordingly, it is proposed to revert practically to the position obtaining prior to 1923, and reduce the allowance to 5 per cent. on the unimproved value or the taxable balance in cases where a mortgage exemption has been allowed in the land-tax assessment, together with an appropriate allowance for depreciation of buildings, varying with the different classes of building, at the discretion of the Commissioner of Taxes.

The proposal really amounts to dividing the present allowance into its two parts—an allowance of 5 per cent. on the unimproved value as a set-off against land-tax paid, and depreciation on buildings at appropriate rates as a deduction from profits. The change will apply to all assessable income derived from the use of land, whether in the course of farming or trading.

That 5 per cent. on the unimproved value is generally sufficient to cover land-tax paid will be seen from the following examples taken from returns rendered to the Tax Department :—

Class.				Unimproved Value.	Assessable Income.	Reduction in Income-tax by allowing 5 per Cent. on Unimproved Value.	Land-tax paid.
				£	£	£	£
Commercial	..	..	..	6,200	4,220	75	24
Farming	..	..	..	10,150	2,925	98	97
Commercial	..	..	..	18,425	33,656	207	136
Farming	..	..	..	24,287	4,121	283	237
Commercial	..	..	..	35,812	35,119	402	448
Farming	..	..	..	38,927	5,875	499	446

It is also proposed to make some changes in regard to the taxation of life-insurance companies, the taxation on which has been considerably reduced in recent years. In 1921 it was provided that the income should be assessed at half the ordinary rate, and the companies have been able to increase greatly the bonuses paid. It is found, however, that the Government Life Insurance Department, the assessable income of which is determined by its actual profits, is paying 32 per cent. of the total income-tax paid by life-insurance companies, while its

Taxation of life-insurance companies.