

## New Zealand.



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## 1923, No. 21.

Title.

AN ACT to consolidate and amend the Law relating to Land-tax and  
Income-tax. [28th August, 1923.

BE IT ENACTED by the General Assembly of New Zealand  
in Parliament assembled, and by the authority of the same, as  
follows :—

Short Title.

1. This Act may be cited as the Land and Income Tax Act, 1923.

Interpretation.

2. In this Act, except where a contrary intention appears,—

1916, No. 5, sec. 2

“Agent” means any person declared by this Act to be an agent  
for the purposes of land-tax or of income-tax, as the case  
may be :

“Annual taxing Act” means an Act by which the rates of land-  
tax or income-tax are determined for any year :

“Assessable income” means income of any kind which is not  
exempted from income-tax otherwise than by way of a  
“special exemption” expressly authorized as such by this  
Act :

“Business” includes any profession, trade, manufacture, or  
undertaking carried on for pecuniary profit :

“Charity” means the relief (otherwise than for private pecuniary  
profit) of poverty, sickness, blindness, old age, or any other  
form of physical or mental disability, and “charitable” has  
a corresponding meaning :

“Company” means any body corporate, whether incorporated  
in New Zealand or elsewhere, but does not include a local  
or public authority :

“Debentures” includes debenture-stock, and “debenture-holder”  
includes the owner of debenture-stock :

“Encumbrance” means in respect of an estate or interest in  
land any trust, contract, easement, condition, or contingency  
affecting the same, and any restriction, howsoever imposed,  
on the owner’s power of user, alienation, or disposition :

“Estate” or “interest” means any estate or interest in land,  
whether legal or equitable, and whether vested or contin-  
gent, in possession, reversion, or remainder, and includes  
any right to the possession of land or to the receipt of the  
rents or profits thereof, or to the proceeds of the sale or  
other disposition thereof, whether immediate or through  
a trustee, or otherwise howsoever, but does not include a  
mortgage :

“European” means any person other than a Native, and includes  
a body corporate :

“Foreign company” means any company other than one incor-  
porated in New Zealand :

“Friendly society” means any society registered or incorporated  
in New Zealand under any Act relating to friendly societies,  
industrial and provident societies, industrial unions, indus-  
trial associations, or trade-unions :

“Income year” means, in respect of the income of any person,  
the year in which that income has been derived by him :

- “Land owned” means an estate or interest owned in land, or deemed to be so owned by virtue of the provisions of this Act :
- “Lease” means any disposition whatever by which a leasehold estate is created :
- “Leasehold estate” includes any estate, howsoever created, other than a freehold estate :
- “Local authority” means a borough, county, and other body corporate possessing rating-powers in New Zealand, and any Harbour Board, Hospital and Charitable Aid Board, Education Board, or other incorporated instrument of local government in New Zealand, whether possessing rating-powers or not :
- “Minerals” includes all minerals, metals, coal, oil, kauri-gum, clay, stone, gravel, sand, and precious stones :
- “Mortgage” means any mortgage, charge, or other security whether legal or equitable, and includes any rent charge or annuity, and for the purposes of this definition all unpaid purchase-money in respect of any estate or interest in land shall be deemed to be charged thereon :
- “Mortgagee” means the owner of a mortgage :
- “Native” means a person who is a Native within the meaning and for the purposes of the Native Land Act, 1909, save that a half-caste, within the meaning of that Act, shall not be deemed to be a Native :
- “Native land” means Native freehold land within the meaning and for the purposes of the Native Land Act, 1909 :
- “New Zealand company” means a company incorporated in New Zealand :
- “Non-resident agent” means an agent within the meaning of this Act who, being in New Zealand, has no fixed and permanent place of business or abode there :
- “Non-resident trader” means any person who, being in New Zealand, carries on business there without having any fixed and permanent place of business or abode there :
- “Notice” means a notice in writing given by causing the same to be delivered to any person, or to be left at his usual or last known place of abode or business in New Zealand or elsewhere, or to be sent by post addressed to such usual or last known place of abode or business, or if there are several such places of business, then to any of them :
- “Owner of land” means a person who is the owner, or is deemed by virtue of this Act to be the owner, of any estate or interest in land, whether separately or jointly or in common with any other person ; and “to own land” means to be an owner of land as so defined :
- “Person” includes a company and a local or public authority :
- “Possession” includes any use which is in fact or effect substantially exclusive, whether by virtue of a right of exclusive occupation or not :
- “Prescribed” means prescribed by regulations under this Act :

- “Public authority” means the Public Trustee, the Native Trustee, the State Advances Superintendent, and every other incorporated Department or instrument of the Executive Government of New Zealand :
- “Shareholder” includes any member of a company, whether the capital of that company is divided into shares or not; and “share” includes any interest in the capital of a company :
- “Superannuation fund” means the Public Service Superannuation Fund, the Teachers’ Superannuation Fund, the Government Railways Superannuation Fund, and any superannuation fund established under the Local Authorities Superannuation Act, 1908, and includes any superannuation fund established for the benefit of the employees of any employer and approved for the time being by the Commissioner for the purposes of this Act :
- “Tax” means land-tax or income-tax :
- “Taxable income” means the residue of assessable income after deducting the amount of all special exemptions to which the taxpayer is entitled :
- “Taxpayer” means a person chargeable with land-tax or income-tax, as the case may be, whether on his own account or as the agent or trustee of any other person, and includes the executor or administrator of a deceased taxpayer :
- “Trustee” includes an executor and administrator, and also includes the Public Trustee and the Native Trustee :
- “Year” means a year commencing on the first day of April and ending on the thirty-first day of March, both of these days being included :
- “Year of assessment” means the year for which land-tax or income-tax is payable.

## PART I.

### ADMINISTRATION.

3. For the due administration of this Act there shall from time to time be appointed a fit person to be the Commissioner of Taxes (hereinafter referred to as the Commissioner), and a like person to be the Deputy Commissioner of Taxes (hereinafter referred to as the Deputy Commissioner).

4. (1.) The Deputy Commissioner shall, under the control of the Commissioner, perform such general official duties as he is called upon to perform under this Act or by the Commissioner.

(2.) On the occurrence from any cause of a vacancy in the office of Commissioner (whether by reason of death, resignation, or otherwise), and in case of the absence from duty of the Commissioner (from whatever cause arising), and so long as such vacancy or absence continues, the Deputy Commissioner shall have and may exercise all the powers, duties, and functions of the Commissioner.

Power to appoint  
Commissioner  
and Deputy  
Commissioner of  
Taxes.  
1916, No. 5, sec. 3

Powers of Deputy  
Commissioner.  
Ibid., sec. 4

(3.) The fact of the Deputy Commissioner exercising any power, duty, or function as aforesaid shall be conclusive evidence of his authority so to do, and no person shall be concerned to inquire whether the occasion has arisen requiring or authorizing him so to do.

(4.) So far as regards the assessment and recovery of any tax with which the person holding office as Commissioner may be chargeable under this Act, all references in this Act to the Commissioner shall be construed as references to the Deputy Commissioner.

5. There shall be appointed from time to time such assessors, clerks, receivers, and other officers as are necessary for the purpose of carrying out the provisions of this Act.

Power to appoint  
other officers.  
1916, No. 5, sec. 3

6. (1.) Every person appointed or employed under this Act—

Officers to maintain  
secrecy.  
Ibid., sec. 6

(a.) Shall maintain and aid in maintaining the secrecy of all matters relating to this Act which come to his knowledge, and shall not communicate any such matters to any person, except for the purpose of carrying into effect this Act, or any other Act imposing taxes or duties payable to the Crown; and also

(b.) Shall, before he begins to perform any official duty under this Act, take and subscribe such oath of fidelity and secrecy as is prescribed, which oath may be administered by the Commissioner or Deputy Commissioner, or by any Justice.

(2.) Every person who wilfully acts in contravention of the true intent of such oath is liable, on summary conviction before a Magistrate, to imprisonment for any term not exceeding six months, or to a fine not exceeding one hundred pounds.

## PART II.

### RETURNS AND ASSESSMENTS.

7. For the purposes of the assessment and levy of land-tax every taxpayer shall in each year furnish to the Commissioner a return in the prescribed form setting forth a complete statement of all land in respect whereof he is assessable for land-tax, as owned by him at noon on the thirty-first day of March in the preceding year, together with such other particulars as may be prescribed.

Annual returns by  
taxpayers for  
purposes of  
land-tax.  
Ibid., sec. 7

8. (1.) For the purposes of the assessment and levy of income-tax every taxpayer shall in each year furnish to the Commissioner a return in the prescribed form setting forth a complete statement of all the assessable income derived by him during the preceding year, together with such other particulars as may be prescribed.

Annual returns by  
taxpayers for  
purposes of  
income-tax.  
Ibid., sec. 8

(2.) Where such a return cannot conveniently be made the Commissioner may, in his discretion, accept a return of the income so derived by any person during the year ending on the date of the annual balance of his accounts, and in such case the income derived during that year shall for the purposes of this Act be deemed to have been derived during the year ending on the thirty-first day of March nearest to that date.

9. In addition to the foregoing returns every person, whether a taxpayer or not, shall make to the Commissioner such annual returns as may be prescribed for the purposes of this Act.

Other annual  
returns.  
Ibid., sec. 9

Dates by which returns to be furnished.  
1916, No. 5, sec. 10

10. (1.) The above-mentioned returns shall be made in each year before a date or dates of which the Commissioner gives public notice.

(2.) Such notice shall be given by publishing the same in the *Gazette* and in such other manner (if any) as the Commissioner may think necessary and sufficient.

Commissioner may require other returns to be made for purposes of Act.  
Ibid., sec. 11

11. In addition to the returns above mentioned every person, whether a taxpayer or not, shall, as and when required by the Commissioner, make such further or other returns as the Commissioner requires for the purposes of this Act.

Returns deemed to have been made with authority unless contrary is proved.  
Ibid., sec. 12

12. A return purporting to be made by or on behalf of any person shall for all purposes be deemed to have been made by that person or by his authority, as the case may be, unless the contrary is proved.

Commissioner to make assessments.  
Ibid., sec. 13

13. (1.) From the returns made as aforesaid and from any other information in his possession the Commissioner shall in and for every year, and from time to time and at any time thereafter as may be necessary, make assessments in respect of every taxpayer, setting forth the amount upon which tax is payable and the amount of the tax.

(2.) Every such assessment shall be made in the form and manner prescribed by regulations, and in default of such regulations or so far as they do not extend, then as the Commissioner thinks fit, and shall be signed by him.

Assessment in cases where default made in furnishing proper returns.  
Ibid., sec. 14

14. If any person makes default in furnishing any return, or if the Commissioner is not satisfied with the return made by any person, or if the Commissioner has reason to suppose that any person, although he has not made a return, is a taxpayer, he may make an assessment of the amount on which in his judgment tax ought to be levied and of the amount of that tax, and such person shall be liable to pay the tax so assessed, save in so far as he establishes on objection that the assessment is excessive or that he is not chargeable with tax.

Amendment of assessments.  
Ibid., sec. 15

15. (1.) The Commissioner may from time to time and at any time make all such alterations in or additions to an assessment as he thinks necessary in order to ensure the correctness thereof, notwithstanding that tax already assessed may have been paid.

(2.) If any such alteration or addition has the effect of imposing any fresh liability or increasing any existing liability, notice thereof shall be given by the Commissioner to the taxpayer affected, who shall, unless the alteration or addition was made with his consent, be entitled to object thereto in accordance with the provisions as to objections hereinafter contained.

Limitation of time allowed for amendment of assessment.  
Ibid., sec. 16

16. When any person has made returns and has been assessed for land-tax or income-tax for any year, it shall not be lawful for the Commissioner to alter the assessment so as to increase the amount thereof after the expiration of four years from the end of the year in which the assessment was made.

Validity of assessments not affected by failure to comply with Act.  
Ibid., sec. 17

17. The validity of an assessment shall not be affected by reason that any of the provisions of this Act have not been complied with.

Except in proceedings on objection, assessments conclusively deemed to be correct.  
Ibid., sec. 18

18. Except in proceedings on objection to an assessment in accordance with the provisions hereinafter contained, no assessment made by the Commissioner shall be disputed in any Court or in any proceedings either on the ground that the person so assessed is not a taxpayer or on any other ground; and, except as aforesaid, every such assessment and all the particulars thereof shall be conclusively deemed and taken



to be correct, and the liability of the person so assessed shall be determined accordingly.

19. The production of any document under the hand of the Commissioner or Deputy Commissioner purporting to be a copy of or extract from any return or assessment shall in all Courts and in all proceedings be sufficient evidence of the original, and the production of the original shall not be necessary, and all Courts shall in all proceedings take judicial notice of the signature of the Commissioner or Deputy Commissioner either to the original or to any such copy or extract.

Evidence of returns and assessments.  
1916, No. 5, sec. 19

20. (1.) As soon as conveniently may be after an assessment is made the Commissioner shall cause notice of the assessment to be given to the taxpayer.

Notice of assessment to be given to taxpayer.  
Ibid., sec. 20

(2.) The omission to give any such notice shall not invalidate the assessment or in any manner affect the operation thereof.

21. (1.) The executor or administrator of a deceased taxpayer shall in respect of all income derived or land owned by that taxpayer in his lifetime make the same returns as the taxpayer ought to have made or would have been bound to make if he had remained alive; and the Commissioner may from time to time require the executor or administrator to make such further returns relative to that land or income as the Commissioner thinks necessary, and may assess the executor or administrator for land-tax or income-tax on that land or income in the same manner in which the taxpayer might have been assessed had he remained alive.

Returns by executors or administrators.  
Ibid., sec. 21

(2.) The tax so assessed shall be deemed to be a liability incurred by the deceased taxpayer in his lifetime, and the executor or administrator of the taxpayer shall be liable for the same accordingly.

### PART III.

#### OBJECTIONS TO ASSESSMENTS.

22. (1.) Any person who has been assessed for land-tax or income-tax may object to that assessment by delivering or posting to the Commissioner a written notice of objection stating shortly the grounds of his objection, within such time as may be specified in that behalf in the notice of assessment, not being less than fourteen days after the date on which that notice of assessment is given.

Objections to assessments, how originated.  
Ibid., sec. 22

(2.) No notice of objection given after the time so specified shall be of any force or effect unless the Commissioner in his discretion accepts the same and gives notice to the objector accordingly.

23. The Commissioner shall consider all such objections, and may alter the assessment pursuant thereto; but an objection which is not allowed by the Commissioner shall, if the objector so desires, be heard and determined in a Magistrate's Court, before a Stipendiary Magistrate alone; and the Court shall for the purpose of hearing and determining the objection, whatever the amount involved, have all the powers vested in it in its ordinary civil jurisdiction as if in an action between the objecting taxpayer and the Commissioner.

Commissioner may amend assessment on objection. Objection may, on application of objector, be submitted to Stipendiary Magistrate.  
Ibid., sec. 23

24. (1.) The procedure for the institution, hearing, and determination of such proceedings in the Magistrate's Court shall be in accordance with regulations to be made under this Act, and, subject

Hearing of objections by Magistrate.  
Ibid., sec. 24

to such regulations or so far as they do not extend, shall be in accordance with the ordinary practice of that Court.

(2.) No objection to an assessment of income-tax shall be heard by a Magistrate in open Court.

Burden of proof on objector.  
1916, No. 5, sec. 25

25. On the hearing and determination of all objections to assessments of land-tax or income-tax the burden of proof shall be on the objector, and the Court may receive such evidence as it thinks fit, whether receivable in accordance with law in other proceedings or not.

Costs.  
Ibid., sec. 26

26. In such proceedings the Magistrate's Court may award such costs as it deems just either against the Commissioner or against the objector.

Court may confirm, cancel, or alter assessment.  
Ibid., sec. 27

27. On the determination of any such objection the Magistrate's Court may either confirm or cancel the assessment, or increase or reduce the amount thereof, and the assessment shall be altered by the Commissioner, if necessary, so as to conform to that determination.

Appeals to Supreme Court on questions of law or of fact.  
Ibid., sec. 28

28. The determination of the Magistrate's Court on any such objection shall be subject to appeal to the Supreme Court on any question of law, but shall be final and conclusive as to any question of fact unless the Magistrate is satisfied that the amount of tax *bona fide* in dispute between the objector and the Commissioner exceeds two hundred pounds, in which case the Commissioner or the objector may appeal to the Supreme Court on any question of fact.

Notice of appeal to Supreme Court.  
Ibid., sec. 29

29. In case of such appeal the appellant shall, within thirty days after the determination appealed from, file in the Magistrate's Court a notice of appeal, and (except when he is the Commissioner) give security for the costs of the appeal to such amount and in such form as may be approved by a Magistrate.

Magistrate to state case on appeal.  
Ibid., sec. 30

30. (1.) The Magistrate whose determination is appealed from shall thereupon state and sign a case setting forth the facts and the questions of law arising for the determination of the Supreme Court, and shall deliver the case so signed by him to the appellant.

(2.) If and so far as any such appeal relates to a question of fact, the case so stated by the Magistrate shall set forth the evidence taken before the Magistrate's Court, instead of the facts as found by that Court.

Case to be transmitted by appellant to Registrar of Supreme Court, and set down for hearing.  
Ibid., sec. 31

31. The appellant shall, within fourteen days after receiving the case, transmit the same to a Registrar of the Supreme Court in the judicial district in which the objection was heard in the Magistrate's Court, and the Registrar shall thereupon enter the appeal for hearing at the first practicable sitting of the Court.

Amendment of case stated.  
Ibid., sec. 32

32. (1.) On the hearing of the appeal the Supreme Court may, if it thinks fit, cause the case so stated to be sent back to the Magistrate for amendment, and thereupon the case shall be amended accordingly, and the Court shall thereupon proceed to hear and determine the questions so submitted.

(2.) If and so far as the appeal relates to questions of fact, the Supreme Court may, as it thinks fit, either determine the same on the case as so stated, or take additional evidence (either orally or on affidavit), or rehear the whole case.

Appeal to Court of Appeal on point of law.  
Ibid., sec. 33

33. Except on a question of fact, the decision of the Supreme Court on any such appeal shall be subject to appeal to the Court of Appeal, and any case so stated for the decision of the Supreme Court on a question of law only may be removed into the Court of Appeal.

34. (1.) The Supreme Court or Court of Appeal may award such costs to or against the Commissioner as it thinks just.

Costs on appeal.

1916, No. 5, sec. 34

(2.) The Commissioner shall not be required to give security in any such proceedings before the Supreme Court or Court of Appeal.

(3.) All costs awarded against the Commissioner by the Magistrate's Court, Supreme Court, or Court of Appeal shall be payable out of moneys appropriated by Parliament, and not otherwise.

35. (1.) Notwithstanding anything hereinbefore contained, any objection made in the manner and within the time aforesaid to an assessment of land-tax or income-tax, if and so far as it relates to any question of law only, may, at the option of the objector, be referred directly to the Supreme Court by way of case stated in accordance with the following provisions.

Objection, in so far as it relates to question of law only, may be referred in first instance to Supreme Court.

Ibid., sec. 35

(2.) The objector (hereinafter called the appellant) may deliver to the Commissioner together with the notice of objection, or at any time within two months after the receipt thereof by the Commissioner, a notice in writing requiring him to state a case for the opinion of the Supreme Court.

(3.) The Commissioner shall thereupon state and sign a case accordingly, setting forth the facts, the questions of law to be decided, and the assessment made by him, and shall deliver the case so signed to the appellant.

(4.) The appellant shall, within fourteen days after receiving the case, transmit the same to the Registrar of the Supreme Court in such judicial district as the appellant thinks fit, and the Registrar shall thereupon enter the case for hearing at the first practicable sitting of the Court.

(5.) The provisions of sections thirty-two to thirty-four of this Act shall extend and apply to any such case stated by the Commissioner, in the same manner, with all necessary modifications, as to a case stated by a Magistrate.

(6.) On the determination of any such case stated the Supreme Court may either confirm or cancel the assessment, or increase or reduce the amount thereof, and the assessment shall be altered by the Commissioner, if necessary, so as to conform to that determination.

36. The obligation to pay and the right to receive and recover any tax shall not be suspended by any objection, appeal, or case stated; but if the objector succeeds the amount (if any) of the tax received by the Commissioner in excess of the amount which, according to the decision on the hearing of the objection, appeal, or case stated, was properly payable shall forthwith be repaid to him by the Commissioner.

Obligation to pay tax as assessed by Commissioner not suspended by objection or appeal. Refund of tax in certain cases.

Ibid., sec. 36

37. The determination of an objection under any of the foregoing provisions shall relate solely to the land or income which is the subject of the assessment objected to, and shall not affect the right of the Commissioner to assess any other land or income of the objector, or to amend the assessment objected to in any manner rendered necessary by the assessment of such other land or income.

Determination of objection not to affect other land or income not included in assessment.

Ibid., sec. 37

38. The foregoing provisions as to objections shall have no application to an objection relating to any matter which by this Act is left to the discretion, judgment, or determination of the Commissioner, or (save so far as hereinafter expressly provided) to an objection to any valuation of land made by the Valuer-General under the Valuation of Land Act, 1908, or this Act.

Extent of application of provisions as to objections.

Ibid., sec. 38

## PART IV.

## VALUATION OF LAND.

Assessment of  
land-tax.  
1916, No. 5, sec. 39

39. Land-tax shall be assessed on the unimproved value of the land owned by the taxpayer as determined in accordance with the provisions of this Part of this Act.

"Unimproved  
value" and  
"improvements"  
defined.

40. (1.) The unimproved value of any land so owned means the sum which the owner's estate or interest therein, if free from any mortgage or encumbrance, might be expected to realize if offered for sale on such reasonable terms and conditions as a *bona fide* seller might be expected to impose and if no improvements had been made on the land.

Ibid., sec. 40

(2.) "Improvements" has the same meaning as in the Valuation of Land Act, 1908.

Unimproved value  
as shown on district  
valuation roll to be  
adopted for purposes  
of this Act.

41. (1.) Subject to the following provisions of this Part of this Act, if the unimproved value of any land appears on the district valuation roll in force under the Valuation of Land Act, 1908, on the thirty-first day of March in the year preceding the year of assessment, whether in the name of the taxpayer or of any predecessor in title, trustee, or other person, the unimproved value so appearing on that roll shall be deemed and be taken to be the unimproved value of that land on that day for the purposes of this Act.

Ibid., sec. 41

(2.) When a new valuation of any land is made by the Valuer-General pursuant to section thirty-six of the Valuation of Land Act, 1908, the amended value shall for the purposes of this Act be deemed to be the value appearing on the district valuation roll on the thirty-first day of March next succeeding the date of the application for a new valuation, notwithstanding that the new valuation may not then have been actually made.

New valuation to  
operate as from  
31st March  
succeeding  
application for  
revaluation.  
1922, No. 12, sec. 3

Value of minerals,  
timber, or flax to be  
excepted from  
unimproved value.

42. (1.) Notwithstanding anything hereinbefore contained, the unimproved value of land shall not for the purposes of this Act include the value of any minerals, timber, or flax (other than the roots of flax-plants).

1916, No. 5, sec. 42

(2.) The Valuer-General shall, in all cases in which the value of any minerals, timber, or flax (other than roots as aforesaid) is included in the unimproved value as shown on the district valuation roll, show separately on that roll the value so included, and in such cases the remaining value only shall for the purposes of this Act be deemed to be the unimproved value as shown on the said roll.

Where unimproved  
value shown on  
subsidiary valuation  
roll, such value to  
be adopted.

43. Notwithstanding anything hereinbefore contained, if the unimproved value of any land appears on the subsidiary roll in force under the Land for Settlements Act, 1908, on the thirty-first day of March in the year preceding the year of assessment, whether in the name of the taxpayer or of any predecessor in title, trustee, or other person, the unimproved value so appearing on that roll shall be deemed and taken to be the unimproved value of that land on that day for the purposes of this Act in lieu of the value appearing on the district valuation roll.

Ibid., sec. 43

In certain cases  
unimproved value  
as shown on  
valuation or  
subsidiary roll  
may be apportioned.

44. (1.) If the valuation appearing on the district valuation roll or the subsidiary roll relates to an area of land a part only of which is assessable for the purposes of land-tax, or different parts of which are assessable at different rates or require for any reason to be separately

Ibid., sec. 44

valued for the purposes of this Act, the unimproved value as appearing on that roll shall for the purposes of this Act be apportioned in such manner as may be just and reasonable between the several parts of that area, and the value so attributed to each part shall be deemed to be the unimproved value thereof for the purposes of this Act.

(2.) Such apportionment shall be made as follows:—

- (a.) The Commissioner, if satisfied that the value of any such part as stated in the return made by the taxpayer represents a just and reasonable apportionment, may accept that value and make the assessment accordingly.
- (b.) The Commissioner may agree with the taxpayer as to the apportionment to be made, and may make the assessment accordingly.
- (c.) In default of any such acceptance or agreement the apportionment shall be made by the Valuer-General on the requisition of the Commissioner, and the assessment shall be made in accordance with that apportionment.

45. (1.) If, in the case of any estate or interest in land, no valuation thereof appears either on the district valuation roll or on the subsidiary roll in force on the thirty-first day of March in the year preceding the year of assessment, or if the valuation thereof on the district valuation roll is made otherwise than in accordance with the provisions of this Act for the valuation of land for the purposes of land-tax, the Valuer-General shall, on the requisition of the Commissioner and for the purposes of this Act, cause a special valuation of the unimproved value of that estate or interest to be made in accordance with the provisions of this Act as at the thirty-first day of March in the year preceding the year of assessment, and the unimproved value of that estate or interest on that day shall for the purposes of this Act be determined in accordance with the valuation so made.

On request of Commissioner, Valuer-General to cause special valuation to be made in certain cases.

1916, No. 5, sec. 45

(2.) Any taxpayer who is assessed for land-tax on any such special valuation shall be entitled to dispute that valuation by way of objection to the assessment, and all the provisions of this Act as to objections to assessments shall apply accordingly, save that the decision of the Magistrate on any question of fact shall be final and conclusive.

(3.) Save as aforesaid, the provisions of this Act as to objections to assessments shall have no application to an objection to any valuation or apportionment by the Valuer-General in accordance with the Valuation of Land Act, 1908, or this Act.

46. (1.) Notwithstanding anything contained in this Part of this Act, if any taxpayer, in any return made by him for the purposes of land-tax, estimates, for the purposes of this section, any land owned by him as of an unimproved value in excess of the unimproved value computed in accordance with this Act and appearing in the district valuation roll in force on the thirty-first day of March preceding the year of assessment, and in excess of the unimproved value (if any) appearing on the subsidiary roll in force on that day, the value so stated in the return shall be deemed to be the unimproved value of the land on the thirty-first day of March preceding the year of assessment, and land-tax shall be assessed accordingly.

Taxpayer's own valuation of unimproved value may be accepted in certain cases.

Ibid., sec. 46

(2.) For the purpose of the compulsory taking of land under the Land for Settlements Act, 1908, any such return shall for a period of

twelve months after the date thereof have the same effect as if the unimproved value so stated therein appeared in the subsidiary roll for the time being in force.

Mode of determining unimproved value of land as at date other than 31st March of any year. 1916, No. 5, sec. 47

47. Whenever for the purposes of this Act it is necessary to determine the unimproved value of land at any date other than the thirty-first day of March preceding the year of assessment, such value shall be determined in accordance with the provisions of this Part of this Act, save that all references to the thirty-first day of March preceding the year of assessment shall be read as references to the date as at which such value is to be determined.

## PART V.

### LAND-TAX.

Land-tax. 1917, No. 9, sec. 3

48. (1.) Subject to the provisions of this Act, there shall be levied and paid, for the use of His Majesty, in and for the year commencing on the first day of April, nineteen hundred and twenty-four, and in and for each year thereafter, a tax herein referred to as land-tax.

(2.) Subject to the provisions of this Act, such tax shall be payable by every person on all land of which he was the owner at noon on the thirty-first day of March preceding the year in and for which the tax is payable (herein referred to as the year of assessment).

(3.) Such tax shall be assessed, levied, and paid at such rate or rates as may be fixed from time to time by any Act to be passed for that purpose (herein referred to as the annual taxing Act).

Land-tax to be levied on total unimproved value of land, diminished by certain exemptions. Ibid., sec. 4 1920, No. 35, sec. 3

49. (1.) Subject to the provisions of this Act, land-tax shall in the case of each owner be levied at the rate or rates aforesaid on the total unimproved value of all land so owned by him after making, by way of special exemption from that value, the deduction following, that is to say :—

(a.) When that value does not exceed fifteen hundred pounds, a deduction of five hundred pounds ; or

(b.) When that value exceeds fifteen hundred pounds, a deduction of five hundred pounds diminished at the rate of one pound for every two pounds of that excess, so as to leave no deduction when that value amounts to or exceeds two thousand five hundred pounds.

(2.) In lieu of the deduction authorized by the last preceding subsection, there may be deducted as a special exemption from the total unimproved value of the land of the taxpayer, in cases where that land or any part thereof was at noon on the thirty-first day of March preceding the year of assessment subject to a mortgage or mortgages, the following amount, that is to say :—

(a.) Where the total unimproved value aforesaid does not exceed six thousand pounds, the sum of four thousand pounds ; or

(b.) Where the total unimproved value aforesaid exceeds six thousand pounds, the sum of four thousand pounds, diminished at the rate of two pounds for every one pound of that excess, so as to leave no deduction under this paragraph when that value amounts to or exceeds eight thousand pounds :

Provided that where the capital value of all mortgages owing by the taxpayer as aforesaid is less than the amount that would be deducted under paragraph (a) or paragraph (b) of this subsection, as the case may be, the capital value of those mortgages shall be deductible in lieu of the deduction provided for by those paragraphs.

(3.) In this section "mortgage" means any mortgage or charge upon land, howsoever created, if registered under any Act relating to the registration of deeds or instruments affecting title to land, and includes all unpaid purchase-money in respect of land purchased, and any annuity or rent charge charged upon land or secured by will and payable out of the rents and profits of land although no registered charge exists in respect thereof; but, except as aforesaid, does not include any mortgage or charge not so registered. Interpretation.

(4.) For the purposes of this section the capital value of a mortgage means the full amount of the principal sum owing thereunder at noon on the thirty-first day of March preceding the year of assessment, and in the case of a rent charge or annuity the capital value thereof means the full amount of the present value of that rent charge or annuity on that day capitalized at five per centum per annum.

50. (1.) In lieu of the special exemption provided for in the last preceding section, in any case where the Commissioner is satisfied that the total income of the owner from all sources, whether in New Zealand or elsewhere, during the year preceding the year of assessment did not exceed three hundred pounds, and that by reason of age, ill health, or other disability he is incapacitated from earning any further income, and that payment of the land-tax in full would cause hardship, the Commissioner may allow by way of special exemption a deduction not exceeding two thousand five hundred pounds. Alternative exemption in cases of hardship.  
1917, No. 9, sec. 5  
1920, No. 35, sec. 4

(2.) In lieu of the special exemptions hereinbefore provided for, the Commissioner may, in his discretion, where he is satisfied that a taxpayer is a widow having a child or children wholly or partly dependent on her for support, and that payment of the land-tax in full would cause hardship, allow by way of special exemption a deduction not exceeding four thousand pounds. Special exemption where taxpayer is widow with dependent children.  
1917, No. 9, sec. 6  
1920, No. 35, sec. 5

51. (1.) For the purposes of this section "unimproved land" means land on which there are not, on the thirty-first day of March immediately preceding the year of assessment, improvements of a value equal to one pound an acre or equal to one-third of the unimproved value, whichever is the less, and which in the opinion of the Commissioner it is reasonable should have been improved to that extent. Special provisions as to land-tax on unimproved land.  
Ibid., sec. 6

(2.) This section shall not apply with respect to land situated in a borough, but applies to all other unimproved land as hereinbefore defined.

(3.) This section shall apply separately to all lands of a taxpayer forming one continuous area or separated at their nearest points by a distance not exceeding three miles in a straight line.

(4.) Notwithstanding anything to the contrary in section forty-nine hereof, no deductions by way of special exemption under that section shall be made in respect of any unimproved land to which this section applies and of which the taxpayer has been the owner for three years or upwards.

(5.) In respect of any unimproved land to which this section applies and of which the taxpayer has been the owner for three years or upwards the rate of land-tax shall be fifty per centum more than the rate fixed by the annual taxing Act in respect of other lands.

Lessees liable as if owners.  
1917, No. 9, sec. 7

52. (1.) Any person owning any leasehold estate shall be deemed for the purposes of this Part of this Act (though not to the exclusion of the liability of any other person) to be the owner of the fee-simple, and shall be assessed and liable for land-tax accordingly.

Deduction from tax payable by lessee.

(2.) In the case of the owner of a leasehold estate in land there shall be deducted from the amount of land-tax so payable by him in respect of that land (so far as it exceeds the land-tax, if any, that would be payable by him in respect of the value of his leasehold estate independently of this section) the amount of land-tax (if any) payable in respect of that land by the owner of any freehold estate or of any precedent leasehold estate in the land or any part thereof.

(3.) The provisions of this section shall not apply to leasehold estates in any land of the Crown, or in any Native land, or in any land vested in fee-simple in any person who in respect thereof is wholly exempted from land-tax.

(4.) The provisions of this section shall not apply to any leasehold estate (other than an estate at will or by sufferance, or determinable by the lessor or other person entitled in reversion or remainder) existing on the twenty-sixth day of October, nineteen hundred and seven (being the date of the coming into operation of the Land and Income Assessment Act, 1907), unless the owner of that leasehold estate or his predecessor in title has been at any time within five years next before that date the owner at law or in equity of a freehold estate in the land which is subject to the lease.

Life tenant liable as if owner of fee-simple.  
Ibid., sec. 8

53. (1.) The owner of any life estate or of any other freehold estate less than the fee-simple shall be deemed for the purposes of this Part of this Act to be the owner of the fee-simple to the exclusion of any person entitled in reversion or remainder, and shall be assessed and liable for land-tax accordingly.

(2.) Notwithstanding anything in this section, if any person so entitled in reversion or remainder is also entitled in possession to any interest in the land or in the rents or profits thereof, or if the Commissioner is satisfied that any life estate or other freehold estate less than the fee-simple has been created, whether before or after the coming into operation of this Act, for the purpose of obtaining exemption from land-tax for any person entitled in reversion or remainder, the Commissioner may, if he thinks fit, from time to time elect to treat that life estate or other freehold estate as if it was a leasehold estate, and the provisions of the last preceding section shall thereupon apply accordingly.

Joint owners to be assessed jointly.  
Ibid., sec. 9

54. (1.) Whenever two or more persons (hereinafter called joint owners) own land jointly or in common, whether as partners or otherwise, they shall be assessed and liable for land-tax in accordance with the provisions of this section.

(2.) The joint owners shall be jointly assessed and liable in respect of the land so owned by them jointly or in common (hereinafter called the joint estate) as if it was owned by a single person, without regard to their respective interests in the same, and without taking into



account any land owned by any one of them in severalty, or jointly or in common with any other person.

(3.) One special exemption only shall be allowed to such owners in respect of all land so owned by them jointly or in common.

55. (1.) In addition to the assessment under the last preceding section, each joint owner shall be assessed and liable in respect of his individual interest in the joint estate, together with any other land owned by him in severalty, and with his individual interests in any other land.

Joint owners to be severally assessed also.  
1917, No. 9, sec. 10

(2.) In the case of each joint owner there shall be deducted from the tax so payable by him under the provisions of this section (so far as such tax exceeds the land-tax that would be payable by him if he owned no interest in any joint estate) his share of the tax so payable in respect of the joint estate.

(3.) The share of a joint owner in the tax so payable in respect of the joint estate shall bear the same proportion to the amount of that tax as his interest in the joint estate bears to the whole value of that estate.

56. (1.) No joint owner assessed under the two last preceding sections shall be entitled to a greater special exemption in the aggregate than the special exemption to which he would be entitled if he were assessed only under section fifty-five hereof, and in any such case the Commissioner shall, if and so far as necessary, reduce the exemptions otherwise allowable under either of the two last preceding sections.

Limitation of special exemptions in cases of joint ownership.  
Ibid., sec. 11

(2.) For the purposes of this section, but not otherwise, any special exemption allowed in respect of a joint assessment shall be apportioned between the owners in proportion to the interest of each of them in the land in respect of which the exemption is so allowed.

57. (1.) For the purposes of this Part of this Act all land owned by a company shall be deemed (though not to the exclusion of the liability of the company or of any other persons) to be owned in common by the shareholders of that company in the proportions which their interests in the paid-up capital of the company bear to the total paid-up capital; and the said shareholders shall be individually assessed and liable for land-tax accordingly in manner provided by section fifty-five hereof, and shall be entitled to the same deduction as is therein provided; and all references in that section to a joint assessment shall be read as references to the assessment of the company.

Shareholders liable as if they were owners of the company's land.  
Ibid., sec. 12

(2.) The term "shareholder" shall for the purposes of this and the next succeeding section include all persons on whose behalf a share in the company is held by a trustee or by any other person.

(3.) No shareholder shall be liable to land-tax under this section if his assessable interest, calculated in accordance with this section, in the lands (other than business premises as hereinafter defined) owned by the company is less than five hundred pounds.

(4.) "Business premises" means any piece of land included within the area of a building used for business purposes, together with such additional land as immediately adjoins that building and is used and occupied in connection therewith and does not exceed in extent the area of the building itself. When any area so adjoining a building and used and occupied in connection therewith exceeds the area of the

"Business premises" defined

building, the Commissioner shall from time to time determine, as he thinks fit, what part of that adjoining area, equal to the area of the building, shall be deemed to be business premises.

(5.) A building shall be deemed to be used for business purposes within the meaning of this section if it is exclusively or principally used, whether by the owner or by any occupier or occupiers, for the purposes of any business.

Two or more companies with substantially the same shareholders to be deemed a single company.

1917, No. 9, sec. 13  
1920, No. 35, sec. 7

58. (1.) If two or more companies consist substantially of the same shareholders, those companies shall be deemed for the purposes of land-tax to be a single company, and shall be jointly assessed and jointly and severally liable accordingly, with such right of contribution or indemnity between themselves as is just.

(2.) For the purposes of this section two companies shall be deemed to consist substantially of the same shareholders if not less than one-half of the paid-up capital of each of them is held by or on behalf of shareholders in the other. Shares in one company held by or on behalf of another company shall for this purpose be deemed to be held by the shareholders in the last-mentioned company.

Joint occupiers to be liable as if joint owners.

1917, No. 9, sec. 14

59. (1.) When two or more persons own land in severalty but occupy it jointly, whether as partners or on joint account or otherwise, the same land-tax shall be payable by them and by each of them as if they owned the whole of the said land jointly, in the proportions which the unimproved values of the lands so severally owned bear to one another, and for the purposes of this Part of this Act they shall be deemed to be joint owners of those lands accordingly.

(2.) Without limiting in any way the meaning of the term "joint occupation," two or more persons shall be deemed to occupy lands jointly within the meaning of this section if those lands are occupied, worked, or managed by any one or more of those persons on behalf of all of them or on a joint account, or if those lands are occupied, worked, or managed by any other person as trustee for or otherwise on behalf of all of those persons.

Buyer in possession liable although conveyance has not been executed.  
Ibid., sec. 15

60. Where an agreement has been made for the sale of land, whether before or after the coming into operation of this Act, the buyer shall be deemed to be the owner of the land for the purposes of this Part of this Act (though not to the exclusion of the liability of any other person) so soon as he has obtained possession of the land so purchased, although the agreement has not yet been completed by conveyance.

Seller to remain liable until possession delivered to purchaser.  
Ibid., sec. 16

61. (1.) When any agreement has been made for the sale of land, whether before or after the coming into operation of this Act, and whether the same has been completed by conveyance or not, the seller shall be deemed to remain the owner of the land for the purposes of this Part of this Act (though not to the exclusion of the liability of any other person) until possession of the land has been delivered to the purchaser and at least fifteen per centum of the purchase-money has been paid:

Provided that in any case in which possession has been so delivered, but less than fifteen per centum of the purchase-money has been paid, it shall be lawful for the Commissioner to exempt the seller from the provisions of this section if the Commissioner is satisfied that the agreement for sale has been made in good faith and not for the purpose of

evading the payment of land-tax, and that the agreement is still in force. In any such case the decision of the Commissioner shall be final and conclusive.

(2.) In estimating the amount of purchase-money which has been so paid all money owing by the purchaser to the seller and secured by any mortgage or other charge on the land, and all money lent to the purchaser by the seller, and all money owing by the purchaser to any other person and directly or indirectly guaranteed by the seller, shall be deemed to be unpaid purchase-money.

(3.) When by virtue of this and the last preceding section the buyer and seller of land are both liable for land-tax in respect thereof, there shall be deducted from the tax so payable by the seller in respect of the land the amount of the tax payable in respect thereof by the buyer.

Tax payable by  
buyer may be  
deducted from  
amount payable by  
seller.

(4.) Nothing in this section applies to any agreement of sale made, whether before or after the coming into operation of this Act, by a seller who at the date of that agreement was not the owner of land the unimproved value of which, including the unimproved value of the land so sold by him, was more than forty thousand pounds.

62. No conveyance, transfer, declaration of trust, settlement, or other disposition of land (whether made before or after the coming into operation of this Act) shall be effective so as to exempt the person making the same, so long as he remains or is in possession or in receipt of the rents or profits of any such land (whether on his own account or on account of any other person), from any land-tax which would have become payable in respect of that land had no such conveyance, transfer, declaration of trust, settlement, or disposition taken place; and for the purposes of this Part of this Act the person so making the same shall, while he remains or is so in possession of the land or in receipt of the rents or profits thereof, be deemed (though not to the exclusion of the liability of any other person) the owner of the land.

No disposition of  
land to be effective  
for purposes of  
land-tax so long as  
possession retained.  
1917, No. 9, sec. 17

63. Subject to the other provisions of this Part of this Act, the owner of any equitable estate in land shall be assessed and liable in respect of land-tax as if the estate so owned by him were legal, but there shall be deducted from the tax so payable by him in respect of that estate the amount of any land-tax paid in respect thereof by the legal owner of the land.

Equitable owners to  
be liable as if legal  
owners.  
Ibid., sec. 18

64. (1.) Any person owning land as a trustee shall be assessed and liable in respect of land-tax as if he were beneficially entitled to the land, save that when he is the owner of different lands in severalty in trust for different beneficial owners who are not, by reason of joint occupation or otherwise, liable to be jointly assessed for land-tax in respect of the same, the tax so payable by him shall be separately assessed in respect of each of those lands; and save also that when a trustee is also the beneficial owner of other land he shall be separately assessed in respect of that land and of the land of which he is a trustee, unless, by reason of joint occupancy or for any other reason, he is liable to be jointly assessed independently of this section.

Trustees to be liable  
as if beneficially  
entitled.  
Ibid., sec. 19

(2.) Notwithstanding anything in this section, a trustee may be assessed for land-tax in respect of the interest of any beneficiary in the land owned by the trustee at the rate at which the beneficiary himself is liable to be assessed when, by reason of the ownership of other land, or his absence from New Zealand, or for any other reason,

the beneficiary is liable to be assessed at a higher rate than that at which the trustee would be assessed independently of this section.

(3.) For the purpose of any special exemption to be allowed either to the trustee or to the beneficial owner the land shall be deemed to be owned by the beneficial owner, and the exemption shall be allowed or apportioned by the Commissioner accordingly in such manner as he deems just and reasonable.

(4.) When land is held by His Majesty in trust the beneficiaries under that trust shall make returns and be assessable and liable for land-tax as if their interests were legal.

Mortgagees in possession to be liable for land-tax. 1917, No. 9, sec. 20

65. A mortgagee in possession of land shall be deemed for the purposes of this Part of this Act, so long as such possession continues (though not to the exclusion of the liability of any other person), to be the beneficial owner of the estate or interest which is subject to the mortgage, and shall be liable for land-tax accordingly; but there shall be deducted from the tax so payable by him the amount of land-tax (if any) paid in respect of that estate or interest by the mortgagor.

In cases of double taxation for land-tax Commissioner may make adjustment. Ibid., sec. 21

66. Whenever double taxation is imposed by this Part of this Act on the same estate or interest in land by reason of that estate or interest being owned or deemed to be owned by more than one person, and no provision is made in this Part of this Act for such a deduction as will prevent such double taxation, the Commissioner may make such deduction or other adjustment as he deems just and necessary for the avoidance of such double taxation.

Increase of land-tax in case of absentee taxpayers. Ibid., sec. 22

67. (1.) Every taxpayer who on the thirty-first day of March in the year preceding the year of assessment is an absentee within the meaning of this section shall be assessed and liable for land-tax to an amount greater by fifty per centum than the amount for which he would have been assessed independently of this section, including in such last-mentioned amount his share of any land-tax for which he is assessable jointly with any other taxpayer, whether an absentee or not, and the annual taxing Act shall be read and construed accordingly.

(2.) Every person shall be deemed to be an absentee for the purposes of this section unless he has been personally present in New Zealand for at least one-half of the period of four years immediately preceding the year of assessment:

Provided that no person who has acquired all his land in New Zealand within the said period of four years shall be deemed to be an absentee if he has been personally present in New Zealand for at least one-half of the period which has elapsed between the time when he first acquired any of that land and the commencement of the year of assessment.

(3.) This section shall not apply to companies, but shall apply to shareholders in companies, in accordance with the provisions of section fifty-seven hereof.

(4.) Where any shareholder in a company is assessable as an absentee for land-tax in respect of the land of the company, the company shall be deemed for the purposes of this Part of this Act to be the agent of the shareholder, and shall be liable to pay on his behalf the land-tax payable by him so far as it relates to the land of the company, and all the provisions of this Act as to agents shall apply accordingly:

Provided that no tax shall be so recovered from the company unless a written demand therefor has been made upon the company by the Commissioner within one year from the due date of the tax, and while the taxpayer continues to remain a shareholder of the company.

(5.) No trustee assessed as such shall be deemed to be an absentee.

68. (1.) For the purposes of land-tax every person who is the owner of land at noon on the thirty-first day of March in any year may be deemed (though not to the exclusion of any other person) to continue to be the owner of that land at noon on the thirty-first day of March in the next succeeding year, unless written notice is given by him or on his behalf to the Commissioner, in accordance with this section, of the fact that he has ceased to be the owner of that land, and of the name of his successor in title.

Notice to be given to Commissioner of change of ownership of land.

1917, No. 9, sec. 23

(2.) Such notice shall be given to the Commissioner before the former owner has been assessed for land-tax, in pursuance of this section, for the year following that in which he ceased to be the owner of the land.

(3.) The fact that the former owner has not made a return of the land as still owned by him, or that his successor in title has made a return of that land, shall not in itself be deemed a sufficient notice for the purposes of this section.

(4.) Where no such notice has been given in accordance with this section the Commissioner may assess either the former owner or his successor in title, or both of them; but the tax shall be recoverable from one of them only.

(5.) Any tax so paid by the former owner shall be deemed to be paid on behalf of his successor in title, so far as it does not exceed the tax for which the successor in title might himself have been assessed in respect of that land, and may to that extent be recovered by the former owner from his successor in title accordingly.

(6.) A former owner shall not be assessable under this section for any year except the year of assessment immediately subsequent to the year in which he ceased to be the owner of the land.

69. (1.) Land shall be exempt from land-tax in the following cases, and to the following extent:—

Exemption from land-tax of certain classes of land.

*Ibid.*, sec. 24

- (a.) Land owned by or in trust for a local or public authority:
- (b.) Land owned by or in trust for a university, college, high school, secondary school, or other public educational institution in New Zealand not carried on for private pecuniary profit:
- (c.) Land owned by or in trust for a separate institution under the Hospitals and Charitable Institutions Act, 1909:
- (d.) Land owned by or in trust for a friendly society, a registered building society, or a savings-bank established under the Savings-banks Act, 1908:
- (e.) Land owned by or in trust for a society incorporated under the Agricultural and Pastoral Societies Act, 1908, and used by that society as a showground or place of meeting:
- (f.) Land owned by or in trust for any company and used by that company as the permanent-way of a public railway or tramway, or for yards and buildings used for the purposes of the traffic on that railway or tramway:

- (g.) Land owned by or in trust for a society incorporated under the Libraries and Mechanics' Institutes Act, 1908, and used by that society as a site for the purposes of the society :
- (h.) Land owned by or in trust for any society or trustees and used by such society or trustees (otherwise than for private pecuniary profit) as the site of a public library, public museum, public cemetery or burial-ground, public recreation-ground, or public garden, domain, or reserve :
- (i.) Land owned by or in trust for any society or institution established exclusively for charitable, educational, religious, or scientific purposes of a public nature, and not carried on for private pecuniary profit, if the land is used as a site for the purposes of that society or institution :

Provided that if any such site exceeds fifteen acres in extent this exemption shall be limited to fifteen acres thereof to be selected by the Commissioner :

- (j.) Native customary land within the meaning of the Native Land Act, 1909.

(2.) The benefit of the exemptions provided by this section shall in each case be limited to the owner specified in this section, and shall not extend to any other person who is the owner of any estate or interest in the land (whether as purchaser, lessee, or otherwise howsoever), nor shall it extend to land held by an owner specified in this section in trust for an owner not so specified.

Reduced rate of land-tax in respect of land held by religious society exclusively for religious or charitable purposes.  
1917, No. 9, sec. 25  
1921, No. 34, sec. 4

70. (1.) Notwithstanding anything in the foregoing provisions of this Part of this Act, land-tax shall be chargeable in respect of the class of land mentioned in subsection two hereof, in so far as such land is not exempt from land-tax by virtue of the last preceding section, at one-half the rate that would be chargeable in respect thereof if this section had not been passed.

(2.) This section relates to land owned by or in trust for any religious society, if such land or the rents or profits thereof are used exclusively for religious, charitable, or educational purposes, and if the principal purpose for which that society is established is the teaching, maintenance, or advancement of religion.

#### *Land-tax on Native Land.*

Special provisions as to land-tax in case of Native land.  
1917, No. 9, sec. 26  
1920, No. 35, sec. 8  
1922, No. 12, sec. 4

71. (1.) No Native shall be chargeable with land-tax in respect of his interest in Native land unless the land is, as to his interest therein, in the occupation or possession of any person other than the Native owner or a trustee for him.

(2.) A Native shall be chargeable with land-tax in respect of his interest in Native land at one-half of the rate applicable to European land if such Native land is, as to his interest therein, in the occupation or possession of any person other than the Native owner or a trustee for him :

Provided that no Native shall, for any year of assessment, be chargeable with an amount of land-tax in respect of his interest in Native land in excess of one-fourth of the total revenue derived or derivable from that land in respect of the year ending on the thirty-first day of March preceding the year of assessment.

(3.) A European shall be chargeable with land-tax in respect of any interest owned by him in Native land in the same manner and to the same extent as if it was not Native land, save that the owner of a leasehold estate in Native land shall not be deemed by virtue of this Part of this Act to be the owner of the fee-simple thereof.

(4.) If any Native land is held by a trustee (not being a Native) in trust for the Native owner, the tax shall be payable on behalf of the Native owner by the trustee. In all other cases the tax shall be payable on behalf of the Native owner by the occupier of the land.

(5.) This section shall apply to the trustee of a Native in the manner in which it applies to that Native himself.

## PART VI.

### INCOME-TAX.

72. (1.) Subject to the provisions of this Act, there shall be levied and paid for the use of His Majesty in and for the year commencing on the first day of April, nineteen hundred and twenty-four, and in and for each year thereafter, a tax herein referred to as income-tax.

Income-tax imposed.  
1916, No. 5, sec. 79

(2.) Subject to the provisions of this Act, such tax shall be payable by every person on all income derived by him during the year preceding the year in and for which the tax is payable.

(3.) The year in which income is so derived is in this Act referred to as "the income year," and the year in and for which income-tax is payable is in this Act referred to as "the year of assessment."

73. (1.) Income-tax shall be assessed and levied on the taxable income of every taxpayer at such rate or rates as may be fixed from time to time by Acts to be passed for that purpose.

Rates of tax to be fixed by annual taxing Act.  
Ibid., sec. 80

(2.) The Act by which the rate of income-tax is so fixed for any year is in this Act referred to as "the annual taxing Act."

(3.) For the purpose of computing the taxable income of any taxpayer, all deductions from the assessable income by way of special exemption as hereinafter provided (other than exemptions under section eighty-three hereof) shall to the extent of the earned income of the taxpayer be made from that income, and the balance (if any) shall, save as otherwise expressly provided in any case, be deducted from the unearned income.

Deductions by way of special exemption to be made in first place from earned income.  
1920, No. 35, sec. 16

74. (1.) From the yearly assessable income of every person, other than a company or an absentee, there shall, for the purpose of assessing income-tax on that income, be deducted by way of special exemption the sum of three hundred pounds, diminished at the rate of one pound for every pound of the excess of that income over six hundred pounds, so as to leave no deduction under this section when the yearly assessable income amounts to or exceeds nine hundred pounds.

Special exemption not exceeding £300.  
1917, No. 9, sec. 27  
1920, No. 35, sec. 10

(2.) "Absentee" means, in this Part of this Act, a person whose home has not been in New Zealand during any part of the income year:

Provided that a taxpayer whose assessable income for the income year does not exceed three hundred pounds shall not be deemed to be an absentee within the meaning of this Part of this Act if the Commissioner is satisfied that the absence of the taxpayer from New Zealand during the income year has been for the sake of his or her health, or

of the health of the husband or wife, as the case may be, or of any child of the taxpayer.

Special exemption  
in respect of  
dependent children.  
1916, No. 5, sec. 82  
1917, No. 9, sec. 28  
1920, No. 35, sec. 11  
1922, No. 12, sec. 8

75. (1.) In addition to the special exemption provided for by the last preceding section, a further sum of fifty pounds shall be deducted by way of special exemption from the yearly assessable income of every person, other than an absentee, in respect of each of his children or grandchildren who at the end of the income year are under the age of eighteen years and are dependent upon him :

Provided that a special exemption for any year shall not be allowed to any taxpayer in respect of any grandchild if an exemption in respect of such child has been allowed for that year to either parent of the child.

(2.) Where the father of any child is entitled to a special exemption under this section, no such deduction shall also be made from the income of the mother.

(3.) In this section the term "children" includes stepchildren.

Special exemption  
in respect of  
contributions  
towards support of  
widowed mother.  
1920, No. 35, sec. 13

76. Every person, other than an absentee, shall be entitled to a deduction by way of special exemption from his assessable earned income of the amount contributed by him during the income year (not exceeding in the aggregate fifty pounds) towards the support of his widowed mother :

Provided that where claims under this section are made by two or more persons for deductions by way of special exemption exceeding fifty pounds in the aggregate in respect of contributions towards the support of the same person the Commissioner shall not allow a greater exemption in the aggregate than fifty pounds, to be apportioned among the several taxpayers in such manner as the Commissioner thinks fit.

Special exemption  
in respect of  
insurance  
premiums.  
1916, No. 5, sec. 83  
1920, No. 35, sec. 12

77. (1.) Every person, other than an absentee, who has effected an insurance on his own life for his own benefit or for the benefit of his wife or children shall be entitled to a deduction by way of special exemption from his assessable income of the amount of premiums paid in the income year in respect of that insurance.

(2.) Every person, other than an absentee, who is a contributor to the National Provident Fund, or to any superannuation fund, or to the insurance fund of a friendly society, shall be entitled to a deduction by way of special exemption from his assessable income of the amount of his contributions during the income year.

(3.) The deductions by way of special exemption provided for in this section shall not in any case exceed in the aggregate fifteen per centum of the earned income of the taxpayer, or in cases where the total income of the taxpayer from all sources does not exceed two thousand pounds, then fifteen per centum of that income.

Certain incomes to  
be wholly exempt  
from taxation.  
1916, No. 5, sec. 84  
1920, No. 35, sec. 14  
1921, No. 25,  
secs. 6 and 7

78. The following incomes shall be exempt from taxation :—

- (a.) The salary and emoluments of the Governor-General in respect of his office :
- (b.) The income, other than income received in trust, of a local authority, or of any public authority other than the Public Trustee and the State Advances Superintendent :
- (c.) Income derived from sinking funds in respect of the public debt or of the debt of any local authority :
- (d.) The income of a building society under the Building Societies Act, 1908, or of a savings-bank under the Savings-banks Act, 1908 :



- (e.) The income of a separate institution under the Hospitals and Charitable Institutions Act, 1909 :
- (f.) Income derived by any person from any pension under the War Pensions Act, 1915 :
- (g.) Dividends and other profits derived from shares or other rights of membership in companies, other than companies which are exempt from income-tax :
- (h.) Income derived by a person who is not (within the meaning of this Part of this Act) resident in New Zealand, from stock or debentures which have been issued by the Government of New Zealand, or by any local or public authority, or by the Public Trustee acting as the agent of a land-settlement association under the Land Settlement Finance Act, 1909, and the interest on which is payable out of New Zealand :
- (i.) Income derived by the trustees of a superannuation fund :
- (j.) The income of a friendly society, except so far as derived from business carried on beyond the circle of its membership :
- (k.) Income derived by trustees in trust for charitable, religious, educational, or scientific purposes of a public nature within New Zealand, or derived by any society or institution established exclusively for such purposes and not carried on for private pecuniary profit :  
 Provided that if the aforesaid purposes are not limited to New Zealand the Commissioner may apportion the income in such manner as he deems just and reasonable between such purposes within New Zealand and the like purposes out of New Zealand, and may allow to the trustees, society, or institution a partial exemption accordingly :
- (l.) Income derived by any owner of land in respect of the profits derived from the direct use or cultivation thereof, save that this exemption shall not apply with respect to any profits or gains referred to in paragraphs (d) and (e) of the next succeeding section : *Cf.* 1908, No. 95, sec. 14 (e)
- (m.) Income expressly exempted from income-tax by any other Act to the extent of the exemption so provided.

79. (1.) Without in any way limiting the meaning of the term, the assessable income of any person shall for the purposes of this Act be deemed to include, save so far as express provision is made in this Act to the contrary,—

- (a.) All profits or gains derived from any business :
- (b.) All salaries, wages, or allowances (whether in cash or otherwise), including all sums received or receivable by way of bonus, gratuity, extra salary, or emolument of any kind, in respect of or in relation to the employment or service of the taxpayer :
- (c.) All profits or gains derived from the sale or disposition of land or any interest therein, if the business of the taxpayer comprises dealing in such property, or if the property was acquired for the purpose of selling or otherwise disposing of it at a profit :
- (d.) All profits or gains derived from the extraction, removal, or sale of minerals or timber, whether by the owner of land or by any other person :

Items deemed to be included in assessable income.

1916, No. 5, sec. 85  
 1917, No. 9, sec. 29  
 1922, No. 12, sec. 10

Provided that in the case of profits or gains derived as aforesaid from the removal or sale of timber or coal a deduction shall be allowed equal to the cost of the timber or coal removed or sold by the taxpayer during the income year :

*Cf.* 1908, No. 95,  
sec. 79 (g)

- (e.) All profits or gains derived from the business of dealing in live-stock, meat, butter, cheese, or wool, or in grain, fruit, or other crops, being the natural products of land (other than flax) carried on by any person other than the owner of that land :

1912, No. 10,  
sec. 16 (3)

Provided that when the taxpayer is the owner of other land, which being used for purposes of the said business, is not in itself sufficient for the full sustenance of such live-stock or production of such other products, then the Commissioner shall assess for income-tax only the profits derived from dealing in so much of the above-named live-stock or products as is in excess of the capacity of the said land to fully sustain or produce :

- (f.) All rents, royalties, fines, premiums, or other revenues (including payments for or in respect of the goodwill of any business, or the benefit of any statutory license or privilege) derived by the owner of land from any lease, license, or easement affecting the land, or from the grant of any right of taking the profits thereof :
- (g.) All interest, dividends, annuities, and pensions :
- (h.) Income derived from any other source whatsoever.

(2.) For the purposes of this Act the term "earned income" shall be deemed to include—

- (a.) All income as defined in paragraph (b) of the foregoing provisions of this section ; and
- (b.) All other income derived from any source by a taxpayer (not being a company, or a public or local authority) by reason of his personal exertions.

80. (1.) In calculating the assessable income derived by any person from any source no deduction shall be made in respect of any of the following sums or matters :—

- (a.) The repair of premises, or the repair, alteration, or supply of implements, utensils, or machinery used in the production of income, beyond the sum usually expended in any year for those purposes :

Provided that in cases where depreciation of such implements, utensils, or machinery, whether caused by fair wear-and-tear or by the fact of such implements, utensils, or machinery becoming obsolete or useless, cannot be made good by repair, the Commissioner may allow such deduction as he thinks just :

Provided also that where the Commissioner has, for any year of assessment (whether before or after the coming into operation of this Act) allowed a deduction in respect of the depreciation of any implements, utensils, or machinery, and the taxpayer at any time afterwards sells such implements, utensils, or machinery at a price in excess of the amount to which the value of those assets

How assessable  
income to be  
calculated.

1916, No. 5, sec. 86  
1917, No. 9, sec. 30  
1920, No. 35,  
secs. 17, 30  
1922, No. 12, sec. 11

has been reduced by such allowance, the Commissioner may make a revised assessment for that or any subsequent year without allowing such deduction or without allowing such portion thereof as he thinks fit, and may recover the additional amount of income-tax accordingly :

- (b.) Investment, expenditure, loss, or withdrawal of capital ; money used or intended to be used as capital ; money used in the improvement of premises occupied ; interest which might have been made on such capital or money if laid out at interest :
- (c.) Bad debts, except debts which are proved to the satisfaction of the Commissioner to have become bad and to have been actually written off by the taxpayer in the income year :  
 [ ] Provided that all amounts at any time received on account of any such bad debt shall be credited as income in the year in which they are received, and shall be subject to tax accordingly :
- (d.) Any expenditure or loss recoverable under any insurance or contract of indemnity :
- (e.) Payments of any kind made by a husband to his wife or by a wife to her husband :
- (f.) Rent of any dwellinghouse or domestic offices, save that, so far as such dwellinghouse or offices are used in the production of the assessable income, the Commissioner may allow a deduction of such proportion of the rent as he may think just and reasonable :
- (g.) Land-tax or income-tax :
- (h.) Interest, except so far as the Commissioner is satisfied that it is payable on capital employed in the production of the assessable income.

(2.) In calculating the assessable income of any person deriving such income from one source only, any expenditure or loss exclusively incurred in the production of the assessable income for any income year may be deducted from the total income derived for that year. In calculating the assessable income of any person deriving such income from two or more sources, any expenditure or loss exclusively incurred in the production of assessable income for any income year may be deducted from the total income derived by the taxpayer for that year from all such sources as aforesaid. Save as herein provided, no deduction shall be made in respect of any expenditure or loss of any kind for the purpose of calculating the assessable income of any taxpayer.

81. (1.) Nothing in this section shall apply with respect to any loss incurred by a taxpayer prior to the year commencing on the first day of April, nineteen hundred and twenty-three.

(2.) For the purposes of this section any loss incurred by a taxpayer shall be ascertained in accordance with the provisions of this Act for the calculation of assessable income.

(3.) Notwithstanding anything to the contrary in the last preceding section, any taxpayer who satisfies the Commissioner that he has in any year incurred a loss in any business carried on by him shall be entitled to claim that such loss be carried forward, and, so far as may

Losses incurred in business may be set off against profits earned within three following years. . . 1922, No. 12, sec. 6

be, deducted from or set off against his assessable income for the three following years :

Provided that any relief under this section shall be given so far as possible from the first assessment within the aforesaid period of three years, and, so far as it cannot then be given, shall be given from the next assessment, and so on.

Commissioner may allow deduction in respect of contributions to superannuation fund or benefit fund for employees.  
1921, No. 25, sec. 13  
1922, No. 12, sec. 13

82. In calculating the taxable income of any employer the Commissioner may allow a deduction of any amount set aside or paid by the employer as or to a fund to provide individual personal benefits, pensions, or retiring-allowances to employees of that employer :

Provided that a deduction shall not be allowed under this section unless the Commissioner is satisfied that the fund has been established or the payment made in such a manner that the rights of the employees to receive the benefits, pensions, or retiring-allowances have been fully secured.

Special exemption in respect of income derived from use of land.  
1916, No. 5, sec. 87  
1917, No. 9, sec. 31

83. (1.) When any land in which a taxpayer owns an interest, or any portion of such land, has throughout the income year or any portion thereof been actually used by the taxpayer exclusively for the purposes of his business or for the purpose of deriving rent, royalties, or other profits therefrom, he shall be entitled, by way of special exemption, to deduct from the assessable income derived by him during the income year, so far as derived from such use of the land, a sum computed in respect of the period of such use at the rate of five per centum per annum on the capital value for the time being of his interest in the land or in the portion thereof so actually used by him, as the case may be, and income-tax shall be assessed and payable accordingly.

(2.) When a taxpayer has so used any land or any portion thereof partly for the purposes aforesaid and partly for other purposes, he shall be entitled to deduct such proportion of the amount which would have been allowable under the last preceding subsection, had the use been exclusively for the purposes aforesaid, as the Commissioner determines, in his discretion, to be justly proportionate to the use so made of the land for the purposes aforesaid.

(3.) When the capital value as appearing in the district valuation roll in force under the Valuation of Land Act, 1908, includes the interest of the taxpayer in any other land the Commissioner shall apportion the capital value as so appearing on that roll in such manner as he thinks just and reasonable between the two areas of land, and the deduction provided for by this section shall be computed in accordance with that apportionment.

(4.) This section shall apply only to the interests actually owned at law or in equity by the taxpayer, and shall not extend to interests constructively deemed to be owned by him for the purposes of this Act.

(5.) For the purposes of this section the term "capital value," with respect to the interest of a taxpayer in any land, has the same meaning as in the Valuation of Land Act, 1908.

Residents in New Zealand liable in respect of income, wherever derived.  
1916, No. 9, sec. 88

84. (1.) Subject to the provisions of this Act, all income derived by any person who is resident in New Zealand at the time when he derives that income shall be assessable for income-tax, whether it is derived from New Zealand or from elsewhere.

(2.) Subject to the provisions of this Act, all income derived from New Zealand shall be assessable for income-tax, whether the person deriving that income is resident in New Zealand or elsewhere.

All income assessable if derived from New Zealand.

(3.) Subject to the provisions of this Act, no income which is neither derived from New Zealand nor derived by a person then resident in New Zealand shall be assessable for income-tax.

85. Any company resident in New Zealand and carrying on business exclusively in any of the islands of the Pacific Ocean, not being British possessions, shall be assessable for income-tax only in respect of such part of its income as is received in New Zealand.

Special provisions as to resident companies carrying on business out of New Zealand.

86. (1.) A person other than a company shall be deemed to be resident in New Zealand within the meaning of this Part of this Act if his home is in New Zealand.

1922, No. 12, sec. 7  
Place of residence, how determined.  
1916, No. 5, sec. 80

(2.) A company shall be deemed to be resident in New Zealand within the meaning of this Part of this Act if it—

(a.) Is incorporated in New Zealand; or

(b.) Has its head office in New Zealand.

(3.) The head office of a company means the centre of its administrative management.

87. Subject to the provisions of the next succeeding section, the following classes of income shall be deemed to be derived from New Zealand:—

Classes of income deemed to be derived from New Zealand.

(a.) Income derived from any business carried on in New Zealand:

(b.) All salaries, wages, allowances, and emoluments of any kind earned in New Zealand in the service of any employer or principal, whether resident in New Zealand or elsewhere:

(c.) Income derived by any person as the owner of land in New Zealand:

(d.) Income derived by any person from any mortgage of land in New Zealand:

(e.) Income derived from shares in or membership of a New Zealand company, or from debentures issued by a New Zealand company or by a local or public authority:

(f.) Income derived from debentures or other securities issued by the Government of New Zealand, or from any contract made with that Government:

(g.) Any pension or annuity payable by the Government of New Zealand, or out of any superannuation fund established in New Zealand:

(h.) Income derived from money invested in the Common Fund of the Public Trust Office or the Native Trust Office:

(i.) Income derived from the sale or other disposition of any property, corporeal or incorporeal, situated in New Zealand:

(j.) Income derived from money lent in New Zealand:

(k.) Income derived by a beneficiary under any trust, so far as the income of the trust fund is derived from New Zealand:

(l.) Income derived from contracts made or wholly or partly performed in New Zealand:

(m.) Income derived from the carriage by sea of merchandise, mails, or passengers shipped or embarked in New Zealand:

(n.) Income derived directly or indirectly from any other source in New Zealand.

*Ibid.*, sec. 90

Apportionment, in cases where income derived partly in New Zealand and partly elsewhere.  
1916, No. 5, sec. 91

88. Whenever by reason of the manufacture, production, or purchase of goods in one country and their sale in another, or by reason of successive steps of production or manufacture in different countries, or by reason of the making of contracts in one country and their performance in another, or for any other reason whatever, the source of any income is not exclusively in New Zealand, that income shall be apportioned between its source in New Zealand and its source elsewhere, or attributed to one of such sources to the exclusion of the other, in such manner as may be prescribed by regulations made under this Act; and in default of such regulations, or so far as they do not extend, then in such manner as the Commissioner thinks just and reasonable, having regard to the nature and relative importance of the sources of that income; and the income, so far as so apportioned or attributed to a source in New Zealand, shall be deemed to be derived from New Zealand, and shall be assessable for income-tax accordingly.

Income not derived from New Zealand exempt if chargeable with tax in other part of British dominions.  
Ibid., sec. 92

89. (1.) Income derived by a person resident in New Zealand but not derived from New Zealand shall be exempt from income-tax if and so far as the Commissioner is satisfied that it is derived from some other country within the British dominions and that it is chargeable with income-tax in that country.

(2.) In determining the country from which income is derived the Commissioner shall apply the same rules, with the necessary modifications, as are applicable in determining whether income is derived from New Zealand.

(3.) In this section "income-tax" means, in respect of any country other than New Zealand, any tax which in the opinion of the Commissioner is substantially of the same nature as income-tax under this Act.

Income credited in account or capitalized, &c., deemed to have been received for purposes of this Act.  
Ibid., sec. 93

90. For the purposes of this Act every person shall be deemed to have derived income although it has not been actually paid to or received by him, or already become due or receivable, but has been credited in account, or reinvested, or accumulated, or capitalized, or carried to any reserve, sinking, or insurance fund, or otherwise dealt with in his interest or on his behalf.

Special provisions with respect to income of banking companies.  
Ibid., sec. 94  
1917, No. 9, sec. 33  
1921, No. 25, sec. 3

91. Notwithstanding anything to the contrary in this Act, the taxable income of a banking company shall in each year be deemed for all the purposes of this Act to be a sum equal to thirty shillings in every hundred pounds of the average of its total assets and liabilities for the four quarters of the year according to the sworn statements published in the *Gazette* as required by law, less an amount equal to the income derived by the banking company on its own account during that year as interest on any debentures or other Government securities if and so far as such income is expressly exempted from income-tax by any Act, and income-tax shall be payable accordingly.

Special provisions aforesaid not applicable in certain cases.  
1917, No. 9, sec. 34

92. (1.) The last preceding section shall not apply to a banking company in and for any year during the first ten years after it has commenced to carry on the business of banking in New Zealand if the Commissioner is satisfied that its business of banking in New Zealand for that year has resulted in a loss, or has produced a profit less than the amount of its taxable income for that year, computed in the manner prescribed by the said section.

(2.) In any case where pursuant to this section the taxable income of any banking company is computed otherwise than in the manner

prescribed by the last preceding section, that company shall be assessed and liable for income-tax in the same manner as if it were a company carrying on in New Zealand a business other than the business of banking.

93. Notwithstanding anything to the contrary in this Act, the following provisions shall apply to the income of a company carrying on the business of insurance or guarantee against loss, damage, or risk of any kind whatever, except life assurance :—

(a.) The assessable income of such a company shall not include income derived from insurance business carried on out of New Zealand :

(b.) The income of such a company shall not include sums recovered from companies which do not carry on business in New Zealand in respect of losses on risks reinsured with such companies, and no deduction shall be allowed from such income in respect of premiums paid for reinsurance with companies not carrying on business in New Zealand.

94. (1.) The corporation sole established under the State Fire Insurance Act, 1908, under the style of "The State Fire Insurance General Manager" shall be liable to income-tax in the same manner in all respects as if it were a company to which the last preceding section applies, save that nothing in paragraph (b) of that section shall apply to the said corporation.

(2.) All moneys payable as income-tax by the said corporation shall be paid without further appropriation than this Act out of the State Fire Insurance Account.

95. (1.) Notwithstanding anything to the contrary in this Act, the taxable income of any foreign company carrying on the business of life insurance shall be deemed to be a sum equal to its total income from investments of any kind out of New Zealand held by or on behalf of its New Zealand branch and from investments of any kind in New Zealand, diminished by an amount equal to two per centum of its investments in New Zealand the income from which is not exempt from taxation, and income-tax shall be payable on that sum accordingly.

(2.) The Government Life Insurance Department shall for the purposes of income-tax be deemed to be a New Zealand company, and shall be assessable and chargeable with income-tax accordingly.

96. Unless otherwise provided in the annual taxing Act for any year, the amount of income-tax payable by any company carrying on the business of life insurance (other than income-tax payable in respect of income derived from debentures issued by a company or by a local or public authority) shall be one-half the amount that would be payable by the company if this section had not been passed.

97. (1.) Notwithstanding anything to the contrary in this Act, if the Commissioner is satisfied that the sole or principal source of the income of a company, whether incorporated in New Zealand or elsewhere, is the business of gold-mining or scheelite-mining in New Zealand, the taxable income derived by that company in any year shall be deemed to be one-half of the total sum paid as dividends during that year to the shareholders of the company, and the company shall be assessed and liable accordingly.

Special provisions with respect to income of insurance companies.

1916, No. 5, sec. 95

Cf. 1917, No. 9, sec. 35

Cf. 1918, No. 4, sec. 22

Cf. 1921, No. 5, sec. 7

State Fire Insurance Office to pay income-tax.

1917, No. 9, sec. 35

1919, No. 52, sec. 25

Special provisions with respect to income of foreign insurance companies.

1916, No. 5, sec. 90

1917, No. 9, sec. 36

1920, No. 35, sec. 19

Partial exemption of insurance companies from income-tax.

1921, No. 5, sec. 7

1921, No. 25, sec. 10

Special provisions as to companies engaged in gold-mining or scheelite-mining.

1916, No. 5, sec. 97

(2.) The term "dividends" includes all sums distributed in any manner and under any name among shareholders of a company on account of profits made by the company.

For purposes of income-tax two or more companies with substantially the same shareholders may be treated as one company.  
1920, No. 35, sec. 21

98. (1.) If the Commissioner is satisfied with respect to two or more companies consisting substantially of the same shareholders or under the control of the same persons that the separate constitution of those companies is not *bona fide* for the purpose of more effectively carrying out their objects, but is for the purpose of reducing their taxation, the Commissioner may, for the purposes of income-tax, treat those companies as if they were a single company, and in any such case those companies shall be jointly assessed and jointly and severally liable, with such right of contribution or indemnity between themselves as is just.

(2.) For the purposes of this section two companies shall be deemed to consist substantially of the same shareholders if not less than one-half of the paid-up capital of each of them is held by or on behalf of shareholders in the other. Shares in one company held by or on behalf of another company shall for this purpose be deemed to be held by the shareholders in the last-mentioned company.

Allowance to shareholders and debenture-holders in certain cases.  
1917, No. 9, sec. 37  
1920, No. 35, sec. 25

99. (1.) If the Commissioner is satisfied with respect to a shareholder in any company liable to income-tax that the total income of that shareholder from all sources, whether in New Zealand or elsewhere, during the income year did not exceed four hundred pounds, the Commissioner may pay to the shareholder an amount equal to the difference between the amount of tax paid or payable by the company in respect of an amount of its income equal to the dividends paid by it to the shareholder and the amount of tax that would have been payable by the shareholder in respect of those dividends if they had formed part of his taxable income:

Provided that no payment shall be made by the Commissioner to any shareholder, pursuant to this section, of such an amount that the total amount received by that shareholder by way of dividends on his shares, together with the payment under this section, shall exceed six per centum of the total amount paid up in respect of his shares.

(2.) If the Commissioner is satisfied with respect to the holder of any debenture or debentures issued by any local or public authority or by any company that the aggregate amount of income-tax paid or payable by or on behalf of the debenture-holder (including the tax paid in respect of interest on debentures) exceeds the amount of tax that would have been payable by him if the interest received by him on those debentures had formed part of his taxable income, the Commissioner shall, on application by the taxpayer, pay to him the amount of the excess.

(3.) Nothing in the last preceding subsection shall apply with respect to income-tax paid by a company pursuant to any such contract, agreement, or arrangement as is mentioned in section one hundred and seventy-one hereof, and the said subsection (in so far as it applies to tax paid in respect of interest on debentures) is hereby declared to be applicable only to such tax as is paid by the company as the agent of the debenture-holder and is deducted by the company from the interest expressed by the debenture to be payable to the debenture-holder.



(4.) All payments made by the Commissioner under this section may be paid as if they were refunds of tax paid in excess.

100. In calculating the assessable income of any co-operative company incorporated in New Zealand and having for its object or one of its objects the manufacture of cheese, dried milk, or butter, there shall be deductible from the gross income of the company, in so far as it is derived from the treatment, manufacture, and sale of products of milk, an amount equal to the amount paid or payable by the company during the income year to suppliers of milk to the company, so far as such amount is paid or payable in respect of milk or butterfat supplied and is apportioned among the suppliers in proportion to the quantity of milk or butterfat supplied by them.

Special provisions with respect to income of co-operative dairy companies. 1921, No. 25, sec. 5

101. (1.) When income is derived by two or more persons jointly as partners, co-trustees, or otherwise the following provisions shall apply:—

Special provisions with respect to income derived jointly by partners, co-trustees, &c. 1916, No. 5, sec. 98 1922, No. 12, sec. 14

(a.) In the case of trustees, they shall make a return of that income, and shall be jointly assessable thereon and jointly and severally liable for the tax so assessed:

(b.) In the case of partners—

(i.) They shall make a joint return of the income of the firm, setting forth the amount of that income and the shares of the several partners therein:

(ii.) Each partner shall make a separate return of all income derived by him and not included in any such joint return:

(iii.) There shall be no joint assessment, but each partner shall be separately assessed and liable for the tax payable on his total income, including his share of the income of any firm in which he is a partner:

(c.) In any case other than that of co-trustees or partners, each person by whom income is so derived shall include in his return the amount of his share in the joint income, and shall be assessed and liable accordingly.

(2.) For the purposes of this Act a husband and wife carrying on business together shall not be deemed to be carrying on business as partners, unless in fact they are carrying on business under a deed of partnership.

102. With respect to income derived by a trustee the following provisions shall apply:—

Special provisions with respect to income derived by trustees.

(a.) If and so far as the income of the trustee is also income derived by a beneficiary entitled in possession to the receipt thereof under the trust during the same income year, the trustee shall in respect thereof be deemed to be the agent of that beneficiary, and shall be assessable and liable for income-tax thereon accordingly, and all the provisions of this Act as to agents shall, so far as applicable, apply accordingly:

1916, No. 5, sec. 99 1920, No. 35, sec. 20

(b.) If and so far as the income of the trustee is not also income derived by any beneficiary as aforesaid, the trustee shall be assessable and liable for income-tax on that income in the same manner as if he was beneficially entitled thereto, save that the rate of tax shall be computed by reference to that income alone, and that, except as otherwise provided herein,

the trustee shall not be entitled to any deduction by way of special exemption under sections seventy-four to seventy-seven of this Act. In any case where income is held by the trustee in trust for the maintenance and education of children the same deductions by way of special exemption shall be allowed as if the trustee were beneficially entitled and as if the children were the children of the trustee:

- (c.) The trustee shall in every case make a return of the whole income so derived by him as trustee, and each such return shall be separate and distinct from any return of income derived by him under any other trust or in his own right:
- (d.) Nothing in this section shall be so construed as to exempt a beneficiary from any income-tax which would be payable by him had he derived the income to which he is entitled under the trust directly instead of through a trustee.

Special provisions as to resident agents of principals resident or carrying on business out of New Zealand.

1916, No. 5, sec. 100

103. When any person in New Zealand, on behalf of a principal resident or carrying on business out of New Zealand, is instrumental in procuring the purchase from that principal of goods or merchandise which are in New Zealand or are to be imported into New Zealand in pursuance or in consequence of such purchase, whether the contract of purchase is made in New Zealand or elsewhere, the principal shall in respect of the sale by him of such goods or merchandise be deemed to be carrying on business in New Zealand through the agency of that person; and the income derived from such business shall be deemed to be derived from New Zealand, in the same manner and to the same extent as if the contract had been made in New Zealand, and shall be assessable for income-tax accordingly, and the agent shall make returns and pay tax accordingly.

Special provisions as to commission agents.

Ibid., sec. 101

104. (1.) In this section the term "commission agent" means any person who carries on in New Zealand by himself or by any person on his behalf the business of making commission agency contracts in New Zealand or of procuring such contracts to be made with him elsewhere.

"Commission agency contract" defined.

(2.) In this section the term "commission agency contract" means a contract by which any person is authorized to sell out of New Zealand any goods or merchandise on commission or otherwise on behalf of any person resident or carrying on business in New Zealand.

(3.) The income derived by any commission agent in the performance out of New Zealand of commission agency contracts so made or procured in New Zealand shall, subject to any apportionment which may be made under this Act in respect of its source out of New Zealand, be deemed to be derived by him from the business so carried on in New Zealand, and income-tax shall be payable thereon accordingly.

Provisions as to principal and agent in certain cases.

1920, No. 35, sec. 22

105. When the Commissioner is satisfied that any person carrying on business in New Zealand (herein called the agent) is so far under the control of any other person carrying on business in New Zealand or elsewhere (herein called the principal) that the relation between them is in effect that of agent and principal, he may treat the first-mentioned business as that of the principal, and as being carried on by the agent on his behalf, and may require returns to be made, and may make assessments accordingly, and the principal and agent shall be liable for income-tax accordingly.

106. (1.) Where any person in New Zealand enters into a contract of insurance or guarantee against loss, damage, or risk of any kind whatever (not being a contract of life insurance) with any person or foreign company not carrying on business in New Zealand, such last-mentioned person or such company shall be liable to income-tax at a rate of five per centum of the amount of premium paid or payable by such first-mentioned person in respect of such contract.

Income-tax payable in respect of contracts of insurance effected with persons or foreign companies not carrying on business in New Zealand.

1921, No. 25, sec. 9  
1922, No. 12, sec. 12

(2.) Where the amount of premium paid or payable in respect of any such contract is not disclosed, the amount shall be deemed to be the same amount as would be chargeable in respect of a similar contract of insurance or guarantee effected with a company carrying on business in New Zealand.

(3.) Every person who enters into a contract of insurance or guarantee as aforesaid shall for the purposes of this Act be deemed to be the agent of the person or foreign company with whom such contract is made, and shall make returns and be assessable and liable for income-tax accordingly.

(4.) Every person who exports any goods from New Zealand shall, on making entry therefor under the Customs Acts, state in the entry whether or not such goods are insured, and, if so, the name and description of the person or company with whom such goods are insured, and the amount of the premium payable in respect thereof.

(5.) A copy of every such entry shall forthwith be transmitted to the Commissioner by the Collector of Customs.

107. (1.) When income is derived by any person in any year by way of fines, premiums, or payment for goodwill on the grant of a lease, or in any other like manner by way of anticipation, the Commissioner may, if he thinks fit in his discretion, at the request of that person during the next succeeding year, apportion that income between the income year and any number of subsequent years not exceeding five, and the part so apportioned to each of those years shall be deemed to have been derived in that year, and shall be assessable for income-tax accordingly.

Income received in anticipation may be apportioned by Commissioner.

1916, No. 5, sec. 103

(2.) Any such apportionment may be at any time cancelled by the Commissioner, and thereupon the income so apportioned or the part thereof on which income-tax has not yet been paid shall become assessable for income-tax as if derived during the year preceding that in which the apportionment was so cancelled.

(3.) Any such apportionment made before the coming into operation of this Act under the corresponding provisions of any Act hereby repealed shall be deemed to have been made under this Act, and shall operate accordingly.

108. (1.) This section applies to the following persons:—

- (a.) An agent:
- (b.) A non-resident trader:
- (c.) A person who is believed by the Commissioner to be about to leave New Zealand or to be about to discontinue the carrying-on of business in New Zealand:
- (d.) A person who has ceased to carry on business in New Zealand or to derive assessable income:

Commissioner may in certain cases demand special returns, and make special assessments and levies of income-tax.

Ibid., sec. 104

(e.) The executors or administrators of a deceased taxpayer in respect of income derived by him in his lifetime :

(f.) A person who has become bankrupt, or a company which is in course of being wound up.

(2.) The Commissioner may, if he thinks fit, at any time during the income year or in any subsequent year, and either before or after the passing of the annual taxing Act or the due date of tax, require any person to whom this section applies to make a return of income derived from any specified transaction or transactions, or during any specified period, and may assess him for income-tax on the income so returned ; or, when default is made in making such return, or the Commissioner is dissatisfied therewith, then on such sum as the Commissioner thinks reasonable, and shall give notice of the assessment to the person so assessed.

(3.) Any person so assessed shall have the same right of objection as if he had been assessed in the ordinary course.

(4.) Tax so assessed shall be payable on demand, which may be made in and by the notice of assessment or at any later date, and the tax shall be recoverable in the same manner as income-tax assessed in the ordinary course.

(5.) If any such assessment of income derived in any year is made before the passing of the annual taxing Act by which the rate of tax payable on such income is fixed, the tax shall be assessed at the rate fixed by the annual taxing Act last passed before the date of the assessment.

(6.) No assessment made under this section shall in any manner preclude a subsequent assessment of the same person in the ordinary course in respect of the whole of the income derived by him during the income year with respect to which the assessment under this section was made, but in such case the tax paid under the earlier assessment shall be credited in the subsequent assessment.

Non-resident agents and non-resident traders not to carry on business without warrant of Commissioner.  
1916, No. 5, sec. 105

109. (1.) In respect of the sale or purchase of goods, a non-resident agent shall not act as agent, and a non-resident trader shall not carry on business, unless that agent or trader is the holder of a warrant in that behalf issued in the prescribed form by the Commissioner or by a Collector of Customs.

(2.) A warrant so issued may be at any time revoked by the Commissioner by notice given to the holder.

(3.) In every case in which a warrant is issued by a Collector of Customs he shall forthwith notify the Commissioner of the issue thereof.

(4.) In all proceedings against any person for a breach of this section it shall be for the defendant to prove that he is the holder of a warrant.

Commissioner may require non-resident agent or non-resident trader to give security.  
Ibid., sec. 106

110. (1.) The Commissioner may at any time and from time to time require any non-resident trader or non-resident agent to give security by way of bond, deposit, or otherwise, to the satisfaction of the Commissioner, for the payment of any income-tax which may become payable by him.

(2.) After security has been so demanded, and before it has been duly given, it shall not be lawful for the non-resident trader to carry on business or for the non-resident agent to act as an agent, except with the leave of the Commissioner.

## PART VII.

## AGENTS.

111. In this Part of this Act the term "absentee" means—
- (a.) Any person (other than a company) who is for the time being out of New Zealand :
- (b.) Any foreign company unless it has a fixed and permanent place of business in New Zealand at which it carries on business in its own name :
- (c.) Any foreign company which is declared by the Commissioner to be an absentee for the purposes of this Act by notice given to that company or to its agent or attorney in New Zealand, so long as that declaration remains unrevoked.
112. Every person who in New Zealand carries on any business for and on behalf of a principal who is an absentee shall for the purposes of this Act be the agent of that principal in respect of all income derived by the principal through the business so carried on in New Zealand by means of that agent, and the agent shall make returns and be assessable and liable for income-tax on that income accordingly, whether the income comes to the hands of the agent or not.
113. Every person who in New Zealand has the receipt, control, or disposal of any income derived by a principal who is an absentee shall for the purposes of this Act be the agent of the principal in respect of that income, and shall make returns and be assessable and liable for income-tax on that income accordingly.
114. Every person who in New Zealand carries on business in partnership with an absentee shall for the purposes of this Act be the agent of that absentee in respect of his share of the income of the business, and shall make returns and be assessable and liable for income-tax accordingly.
115. (1.) When an absentee, by means of any ship owned by him or under charter to him, carries on the business of the carriage of merchandise, mails, or passengers, the master of that ship shall (though not to the exclusion of any other agent) be the agent of that absentee for the purposes of this Act in respect of all assessable income so derived by the absentee, and shall be assessable and liable for income-tax accordingly.
- (2.) Pending the payment of any tax assessed against such an absentee or against any person who is his agent for the purposes of this Act, a Collector of Customs shall, on the requisition of the Commissioner, withhold the clearance of the ship in respect of which the tax is payable.
116. (1.) Save as otherwise provided in the next succeeding section, every company which has issued debentures, whether charged on the property of the company or not, shall for the purposes of this Act be the agent of all debenture-holders, whether absentees or not, in respect of all income derived by them from those debentures, and shall make returns and be assessable and liable for income-tax on that income accordingly.
- (2.) No deduction by way of special exemption or otherwise shall be allowed to the company as such agent, or to any debenture-holders, in respect of the income so derived from debentures.

"Absentee" defined.  
1916, No. 5, sec. 107

Liability of agent  
of absentee  
principal to make  
returns and pay  
tax.  
Ibid., sec. 108

Person having  
disposal of income  
deemed to be the  
agent of absentee  
principal.  
Ibid., sec. 109

Partner of absentee  
deemed to be his  
agent.  
Ibid., sec. 110

Master of ship  
deemed to be the  
agent of absentee  
owner.  
Ibid., sec. 111

Company deemed to  
be agent of  
debenture-holders.  
Ibid., sec 112

(3.) Income so derived by debenture-holders in companies shall be assessable and chargeable with income-tax separately from income derived by the debenture-holders from other sources, and at the rate prescribed by the annual taxing Act as appropriate to income so derived.

(4.) Income derived from debentures held by a banking company shall not be liable to income-tax under this section.

Special provisions as to floating-rate of interest on debentures.  
1920, No. 35, sec. 26

117. (1.) Where in any debenture issued by a company, whether before or after the coming into operation of this Act, the rate of interest payable in respect thereof is not specifically determined, but is determinable from time to time by reference to the dividend payable by the company or otherwise howsoever, the interest paid on the debenture shall be computed as part of the assessable income of the company and not of the debenture-holder.

(2.) The provisions of the last preceding section shall not apply with respect to any such debenture or to the interest paid or payable thereunder.

Local and public authorities to be agent of debenture-holders.  
Ibid, sec. 24

118. (1.) Save as provided in the next succeeding section, every local or public authority which has issued debentures shall for the purposes of this Act be the agent of all debenture-holders, whether absentees or not, in respect of all income derived by them from those debentures, and shall make returns and be assessable and liable for income-tax on that income accordingly.

(2.) No deduction by way of special exemption or otherwise shall be allowed to any local or public authority as such agent, or to any debenture-holders, in respect of the income so derived from debentures.

(3.) Income so derived by the holders of debentures issued by a local or public authority shall be assessable and chargeable with income-tax separately from income derived by the debenture-holders from other sources, and at the rate prescribed by the annual taxing Act as appropriate to income so derived.

(4.) Nothing in this section shall be so construed as to render liable to income-tax any income that is exempt from taxation by virtue of section seventy-eight of this Act.

(5.) Income derived from debentures held by a banking company shall not be liable to income-tax under this section.

As to debentures issued by public or local authorities.  
1921, No. 25, sec. 8

119. (1.) The duty to act as the agents of debenture-holders, imposed on local and public authorities by the last preceding section, shall not apply with respect to any debentures issued by any such local or public authority which has supplied to the Commissioner, before it has been assessed in any year for income-tax in respect of the income derived from such debentures, a certified list specifying the numbers of the debentures or other particulars sufficient to identify them, the names, addresses, and descriptions of the persons to whom the debentures have been issued, and such other particulars as may be prescribed.

(2.) Where any such list is supplied the person named therein as the holder of any debentures shall be personally responsible for the making of returns, and shall be assessable and liable for income-tax (though not to the exclusion of any other person) in respect of the income derived from those debentures at the rate fixed in respect thereof, unless and until he satisfies the Commissioner, before he has

been assessed for income-tax in any year, that he has transferred or assigned the debentures, and has given notice to the Commissioner in the prescribed form of the name, address, and description of the transferee or assignee.

(3.) Every person being the transferee or assignee of any debentures shall in like manner remain personally liable in respect thereof (though not to the exclusion of any other person), unless and until he has given notice to the Commissioner in the prescribed form of the transfer or assignment of the same.

(4.) Any tax paid by the former holder of any debentures in respect of the income derived therefrom by a subsequent holder shall be deemed to be paid on behalf of that subsequent holder so far as it does not exceed the tax to which the subsequent holder might himself have been liable in respect of such debentures, and may be recovered by the former holder from such subsequent holder accordingly.

120. A New Zealand company which is exempt from income-tax shall be the agent of all shareholders or members who are absentees, and the company shall make returns and be assessable accordingly on all dividends and other profits paid or credited by the company to such shareholders or members at any time while they are absentees.

Company deemed to be the agent of absentee shareholders.  
1916, No. 5, sec. 113

121. Every banking company, and every other company, local or public authority, or other person, who in the course of business receives or holds money by way of deposit and allows interest thereon shall for the purposes of this Act be the agent of all depositors who are absentees, and shall make returns and be assessable and liable for income-tax accordingly on any interest which is paid or credited to a depositor while he is an absentee, if that interest exceeds fifty pounds in any year.

Banking company to be the agent of absentee depositors  
Ibid., sec. 114

122. Every non-resident trader shall for the purposes of this Act be the agent of all persons in his employment in New Zealand in respect of the salary, wages, or other emoluments received by them, and shall make returns and be assessable and liable for income-tax thereon accordingly.

Non-resident trader deemed to be the agent of persons employed by him in New Zealand.  
Ibid., sec. 115

123. Any tenant, mortgagor, or other person who transmits from New Zealand to any landlord, mortgagee, or other creditor, being an absentee, any rent, interest, or other moneys being income derived by that absentee from New Zealand, shall for the purposes of this Act be the agent of that absentee in respect of all moneys so transmitted by him at any time after the Commissioner has given notice to him that he is accountable as the agent of that absentee, and he shall in respect of all such moneys make returns and be assessable and liable for income-tax accordingly.

Tenant, mortgagor, or other debtor deemed to be the agent of absentee landlord, mortgagee or other creditor.  
Ibid., sec. 116

124. Every person who, as guardian, committee, or otherwise, has the receipt, control, or disposition of any income derived by a person under any legal disability shall for the purposes of this Act be the agent of that person in respect of that income, and shall make returns and be assessable and liable for income-tax accordingly.

Guardian of person under disability deemed to be his agent.  
Ibid., sec. 117

125. Every person who on the thirty-first day of March in any year has the control or management of any land, or the receipt, control, or disposal of the rents or profits thereof, on behalf of an owner of that land who is an absentee or is under any legal disability, shall for the

Person having control of land or of rents and profits deemed to be the agent of absentee owner.  
Ibid., sec. 118

purposes of this Act be the agent of the owner in respect of land-tax payable in and for the next succeeding year, and shall make returns and be assessable and liable for that tax accordingly.

Agents to be personally liable for payment of tax.  
1916, No. 5, sec. 119

126. (1.) Every agent shall be personally liable for the tax on the land or income in respect of which he is an agent.

(2.) When the Commissioner is satisfied that an agent has no moneys of his principal with which he can pay the tax, and that he has not paid away any such moneys after notice of the assessment of the tax, and that immediate enforcement of payment by the agent would be a cause of hardship, the Commissioner may allow the agent such further period for the payment thereof, not exceeding six months after the date of the notice of assessment, as the Commissioner thinks necessary, and the additional tax imposed by section one hundred and thirty-five of this Act on taxpayers in default shall not accrue until the expiry of the period so allowed.

Agent to make returns and to be assessed as if he were the principal.  
Ibid., sec. 120

127. Every agent shall make returns of the land and income in respect of which he is an agent, and shall be assessed thereon in the same manner as if he was the principal, save that he shall be entitled to no special exemption other than such exemption (if any) as his principal may be entitled to.

Rate and amount of tax payable by agent, how determined.  
Ibid., sec. 121

128. Except where otherwise expressly provided by this Act, the rate of tax for which an agent shall be so assessed and liable shall be determined by reference to the total taxable land or income of the principal, but it shall be charged and payable only on the land or income in respect of which the agency exists, and in the same proportion which that land or income bears to the total taxable land or income of the principal.

Liability of principal not affected by obligation imposed on agent.  
Ibid., sec. 122

129. (1.) Nothing in this Act relating to an agent shall be so construed as to release the principal from liability to make returns and to be assessed and chargeable with tax.

(2.) No assessment of the agent shall preclude an assessment of the principal for the same tax, nor shall an assessment of the principal preclude an assessment of the agent for the same tax, and the principal and agent shall be jointly and severally liable for all tax for which the agent is liable.

(3.) When two or more persons are liable to be assessed as agents in respect of the same tax, they shall be jointly and severally liable therefor.

Agent may recover from principal amount of tax paid by him.  
Ibid., sec. 123

130. When an agent pays any tax he may recover the amount so paid from his principal, or may deduct the amount from any moneys in his hands belonging or payable to his principal.

Agent may retain from moneys of principal amount required for payment of tax.  
Ibid., sec. 124

131. An agent may from time to time during the year preceding the year of assessment, or at any later time, retain out of any moneys belonging or payable to his principal such sums as may reasonably be deemed sufficient to pay the tax for which the agent is or may become liable.

Assessment of Commissioner deemed sufficient authority for payment of tax by agent.  
Ibid., sec. 125

132. An assessment made by the Commissioner shall, as between an agent and his principal, be a sufficient authority for the payment by the agent of the tax so assessed, and the agent shall be entitled as against his principal to reimbursement accordingly.



## PART VIII.

## PAYMENT AND RECOVERY OF TAX.

133. (1.) Land-tax and income-tax shall, except where expressly made payable on demand by any provisions of this Act, be due and payable on such respective dates as are appointed in that behalf by the Governor-General in Council, and the Commissioner shall in each case give not less than fourteen days' public notice of the date so appointed.

Governor-General in Council to fix dates for payment of taxes. 1916, No. 5, sec. 126

(2.) Such notice shall be given by the publication thereof in the *Gazette* and in such other manner (if any) as the Commissioner thinks necessary and sufficient.

Notice to be gazetted.

134. (1.) Any taxpayer, on production to the Commissioner or other proper officer of a notice of assessment of income-tax for any year, may pay in advance the sum or any portion of the sum therein charged as income-tax for that year. Every person who makes any such payment in advance shall, subject to the provisions of this section and to such conditions as may be prescribed, be entitled to interest on the amount of such payment at the maximum rate for the time being allowed on deposits in the Post Office Savings-bank for the period commencing on the date of payment and ending on the day appointed as the due date of payment:

Allowance by way of interest on income-tax paid in advance. 1921, No. 25, sec. 12

Provided that interest shall not be allowed under this section save in respect of an amount of ten pounds or a multiple of ten pounds, or in any case unless the tax is paid not less than three months before the due date of payment.

(2.) Where on the date of any payment as aforesaid the due date of payment has not been appointed, the due date of payment shall, subject to the next succeeding subsection, be deemed to be the date corresponding with the due date for the last preceding year.

(3.) On the appointment of the due date for the payment of any tax the Commissioner shall, on the request in writing of the taxpayer, make any adjustment that may be necessary in the amount of any allowance theretofore made under this section.

135. (1.) Subject to the provisions of this section, if any tax remains unpaid at the expiration of twenty-one days after the due date thereof (whether already assessed or not), or after the date of demand, as the case may be, five per centum on the amount of the tax unpaid shall be and be deemed to be added thereto by way of additional tax, and shall be payable accordingly.

If default made in payment of tax, additional amount to be charged. 1916, No. 5, sec. 127 1920, No. 35, sec. 28

(2.) In any case in which an assessment is not made until after the due date of the tax, or is increased after the due date of the tax, and the Commissioner is satisfied that the taxpayer has not been guilty of wilful neglect or default in making due and complete returns for the purposes of that tax, the Commissioner shall in his notice to the taxpayer of the assessment or amended assessment, or in any subsequent notice, fix a new date for the payment of the tax or of the increase, as the case may be, and the date so fixed shall be deemed to be the due date of that tax or increase for the purposes of the last preceding subsection.

(3.) Where the taxpayer is resident beyond New Zealand and has no agent in New Zealand, the Commissioner shall, before charging the additional tax as aforesaid, grant such further time, not exceeding six months after the due date of the tax, as he may deem necessary.

Mode of recovery of unpaid tax.  
1916, No. 5, sec. 128

136. All unpaid tax shall be recoverable in any Court of competent jurisdiction by the Commissioner on behalf of the Crown by suit in his official name.

Procedure in Supreme Court where defendant absent from New Zealand.  
Ibid., sec. 129

137. In any action in the Supreme Court for the recovery of tax from a defendant absent from New Zealand the Supreme Court may grant leave to serve the writ out of New Zealand, or to proceed without service in the same manner as may be provided in other cases by the Rules of the Supreme Court for the time being in force, save that no security shall be required from the Commissioner.

Procedure in Magistrate's Court where defendant absent from New Zealand.  
Ibid., sec. 130

138. In an action in a Magistrate's Court for the recovery of tax, if the defendant is absent from New Zealand or cannot after reasonable inquiry be found, service of the summons may with the leave of a Magistrate be effected by posting a duplicate or sealed copy thereof in a letter addressed to the defendant at his present or last known place of abode or business, whether in New Zealand or elsewhere.

Notice to be given by defendant of intention to defend action in Magistrate's Court.  
Ibid., sec. 131

139. In an action in a Magistrate's Court for the recovery of tax, if the summons is served on the defendant at least thirty days before the day appointed for hearing, then unless within the time limited by law for filing a notice of intention to defend an action in that Court notice of that intention is duly filed by or on behalf of the defendant, judgment shall be given for the amount claimed and costs without allowing any defence, and without it being necessary for the Commissioner or any one on his behalf to appear in Court or to prove the liability of the defendant.

Particulars of claim or demand to be stated by Commissioner.  
Ibid., sec. 132

140. In an action in any Court for the recovery of tax it shall be sufficient if the particulars of claim or demand state the amount sought to be recovered and the date on which the same became payable, and such further particulars (if any) as the Commissioner thinks necessary in order fully to inform the defendant of the nature of the claim.

Commissioner may appear, in legal proceedings, by officer of Public Service.  
Ibid., sec. 133

141. In all proceedings in a Magistrate's Court on objection to an assessment of tax, and in any action in a Magistrate's Court for the recovery of tax, the Commissioner may, if he thinks fit, appear by some officer in the Public Service, and the statement of any person so appearing that he is such an officer and that he appears for the Commissioner shall be sufficient evidence of the facts so stated and of his authority in that behalf.

Costs against Commissioner.  
Ibid., sec. 134

142. In all proceedings in any Court for the recovery of tax costs may be awarded to or against the Commissioner in the same manner as in other cases, but all costs so awarded against the Commissioner shall be payable out of moneys appropriated by Parliament, and not otherwise.

Proceedings not affected by vacancy or change in office of Commissioner.  
Ibid., sec. 135

143. No action instituted by the Commissioner for the recovery of tax, and no proceedings on objection to an assessment of tax, shall abate by reason of any vacancy in the office of Commissioner, or shall be deemed defectively constituted by reason of any change in the holder of that office, and every such action or proceeding shall be continued in the ordinary course as if the Commissioner and his successors in office were a corporation sole.

144. No statute of limitations shall bar or affect any action or remedy for the recovery of tax.

No limitation of action to recover tax.

145. Nothing in this Act shall be so construed as to limit or affect the operation of the Crown Suits Act, 1908, and all rights and remedies conferred upon the Crown by that Act and by this Act shall coexist, and may be exercised independently of one another, and tax may be recovered accordingly.

1916, No. 5, sec. 136  
Crown Suits Act not affected by this Act.  
Ibid., sec. 137

146. Whenever, after reasonable inquiry to the satisfaction of the Commissioner, the name of the owner of any land cannot be ascertained the following provisions shall apply:—

Special provisions where name of owner of land not known.

(a.) He shall be assessed for land-tax under the designation of “the owner” of that land:

Ibid., sec. 138

(b.) Proceedings for the recovery of such tax may be taken and judgment may be given against him and enforced under the designation aforesaid:

(c.) Good service of any notice, summons, or writ may be effected on him by affixing the same or a sealed copy or duplicate thereof on a conspicuous part of any land to which the tax relates, any Act or rule of Court to the contrary notwithstanding.

147. (1.) When land-tax has been assessed and has become due and payable in respect of any land, and the taxpayer has made default in payment thereof, the Commissioner may thereupon or at any time thereafter, so long as such default continues, by notice in writing, demand payment of the tax from any of the following persons, who shall thereupon become personally liable in the same manner as the taxpayer:—

Recovery of land-tax from persons other than owner of land.

Ibid., sec. 139

(a.) Any person who is at the time of demand the owner at law or in equity of the estate or interest in respect of which the tax was assessed, as the successor in title of the taxpayer:

(b.) Any person who is at the time of demand a tenant of the land, holding under the taxpayer or his successor in title:

(c.) Any person who is at the time of demand a mortgagee of the estate or interest in respect of which the tax was assessed.

(2.) If the land so held by a successor in title or tenant, or so subject to a mortgage, is only part of the land in respect of which the tax was assessed, the tax shall for the purposes of this section be apportioned by the Commissioner in such manner as he deems just, and the liability of the successor in title, tenant, or mortgagee shall be determined accordingly.

(3.) All payments made under this section by any person on whom demand has been so made shall be deemed to be made on behalf of the taxpayer.

148. Every person who in pursuance of this Act pays any tax for or on behalf of any other person shall be entitled to recover the same from that other person as a debt, or to retain or deduct the same out of or from any money which is or becomes payable by him to that other person; and if he has paid the same as mortgagee, then, until repaid, it shall be deemed to form part of the moneys secured by the mortgage, and shall bear interest at the same rate accordingly.

Tax paid by one person on behalf of another may be recovered as a debt.

Ibid., sec. 140

## PART IX.

## PENALTIES.

Penalty for failure  
to furnish returns,  
&c.  
1916, No. 5, sec. 141

149. Every person who—

- (a.) Refuses or fails to furnish any return or information as and when required by this Act or the regulations made thereunder, or by the Commissioner; or
- (b.) Wilfully or negligently makes any false return, or gives any false information, or misleads or attempts to mislead the Commissioner, in relation to any matter or thing affecting his own or any other person's liability to taxation; or
- (c.) Refuses or fails without lawful justification to duly attend and give evidence when required by the Commissioner, or to truly and fully answer any question put to him, or to produce any book or paper required of him; or
- (d.) Obstructs any officer acting in the discharge of his duties or in the exercise of his powers under this Act; or
- (e.) Commits any other offence against this Act or against any regulation made thereunder for which no other penalty is expressly provided; or
- (f.) Aids, abets, or incites any other person to commit any offence against this Act or against any regulation made thereunder—

is liable to a fine not exceeding one hundred pounds and not less than two pounds.

Fines recoverable  
summarily on  
information of  
Commissioner.  
Ibid., sec. 142

150. All fines under this Act shall be recoverable by way of summary prosecution, and only upon the information of the Commissioner or Deputy Commissioner, or of some person authorized in writing by the Commissioner in that behalf, and the signature of the Commissioner to any warrant of authority under this section shall be judicially noticed.

Information may be  
laid within four  
years.  
Ibid., sec. 143

151. Notwithstanding anything in the Justices of the Peace Act, 1908, or in any other Act to the contrary, any information in respect of any offence against this Act or against any regulation made thereunder may be laid at any time within four years after the termination of the year in which the offence was committed.

Penal tax payable  
in case of evasion  
or attempted  
evasion.  
Ibid., sec. 144

152. If any taxpayer evades, or attempts to evade, or does any act with intent to evade, or makes default in the performance of any duty imposed upon him by this Act or the regulations thereunder with intent to evade, the assessment or payment of any sum which is or may become chargeable against him by way of tax (which sum is hereinafter referred to as the deficient tax), he shall be chargeable, by way of penalty for that offence, with additional tax (hereinafter called penal tax) equal to treble the amount of the deficient tax.

Nature of penal tax.  
Ibid., sec. 145

153. Subject to the provisions of this Part of this Act, penal tax shall for all purposes be deemed to be tax of the same nature as the deficient tax, and shall be deemed to be payable in and for the same year of assessment as the deficient tax.

Assessment of penal  
tax.  
Ibid., sec. 146

154. The penal tax shall be assessed by the Commissioner in the same manner, so far as may be, as the deficient tax, but separately therefrom.

155. (1.) Any such assessment of penal tax shall be subject, in the same manner as any other assessment of tax, to objection on the ground that the person so assessed is not chargeable with penal tax, or on the ground that the amount so assessed is excessive.

Objections to penal tax.

1916, No. 5, sec. 147

(2.) All the provisions of this Act as to objections shall apply to an objection to an assessment of penal tax, save that the burden of proving the offence in respect of which penal tax is chargeable shall lie upon the Commissioner.

156. (1.) An assessment of penal tax may be made and the tax so assessed shall be recoverable at any time whether before or after the passing of the annual taxing Act by which the rate of the deficient tax is determined, and whether before or after the deficient tax has been assessed, or become assessable or payable, or has been paid.

Recovery of penal tax.

*Ibid.*, sec. 148

(2.) When an assessment of penal tax is made before the passing of the annual taxing Act by which the rate of the deficient tax is determined, the deficient tax shall for that purpose be estimated by reference to the rate determined by the last preceding annual taxing Act.

157. (1.) Penal tax shall be assessable against and recoverable from the executors or administrators of a deceased taxpayer, but, if so assessed, the amount thereof shall be recoverable only as a debt incurred by the deceased in his lifetime.

Recovery of penal tax from executors or administrators of deceased taxpayer.

*Ibid.*, sec. 149

(2.) No penal tax shall be recoverable from any person other than the taxpayer himself, or his executors or administrators.

158. An assessment of penal tax may be amended from time to time in the same manner as any other assessment.

Amendment of assessment of penal tax.

*Ibid.*, sec. 150

159. No assessment of penal tax shall be made or increased at any time after the expiration of four years after the year of assessment of the deficient tax.

Penal tax not to be assessed after expiration of four years from date of assessment of deficient tax.

*Ibid.*, sec. 151

160. The assessment or recovery of penal tax in respect of any offence shall not be in any manner barred or affected by the fact that the taxpayer has been convicted under this Act of the same or any other offence; but no person who has paid the penal tax assessed against him for any offence shall be thereafter convicted of the same offence.

Recovery of penal tax not affected by conviction of taxpayer for offence under Act.

*Ibid.*, sec. 152

## PART X.

### GENERAL.

161. (1.) The Commissioner may, by notice in writing, require any person, whether a taxpayer or not, to attend and give evidence before him, or before any officer authorized by him in that behalf, concerning any land, income, return, or assessment, and to produce all books and documents in that person's custody or under his control relating thereto.

Conduct of inquiries by Commissioner for purposes of Act.

*Ibid.*, sec. 154

(2.) The Commissioner may require such evidence to be given on oath, and either verbally or in writing, and for that purpose he or the officer authorized as aforesaid may administer an oath.

162. The Commissioner or any officer authorized by him in that behalf shall at all times have full and free access to all lands, buildings, places, books, and documents for the purpose of inspecting the same in the execution of his office, and for this purpose may make extracts from or copies of any such books or documents.

Commissioner to have free access to lands, buildings, books, documents, &c., for purposes of Act.

*Ibid.*, sec. 155

Information to be furnished on request of Commissioner.

1916, No. 5, sec. 156

Employers to make returns as to persons employed by them.

Ibid., sec. 157

Banking companies to make returns of amounts paid by way of interest on deposits.

Ibid., sec. 158

Companies, &c., to make returns as to debentures issued and interest paid thereon.

Ibid., sec. 159

Declarations made for purposes of land and income tax to be exempt from stamp duty.

1921, No. 5, sec. 9

Excess tax may be refunded within three years.

1916, No. 5, sec. 160

1920, No. 35, sec. 29

In case of serious hardship, Commissioner may release taxpayer wholly or in part.

1916, No. 5, sec. 161

Agreements purporting to alter the incidence of taxation to be void.

Ibid., sec. 162

Provisions applicable where companies profess to issue debentures free of income-tax.

1921, No. 25, sec. 4

163. Every person shall from time to time, as required by the Commissioner, furnish in writing any information or produce any books or documents relating to any land, income, return, or assessment (including lists of shareholders of companies, with the amount of capital contributed by and dividends paid to each shareholder, and also copies of balance-sheets and of profit and loss and other accounts) which may be in his knowledge, possession, or control.

164. Every person shall from time to time, as required by the Commissioner, make a return of all persons employed by him during any year, and of all salaries, wages, allowances, and other emoluments received during that year by each person so employed.

165. Every bank, local or public authority, or other company or person who in the course of business holds money by way of deposit and allows interest thereon shall from time to time, as required by the Commissioner, make a return of all interest so allowed during the year or other period to which the requisition of the Commissioner relates, together with the names, addresses, and occupations of the persons to whom such interest has been allowed.

166. Every company or local or public authority shall from time to time, as required by the Commissioner, make a return giving such particulars as the Commissioner requires relative to debentures issued by that company or local or public authority, the holders thereof, and the interest paid or payable thereon.

167. Every affidavit or declaration made for the purposes of this Act shall be exempt from stamp duty.

168. In any case where the Commissioner is satisfied that tax has been paid in excess of an assessment of the amount properly payable he shall refund the excess, provided that written application therefor has been made by or on behalf of the taxpayer within three years from the end of the year of assessment.

169. In any case where it is shown to the satisfaction of the Commissioner that any taxpayer has suffered such loss that the exaction of the full amount of tax owing by him will entail serious hardship, the Commissioner may release that taxpayer wholly or in part from his liability and make such alterations in the assessment as are necessary for that purpose.

170. Every contract, agreement, or arrangement made or entered into, whether before or after the coming into operation of this Act, shall be absolutely void in so far as, directly or indirectly, it has or purports to have the purpose or effect of in any way altering the incidence of land-tax or income-tax, or relieving any person from his liability to pay such tax.

171. (1.) Nothing in the last preceding section shall be so construed as to render void any contract, agreement, or arrangement made or entered into by any company (whether before or after the coming into operation of this Act) to the effect that the interest on any debentures issued by that company shall be free of income-tax; and all such contracts, agreements, and arrangements are hereby declared to be valid and effective in accordance with this section unless the company is expressly or impliedly prohibited, by its memorandum or articles of association, from making or entering into any such contract, agreement, or arrangement.

(2.) Where any debentures issued by a company purport to be issued free of income-tax the company shall be liable for the payment of the income-tax payable in respect thereof, and the debenture-holders shall be entitled to receive the full amount of interest payable pursuant to the debentures.

172. (1.) The Governor-General may from time to time, by Order in Council gazetted, make regulations, not inconsistent with this Act, for the following purposes:—

Regulations.

1916, No. 5, sec. 163

(a.) Prescribing the duties and functions of officers and other persons appointed or employed under this Act:

(b.) Prescribing the form of returns to be made, the particulars to be set forth therein, the persons by whom and the time when or within which such returns shall be made, and the forms of the assessments, notices, and other documents referred to in this Act or necessary in order to give effect thereto:

(c.) Providing, where there is no provision in this Act or no sufficient provision in respect of any matter or thing necessary to give effect to this Act, in what manner and form the deficiency shall be supplied:

(d.) Making any provision which may be convenient for the administration of this Act or which may be desirable or necessary in order to carry its objects into full effect.

(2.) All regulations made under this Act shall have the same force and effect as if they were contained in this Act, and the existence and provisions thereof shall be judicially noticed.

173. (1.) If anything required by or under this Act to be done at or within a fixed time cannot be or is not so done, the Governor-General, by Order in Council, may from time to time appoint a further or other time for doing the same, whether the time within which the same ought to have been done has or has not expired.

Power to extend time for doing anything under Act.

Ibid., sec. 164

(2.) Anything done within the time prescribed by such Order in Council shall be as valid as if it had been done within the time fixed by or under this Act.

174. (1.) This Act shall, so far as it relates to income-tax, extend and apply to all income derived during the year ending on the thirty-first day of March, nineteen hundred and twenty-four, or during any subsequent year.

Application of Act.

Ibid., sec. 165

(2.) This Act shall, so far as it relates to land-tax, extend and apply to all land owned at noon on the thirty-first day of March in the year nineteen hundred and twenty-four or in any subsequent year.

175. The Commissioner of Taxes, Deputy Commissioner of Taxes, and all other officers holding office at the commencement of this Act under the Land and Income Tax Act, 1916, shall be deemed to have been duly appointed to the like offices under this Act, and to have duly taken the oath of office required by this Act, and for all purposes whatever the office of Commissioner of Taxes under this Act shall be deemed to be the same office as that of the Commissioner of Taxes under the Land and Income Tax Act, 1916.

Officers under repealed Acts deemed to have been appointed under this Act.

Ibid., sec. 167

176. Land-tax and income-tax as imposed by this Act shall for all purposes be deemed to be the same taxes as those imposed under the same name by the Acts hereby repealed.

Taxes imposed by this Act deemed to be the same taxes as imposed under repealed Acts.

Ibid., sec. 168

## Repeals and savings.

177. (1.) The enactments mentioned in the Schedule hereto are hereby repealed to the extent indicated in that Schedule.

(2.) For all purposes whatsoever in respect of any tax which at the commencement of this Act has been already assessed or paid or is still assessable or payable in or for the year ending on the thirty-first day of March, nineteen hundred and twenty-four, or in or for any previous year, in accordance with the provisions of any enactment hereby repealed, that enactment and all the provisions thereof, including its penal provisions, and all regulations, warrants, and other acts of authority originating thereunder, shall, notwithstanding the repeal thereof, be deemed to remain in full force and effect; and all proceedings under any such enactment, including proceedings for the recovery of any fine or penalty in respect of any offence committed, whether before or after the commencement of this Act, may be taken or continued accordingly as if this Act had not been passed.

(3.) All proceedings in respect of offences committed against any enactment hereby repealed or any regulations thereunder before the commencement of this Act may be instituted or continued as if this Act had not been passed.

## Schedule.

## SCHEDULE.

## ENACTMENTS REPEALED.

Title of Enactment.	Extent of Repeal.
1907, No. 21.—The Land-tax and Income-tax Act, 1907	.. The whole Act.
1908, No. 252.—The Land-tax and Income-tax Act, 1908	.. The whole Act.
1909, No. 4.—The Land-tax and Income-tax Act, 1909	.. The whole Act.
1910, No. 24.—The Land-tax and Income-tax Act, 1910	.. The whole Act.
1911, No. 10.—The Land-tax and Income-tax Act, 1911	.. The whole Act.
1912, No. 11.—The Land-tax and Income-tax Act, 1912	.. The whole Act.
1913, No. 12.—The Land-tax and Income-tax Act, 1913	.. The whole Act.
1914, No. 3.—The Land-tax and Income-tax Act, 1914	.. The whole Act.
1916, No. 5.—The Land and Income Tax Act, 1916 ..	.. The whole Act.
1916, No. 7.—The Finance Act, 1916 .. ..	.. Part I.
1917, No. 9.—The Finance Act, 1917 .. ..	.. Part I.
1917, No. 29.—The Appropriation Act, 1917 .. ..	.. Section 28.
1918, No. 2.—The Finance Act, 1918 .. ..	.. Sections 5, 6, and 7, and Schedule.
1918, No. 4.—The Finance Act, 1918 (No. 2) .. ..	.. Part III.
1918, No. 24.—The Appropriation Act, 1918 .. ..	.. Section 21.
1919, No. 3.—The Land and Income Tax (Annual) Act, 1919..	.. The whole Act.
1919, No. 52.—The Finance Act, 1919 .. ..	.. Section 25.
1920, No. 17.—The Land and Income Tax (Annual) Act, 1920..	.. The whole Act.
1920, No. 35.—The Land and Income Tax Amendment Act, 1920	.. The whole Act.
1921, No. 5.—The Finance Act, 1921 .. ..	.. Part II.
1921, No. 13.—The Land-tax Amendment Act, 1921 .. ..	.. The whole Act.
1921, No. 25.—The Finance Act, 1921 (No. 2) .. ..	.. Part I.
1921, No. 34.—The Valuation of Land Amendment Act, 1921-22	.. Section 4.
1922, No. 3.—The Land-tax (Annual) Act, 1922 .. ..	.. The whole Act.
1922, No. 12.—The Land and Income Tax Amendment Act, 1922	.. The whole Act.



*Regulations under the Land and Income Tax Act, 1923.*

JELlicoe, Governor-General.

ORDER IN COUNCIL.

At the Government House at Wellington, this 14th day of November, 1923.

Present:

HIS EXCELLENCY THE GOVERNOR-GENERAL IN COUNCIL.

IN pursuance and exercise of the powers conferred upon him by section one hundred and seventy-two of the Land and Income Tax Act, 1923 (hereinafter referred to as "the said Act"), His Excellency the Governor-General of the Dominion of New Zealand, acting by and with the advice and consent of the Executive Council of the said Dominion, doth hereby make the following regulations for the purposes of the said Act.

REGULATIONS.

ADMINISTRATION.

1. THE oath of fidelity and secrecy to be taken and subscribed pursuant to section 6 of the said Act by persons appointed or employed under that Act shall be in the form No. 1 in the Schedule hereto.

2. The office of Receiver of Land-tax and Income-tax shall be open daily to the public for the transaction of business from 9.30 a.m. to 12.30 p.m., and 1.30 p.m. to 3.30 p.m., except on public holidays and on Saturdays. On Saturdays the office shall be open from 9.30 a.m. to 11.30 a.m.

RETURNS OF LAND AND INCOME.

3. The return required by section 7 of the said Act to be furnished in each year by persons chargeable with land-tax shall be in the form No. 2 in the Schedule hereto, or to the effect thereof.

4. (1.) The return required by section 8 of the said Act to be furnished in each year by persons chargeable with income-tax shall be in the form No. 3 in the Schedule hereto, or to the effect thereof.

(2.) In conjunction with such return, or in lieu of such return (as the Commissioner may in any case require), every taxpayer shall furnish to the Commissioner such details in relation to his income as may be required by the Commissioner. Such details shall be furnished in the form of such one or more of the Schedules to the said form No. 3 as may be appropriate to the particular case.

(3.) The return made in pursuance of subsection (2) of section 8 shall be made within two months of the date of the annual balance.

5. Annual returns of land shall be made under section 9 of the said Act by all owners of land of an unimproved value exceeding £500 as assessed under the Valuation of Land Act, 1908, whether such owners are taxpayers or not, and shall be in the form No. 2 in the Schedule hereto, or to the effect thereof.

6. Annual returns of income shall be made under section 9 of the said Act by all companies and persons in business, whether for the whole or part of the income year, and also by all persons in receipt of income from salary, wages, interest, rent, annuity, or other annual payment, where such income exceeds £250 per annum, whether taxpayers or not, and shall be in the form No. 3 in the Schedule hereto, or to the effect thereof.

7. Every return of land or of income as aforesaid shall be supported by a declaration in such form as the Commissioner may require.

8. The notice to be given by the Commissioner, pursuant to section 10 of the said Act, of the date or dates on which returns of land and income are required to be made shall be in the form No. 4 or the form No. 5 in the Schedule hereto, as the case may be, and shall be published in the *Gazette* not less than fourteen days before the date or before any date on which any such return is required to be furnished.

9. All returns of land or income required by the said Act or these regulations to be furnished to the Commissioner shall be furnished either by posting the same to the Commissioner or by delivering the same at his office in the Government Buildings at Wellington.

10. (1.) To every return of income made by or on behalf of a company there shall be attached a copy of the balance-sheet and of the profit and loss account issued or prepared for issue to the shareholders of the company last prior to the date of the return.

(2.) To every such return made by a company there shall be added a declaration that the copy of the balance-sheet and of the profit and loss account attached to the return is a true copy of the balance-sheet and of the profit and loss account issued to the shareholders or prepared for issue last prior to the date of the return.

11. (1.) Every person who furnishes a return pursuant to the said Act or these regulations shall state thereon his postal address, and shall, within one month of any change in his postal address, give to the Commissioner notice in writing of such change and of his new postal address.

(2.) The posting of any notice addressed to a person at the last address given by him pursuant to this regulation shall be sufficient service of such notice on him for the purposes of the said Act and these regulations.

ASSESSMENTS.

12. (1.) The Commissioner shall make assessments for land-tax and income-tax, and shall give notice of every such assessment to the taxpayer in the forms Nos. 6 and 7 in the Schedule hereto.

(2.) Objections to assessments of land-tax or of income-tax may be made in the form No. 8 or the form No. 9 in the Schedule hereto, as the case may be.

APPEALS FROM ASSESSMENTS.

13. In the following regulations the term "appeal" means a proceeding in a Magistrate's Court under Part III of the said Act for the determination of an objection made under that Act to an assessment of land-tax or income-tax, and the term "appellant" means the person by whom such objection has been made.

14. Every appeal shall be instituted in such Magistrate's Court as the Commissioner selects, having due regard to the convenience of the appellant.

15. The parties to the appeal shall be the appellant and the Commissioner as respondent.

16. (1.) For the purpose of every appeal the Commissioner shall state and sign a case setting forth the facts as alleged by him, the nature of the assessment made by him, the ground of objection thereto, and the question for the determination of the Court.

(2.) The case so stated and signed shall be filed by the Commissioner in the Magistrate's Court so selected by him, and the filing of the case shall be deemed to be institution of the appeal.

(3.) A copy of the case so filed shall be sent by the Commissioner to the appellant, either through the post-office or otherwise.

17. Within fourteen days after the filing of the case by the Commissioner, or within such further time as the Commissioner may allow, the appellant may, if he thinks fit, file an answer to the case. Such answer shall set forth the facts as alleged by the appellant and the grounds of his appeal.

18. The case as stated and filed by the Commissioner shall not be conclusive as to the matters set forth therein, either against the appellant or the Commissioner, except so far as agreed to in writing by or on behalf of the Commissioner and the appellant.

19. After the filing of the case by the Commissioner a Magistrate or the Clerk of the Court in which the case is filed shall, on the application of the Commissioner or of the appellant, appoint a time and place for the hearing of the appeal, such time not being earlier (save with the consent of the Commissioner and the appellant) than twenty-one days after the date of the filing of the case.

20. Reasonable notice by post or otherwise of the time and place so appointed shall be given by the person on whose application such appointment has been made to the other party to the appeal.

21. At the time and place so appointed a Magistrate, or, in the absence of a Magistrate, the Clerk of the Court, may adjourn the hearing to any other time or place, and so from time to time.

22. If either party fails to appear at the hearing, the Court shall in its discretion either adjourn the hearing or determine the appeal in the same manner as if both parties were present.

23. The procedure at the hearing of the appeal shall be the same, with all necessary modifications, as if the appeal was an action in which the appellant was the plaintiff and the Commissioner was the defendant.

GENERAL.

24. Every applicant for special exemption pursuant to section 50 of the said Act shall, in support of such application, furnish to the Commissioner the information indicated on the form No. 10 in the Schedule hereto, and such further information as the Commissioner may require.

25. Every application to the Commissioner to exempt the seller of any land from the operation of the provisions of section 61 of the said Act shall be supported by a statutory declaration in the form No. 11 in the Schedule hereto.

26. The notice to be given to the Commissioner, pursuant to section 68 of the said Act, that any person has ceased to be the owner of any land may be given in the form No. 12 in the Schedule hereto.

27. The form of declaration to enable societies, trusts, institutions, and other bodies coming within section 78 of the said Act, to receive payment of interest on debentures without deduction for income-tax shall be in the form No. 13 in the Schedule hereto.

28. The form of declaration to enable debenture-holders whose home is in New Zealand and whose total income from all sources does not exceed £300 to receive payment of the interest without deduction for income-tax shall be in the form No. 14 in the Schedule hereto.

29. The form of declaration and information required in support of an application for refund of tax under section 99 of the said Act shall be in the form No. 15 in the Schedule hereto.

30. The certificate of deduction of income-tax from payment of interest payable on debentures shall be in the form No. 16 in the Schedule hereto.

31. The form of declaration that total income from all sources does not exceed £2,000 shall be in the form No. 17 in the Schedule hereto.

32. The certificate of payment of income-tax shall be in the form No. 18 in the Schedule hereto.

33. Every warrant under section 109 of the said Act issued to a non-resident agent and authorizing him to act as agent shall be in the form No. 19 in the Schedule hereto; and every warrant under the said section issued to a non-resident trader and authorizing him to carry on business shall be in the form No. 20 in the said Schedule.

34. (1.) The security that may be required of a non-resident trader or non-resident agent, pursuant to section 110 of the said Act, may be by way of bond in the form No. 21 in the Schedule hereto.

(2.) Where the security required is by way of deposit the Commissioner shall give a receipt therefor in the form No. 22 in the Schedule hereto.

35. (1.) The list required by section 119 of the said Act may be made in the form No. 23 in the Schedule hereto.

(2.) The notice to be given to the Commissioner pursuant to section 119 of the said Act, that any person has ceased to be the holder of a debenture, may be given in the form No. 24 in the Schedule hereto.

36. (1.) The return required by section 164 of the said Act to be made by employers of all persons employed by them may be made in the form No. 25 in the Schedule hereto.

(2.) In the case of Government Departments such return may be made by the administrative head of the Department, in the case of a company by the secretary or a director, and in the case of a local authority by the Chairman or the Clerk.

37. The return of interest allowed by any bank, local or public authority, or other company or person required to be made by section 165 of the said Act may be made in the form No. 26 in the Schedule hereto.

SCHEDULE.

FORM No. 1.

OATH OF FIDELITY AND SECRECY.

To be taken and subscribed by all persons appointed or employed under the Land and Income Tax Act, 1923.

I, \_\_\_\_\_, of \_\_\_\_\_, do hereby swear that I will truly and faithfully, according to the best of my knowledge and skill, perform the duties imposed on or required of me under or for the purposes of the Land and Income Tax Act, 1923, or under or for the purposes of any other Act imposing taxes or duties payable to the Crown, or relating to the imposition of taxation; and I do further swear that I will not, without lawful authority, communicate to any person any matter or thing coming to my knowledge in the performance of my duties, except for the purpose of carrying into effect the Land and Income Tax Act or other Act as aforesaid. So help me God!

[Signature.]

Sworn before me, at \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_.

.....  
Commissioner of Taxes [or Deputy Commissioner of Taxes, or Justice of the Peace.]

FORM No. 2.  
The Land and Income Tax Act, 1923.

RETURN OF LAND.

Owned or held under lease at noon on the 31st day of March, 19 \_\_\_\_\_, by

Surname.	Christian Name in full.
Occupation.	
Postal address (where notices, &c., may be sent or served).	

If owner is residing out of New Zealand, state date of departure from New Zealand.

NOTE.—Before filling in this form please read the instructions on the back.

- (a.) When land held jointly (whether in joint tenancy or tenancy in common), state (*here*) the names and addresses of all the joint owners and the interest which each owner has in the land. If any owner is residing out of New Zealand state also date of departure from New Zealand :
- (b.) If the land is held by a firm or partnership, state (*here*) the name and address of each partner and his share in the partnership property, and under "Surname" (*above*) give the name of the firm or partnership. If any partner is residing out of New Zealand state also date of departure from New Zealand :
- (c.) If the land is held by a company, state (*here*) the name and address of the secretary or a director of the company, and under "Surname" (*above*) give the name of the company :
- (d.) If the land is held by a deceased person's estate or other trust, state (*here*) the names and addresses of the beneficiaries, and under "Surname" (*above*) give the name of the estate or other trust. If any beneficiary is residing out of New Zealand state also date of departure from New Zealand :
- (e.) If the land is held by an association, club, council, society, union, institution, or other body, state (*here*) the name and address of secretary, and under "Surname" (*above*) the name of the association, club, &c. :

PART 1.

Amounts owing by the Taxpayer at noon on 31st March, 19 \_\_\_\_\_, secured on the Land either by Registered Mortgage or by Agreement to purchase.

NOTE.—Unregistered loans or unregistered overdrafts should not be entered.

Registered No. of Mortgage.	Date of Registration, or Date of Agreement to purchase.	Rate of Interest.	No. of Lot, Section, Block, Survey District, or other Reference to Land charged.	Person to whom Money owing.			Amount of Principal owing at Noon on 31st March, 19 _____.
				Surname.	Christian Name.	Address.	
							£

PART 2.

Particulars as to other Charges on Land—e.g., Annuities or Rent Charges as at Noon on 31st March, 19 \_\_\_\_\_.

No. of Lot, Section, Block, Survey District, or other Reference to Land charged.	Persons entitled.				Age of Annuitant or Term of Rent Charge.	Amount payable annually.
	Surname.	Christian Name.	Address.	Occupation.		
						£

**PART 3.**

*Particulars of the Land owned or leased at Noon on 31st March, 19 .*

NOTE.—A separate line should be used for each parcel of land.

**LAND HELD IN FREEHOLD.**

Valuation No.	District (County, Borough, or Town District) in which Land situated.	No. of Lot, Section, Block, Survey District, Street, or other Reference to Locality.	Area.	Capital Value, including Improvements.	Unimproved Value.	Value of Improvements.
			A.R.P.	£	£	£

**LAND HELD UNDER LEASE (INCLUDING LEASES OF NATIVE LAND).**

*At Noon on 31st March, 19 .*

NOTE.—If the leaseholder has no saleable interest in the lease the property must, nevertheless, be entered.

Valuation No.	District (County, Borough, or Town District) in which Land situated.	No. of Lot, Section, Block, Survey District, Street, or other Reference to Locality.	Date of Commencement and Term of Lease.	If Lease contains a Purchasing Clause state as under:		Area.	Name and Address of Lessor.
				State if Clause is optional or compulsory.	If Compulsory, state Amount owing at 31st March, 19 .		
						A.R.P.	

**PART 4.**

*Particulars of Land disposed of since 31st March, 19 .*

Valuation No.	No. of Lot, Section, Block, Survey District, Street, or other Reference to Locality.	Area.	Name and Address of Purchaser or other Transferee. (Christian Name should be entered in full.)	Date of Sale, Agreement to Sell, or other Disposition.	Date on which Possession given.	Price.	Balance of Purchase-money owing on 31st March, 19 (if any).
		A.R.P.				£	£

**PART 5.**

*Particulars of Land acquired since 31st March, 19 .*

Valuation No.	No. of Lot, Section, Block, Survey District, Street, or other Reference to Locality.	Area.	Name and Address of Vendor or other Transferee. (Christian Name should be entered in full.)	Date of Purchase, Agreement to Purchase, or other Acquisition.	Date on which Possession taken.	Price.	Balance of Purchase-money owing on 31st March, 19 (if any).
		A.R.P.				£	£

**PART 6.**

*Reference to Land shown in other Returns.*

In addition to the land included in this return I am beneficially interested in the land of the following partnerships,

deceased persons' estates, or other trusts, syndicates, businesses, or undertakings:—

- |    |    |
|----|----|
| 1. | 4. |
| 2. | 5. |
| 3. | 6. |

*Declaration.*

I, \_\_\_\_\_, of \_\_\_\_\_, do hereby solemnly and sincerely declare that the particulars set forth in this return are true and accurate in every particular as at noon on the 31st day of March, 19 . [Usual signature.]

Dated at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_, 19 .

Capacity in which I make this return: [If not made by the taxpayer, state whether as trustee, attorney, agent, secretary, director, or executor].

FORM No. 3.

The Land and Income Tax Act, 1923.

**RETURN OF INCOME.**

Derived during the Year ended 31st March, 19 , by—

Surname.	Christian Name in full.
Occupation.	
Address (where notices, &c., may be sent or served).	If not resident in New Zealand state here place of residence.

**PART A.**

*Claims for Special Exemptions.*

NOTE.—In the case of partnerships, the particulars in respect of each partner should be separately shown. These exemptions should not be entered in any other part of this form.

- Amount actually paid by me during the year—
  - (a.) As life insurance premiums on my own life, for my own benefit or for the benefit of my wife and children .. £
  - (b.) To Superannuation Fund .. £
  - (c.) To National Provident Fund or Insurance Fund of friendly society .. £

[Specify name of fund here.]

- Amount claimed in respect of my own children under the age of eighteen years dependent on me, particulars of whom are given hereunder (£50 for each child).

Name of Child.	Place of Birth.	Date of Birth.

- Amount contributed during the income year towards the support of my widowed mother £  
Full name and address of widowed mother:

- Five per cent. on the capital value of my interest, as shown on district valuation roll, in the land used in the production of the income shown in this return, namely:—

No. on District Valuation Roll.	District, County, Borough, or Town District in which Land situated.	No. of Section, Block, Survey District, Street, or other Reference to Locality.	Area.	Purpose for which Land used.	Number of Months for which used.	Capital Value (as shown on District Valuation Roll).
			A.R.P.			

## PART B.

Statement of Receipts and Expenditure in respect of properties let\* or Royalties derived from Land during the Year ended on 31st March, 19 .

Receipts.	£	Expenditure.	£
Rental received from houses*		Rates .. .. .	
Rental received from farming property let to [State names and addresses of tenants]		Ground-rent paid in respect of lease ..	
Rental received from business premises		Insurance .. .. .	
Rental received from other sources		Repairs and maintenance	
Royalties [Specify] ..		Expenses of collection	
		Mortgage interest [State names and addresses of mortgagees]	
		Other interest [State names and addresses of persons to whom money is owing]	
		Net income from properties	
Total ..	£	Total ..	£

\* Including rental from subletting rooms or houses .

## PART C.

Income derived from Salary, Wages, Interest, &c., or from a Profession, or a Trading or Manufacturing Undertaking.

During the year ended , 19 .

(Note.—This may be taken for TWELVE MONTHS ending at date of stocktaking or annual balance nearest to 31st March.)

1. From salary, wages, allowances, or bonus, as employee of.....
2. From commissions, &c., received from or credited to me by.....
3. From pension, annuity, superannuation, or retiring-allowance, or other annual payments
4. From interest—
  - (a.) On registered mortgages of land and unpaid purchase-money for land sold
  - (b.) From Government loans (not including war loans at 4½ per cent.)
  - (c.) From debenture interest, issued by local and public authorities
  - (d.) From any other source (state source) ..
5. From mining (not to include dividends on shares in registered mining companies)
6. From dividends paid or profits credited by any building society
7. From royalties (state nature of royalties) ..
8. From goodwill derived from any lease, license, or easement affecting land
9. From the profession of.....
10. From any other source (state source).....
11. From the trade, business, manufacture, or concern of.....as follows:—

	£	£
Sales both for cash and on credit for twelve months ending at date of stocktaking (including goods supplied for taxpayer's own use, and goods used in the business or upon buildings, plants, fixtures, &c.)		
Stock in hand at date of stocktaking on expiry of the twelve months		
Less—		
Stock in hand at the commencement of the twelve months		
Purchases of stock for twelve months ending at date of stocktaking (at cost laid down on the premises)		
Labour and materials used in manufactures [This should only appear in cases of a manufacturing business]		
Total of items 1 to 1F ..	..	£

## DEDUCTIONS.

(Expenses incurred in the Production of the above Income.)

- Salaries and wages (not to include any sums drawn by proprietors, or any sums deducted above under heading "Labour and materials")
- Rent (include only rent of premises or portion of premises used exclusively for the purposes of the business), not to include rental value of premises owned by taxpayer [Give name and address of owner of land]
- Rates on business premises or portion of premises used exclusively for the purposes of the business (not to include payments for land-tax or income-tax)
- Fire insurance (premiums on business premises and stock only)
- Marine insurance [State to whom payable] ..
- Accident insurance (for employees only) ..
- Exchange and discounts allowed, less amounts received
- Interest on registered mortgage [State names and addresses of mortgagees and amounts paid to each]
- Other interest (not to include interest on capital nor on money borrowed to invest in war loans other than Post Office Inscribed Stock) [State name and address of, and amount paid to, each person]
- Repairs or maintenance of machinery, plant, or business premises (not to include additions or improvements to property or plant, or any depreciation)
- Travelling-expenses incurred in the business only
- Printing, stationery, advertising, stamps, and telegrams
- Petty expenses, incurred in the business only (not to include donations, gratuities, or subscriptions)
- Bad debts (to include those proved to be bad during the year and actually written off the books, and no others)
- Other items (to be specified):—

Total deductions .. .. £

Net income .. .. .. £

Care should be taken to fill up the above items as correctly as possible. No averages or estimates will be accepted.

## PART D.

Income derived from the Business of dealing in Live-stock, Meat, Butter, Cheese, Grain, Fruit, or other Crops (Section 79 (e)).

During the Year ended , 19 .

(NOTE.—This may be taken for TWELVE MONTHS ending at date of stocktaking or mustering nearest to 31st March.)

	£	£	£
Sales of live-stock during the year for cash and on credit:—			
sheep, sold for ..			
cattle, sold for ..			
horses, sold for ..			
Other live-stock [Specify] sold for			
Sales of produce during the year for cash and on credit:—			
Wool, meat, hides, skins ..			
Dairy-produce .. .. .			
Grain .. .. .			
Other produce [Specify] ..			
Rent received for any part of farm let for grazing, cultivation, or other purpose			
Amount received for hire of live-stock or implements			
Estimated value of meat and other produce of the farm used for private and domestic purposes			
Value of live-stock and produce given in exchange for goods, provisions, &c.			

Amount  
£ s. d.

Income derived from the Business of dealing in Live-stock, &c.—continued.

Live-stock on hand and not sold at end of year (31st March, 19 , or other stocktaking date as shown above) :—	£	£	£
<i>PER HEAD.</i>			
sheep, valued at ..			
cattle, valued at ..			
horses, valued at ..			
Other live-stock [ <i>Specify</i> ] valued at ..			
" [ <i>Specify</i> ] valued at ..			
NOTE.—It is advisable in the case of a continuing business to adopt a standard value <i>PER HEAD</i> for each class of live-stock, and to adhere to that value <i>PER HEAD</i> in subsequent returns.			
Produce on hand at end of year (31st March, 19 , or other stocktaking date as shown above) :—			
wool (estimated value) ..			
grain (estimated value) ..			
Other produce [ <i>Specify</i> ] (estimated value)			
Less—			
Live-stock on hand and not sold at beginning of year (1st April, 19 , or other stocktaking date :—			
<i>PER HEAD.</i>			
sheep, valued at ..			
cattle, valued at ..			
horses, valued at ..			
Other live-stock [ <i>Specify</i> ] valued at ..			
" [ <i>Specify</i> ] valued at ..			
Produce on hand at beginning of year (1st April, 19 , or other stocktaking date) :—			
wool (estimated value) ..			
grain (estimated value) ..			
Other produce [ <i>Specify</i> ] (estimated value)			
Purchases (if any) of live-stock during year :—			
sheep, bought for ..			
cattle, bought for ..			
horses, bought for ..			
Other live-stock [ <i>Specify</i> ] bought for			
Value of live-stock and produce received in exchange for live-stock and produce			

Gross income .. .. .	£
DEDUCTIONS.	
Rent payable for farm [ <i>Give name and address of owner of land</i> ]	
Rates .. .. .	
Fire and accident insurance .. .. .	
Marine insurance [ <i>State to whom payable</i> ] ..	
Mortgage interest [ <i>Give names and addresses of mortgagees and amount paid to each</i> ]	
*Other interest [ <i>Give names and addresses of persons to whom the money is owing and amount paid to each</i> ]	
Seed bought (include only for annual crops and renewals of pasture)	
Feeding-stuff bought for stock (not to include feeding-stuff grown on farm or any produce received in exchange for live-stock, &c.)	
Wages paid for labour, &c., on farm (not to include labour on improvements or any allowance for taxpayer's own services)	
Rations bought for employees whose labour is included in foregoing item (not to include produce of farm used for feeding employees)	
Repairs and maintenance (not to include additions or improvements to property or plant)	
Freight and cartage .. .. .	
Manure, sacks, twine, cases, wool-packs ..	
Threshing (not to include any item included above in wages)	
Petty expenses .. .. .	
Other expenses (to be specified) .. .. .	
[ <i>Continue on a separate sheet, if necessary</i> ]	
Net income .. .. .	£

\* Not to include interest on capital nor on money borrowed to invest

PART E.

Income from Sales of Land or any Interest therein (including Houses or other Buildings erected on the land) during the Year ended , 19 .

Sales of land during the year : [ <i>Area</i> ], sold for Land unsold at end of year at cost price, plus improvements : [ <i>Area</i> ], valued at	£	£
Less land held at beginning of year at cost price, plus improvements : [ <i>Area</i> ], valued at		
Purchases of land during the year : [ <i>Area</i> ], bought for ..		
Expenditure during the year on improvements : [ <i>Specify nature of improvements</i> ]		
Gross income .. .. .		
Less other expenses incurred during the year, namely :—		
Net income .. .. .	£	

Statement No. 1.—Names, Addresses, and Shares of Partners.

(To be filled up in the case of returns made by or on account of a firm or partnership.)

Name in full of each Partner.	Address.	Amount credited to each Partner.			Total.
		* Salary (if any).	* Interest on Capital (if any).	* Share of Balance of Net Income.	
		£	£	£	£
This total should agree with "Total assessable income" on summary .. .. .					£

\* The amounts to which each partner is entitled should be shown in these columns, whether actually drawn or not.

Statement No. 2.—Trustees' Statement.

(To be filled up in the case of a deceased person's estate or other trust.)

Name in full of each Beneficiary.	Occupation.	Place of Residence.	Share of Net Income.	*(See note below.)
			£	
This total should agree with "Total assessable income" on summary .. .. .				£

\* Please indicate in this column by "Yes" or "No" whether or not the beneficiary is entitled to demand his or her share of the income during the income year.

PART F.

Reference to Income shown in other Returns.	Summary.	£	s.	d.
In addition to the income included in this return, I am beneficially interested in the following partnerships, deceased person's estates or other trusts, syndicates, businesses, or undertakings.	Net income shown in Part B			
	Net income shown in Part C			
	Net income shown in Part D			
1.				
2.				
3.				
4.				
5.				
	Total assessable income	£		

**PART G.**

*Return as Agent for Debenture-holders.*

(To be filled in by companies and other corporate bodies which have issued debentures.)

Return of the income of the debenture-holders received or receivable for the year ended the , 19 .. .. £

**PART H.**

*Return of Directors, Auditors, and others.*

(This part applies to registered companies only).

(All amounts should be included in this list.)

Name in full.	Status as regards Company.	Address.	Amount of Fees, &c., earned.*

\*The figures in these columns should represent the actual salary or emolument for the year ended 31st March, 19 , and not for the period covered by the taxpayer's balance-sheet, if made up to another date. If there should not be sufficient space in either of the above Parts, a sheet giving the required information may be attached.

**PART I.**

*Statement of Assets and Liabilities as at 31st March, 19 , for the Purpose of determining the Amount of Capital employed in the Production of the Income.*

Liabilities (incurred in the Production of the Income).		Assets (used in the Production of the Income).	
Mortgages ..		Land and buildings	
Deposits ..		Sundry debtors ..	
Other investments		Bills receivable ..	
Unpaid purchase-money		Plant, machinery, and implements	
Loans ..		Stock-in-trade ..	
Bank overdraft ..		Live-stock ..	
Bills payable ..		Farm produce ..	
Sundry creditors ..		Cash in hand ..	
Other liabilities (if any)		Cash in bank ..	
Reserves ..		Other assets (if any)	
Balance of Profit and Loss Account			
Balance ..			
(Capital Account)			
<b>Total</b> £		<b>Total</b> £	
Names of partners and shares in capital:—			
<b>Total</b> £			

A copy of the taxpayer's annual balance-sheet at the above date will be accepted in lieu of the above particulars.

**Declaration.**

I, , of do hereby solemnly and sincerely declare that this return includes the whole of the assessable income derived during the period indicated, and that all the statements contained therein are true, accurate, and complete in every particular.

Dated at , this day of , 19 .

[Usual signature.]

Capacity in which I make this return: [If not made by the taxpayer, state whether as trustee, attorney, agent, secretary, director, or executor.]

**Schedules to Form No. 3.**

**SCHEDULE A.—RETURN TO BE SUPPLIED BY BANKING COMPANIES.**

- (a.) Total assets and liabilities of the banking company for the four quarters ending on— £
- 30th June, 19 .. .. .
  - 30th September, 19 .. .. .
  - 31st December, 19 .. .. .
  - 31st March, 19 .. .. .
- (b.) Average of total assets and liabilities for the four quarters .. .. .
- (c.) Income derived by banking company during income year as interest on debentures issued

**SCHEDULE B.—RETURN OF INCOME BY INSURANCE OR GUARANTEE COMPANY.**

*Statement of Gross Income from Business and Deductions therefrom.*

(NOTE.—This may be taken for TWELVE MONTHS ended at date of stocktaking or annual balance nearest to 31st March.)

For the Year ended , 19 .

	Amount.	Total.
	£	£
Gross premiums received .. ..	..	
Less: Returns .. ..	..	
Reinsurances (with companies represented in New Zealand only)		
Deduct losses on risks undertaken in New Zealand, less recoveries .. ..	..	
Income from rents .. ..	..	
Income from investments .. ..	..	
Other income in New Zealand .. ..	..	
<b>Gross income in or from New Zealand</b> .. ..	£	
<b>DEDUCTIONS FROM GROSS INCOME.</b>		
Salaries, wages, and commissions .. ..	..	
Rent (include only rent of premises or portion of premises used exclusively for the purposes of the business), not to include rental value of premises owned by taxpayer		
Rates on business premises or portion of premises used exclusively for the purposes of the business (not to include payments for land-tax or income-tax)		
Annual license fees .. ..	..	
Fire insurance premiums (on business premises and stock only)		
Exchange and discounts allowed, less amounts received		
Repairs or maintenance of business premises (not to include additions or improvements to property, or any depreciation)		
Travelling-expenses incurred in the business only		
Printing, stationery, advertising, stamps, and telegrams		
Petty expenses incurred in the business only (not to include donations, gratuities, or subscriptions)		
Bad debts (to include those proved to be bad during the year and actually written off the books, and no others)		
Interest on registered mortgages [State names and addresses of mortgagees and amounts paid to each]		
Other interest: [State name and address of, and amount paid to, each person]		
Other items (to be specified) .. ..	..	
<b>Total deductions</b> .. ..	£	
<b>Net income</b> .. ..	£	

Care should be taken to fill in the above items as correctly as possible. No averages or estimates will be accepted.

**SCHEDULE C.—RETURN OF INCOME BY FOREIGN LIFE-INSURANCE COMPANY.**

*Part A.—Statement of Income and Expenditure in respect of Properties let during the Year ended on 31st March, 19 .*

Income.	£	Expenditure.	£
Rents derived from houses		Rates .. ..	
Rents derived from farming property let to [State names and addresses of tenants]		Ground-rent paid in respect of lease	
Rental derived from business premises		Insurance .. ..	
Rental derived from other sources [Specify]:—		Repairs and maintenance	
		Expenses of collection ..	
		Mortgage interest [State names and addresses of mortgagees]	
		Other interest paid to [State names and addresses of persons to whom money is owing]	
		Net incomes from properties	

**Part B.—Five per Cent. on the Capital Value of my Interest, as shown on District Valuation Roll, in the Land used in the Production of the Income from Rents, namely—**

No. on District Valuation Roll.	District, County, Borough, or Town District in which Land situated.	No. of Section, Block, Survey District, Street, or other Reference to Locality.	Area.	Purpose for which Land used. (Indicate whether used for business, letting, or other purpose.)	Number of Months for which used.	Capital Value (as shown on District Valuation Roll).
			A. R. P.			£

**Part C.—Particulars of Investments.\***

Nature of Investment.	Amount of Investment.	Rate of Interest.	Amount of Interest.
	£	Per Cent.	£ s. d.
Registered mortgages of land and unpaid purchase-money for land sold			
Total .. .. .	£		

\* NOTE.—Investments in or out of New Zealand made on behalf of New Zealand Branch should be included.

**SCHEDULE D.—RETURN OF INCOME BY GOLD-MINING OR SCHEELITE-MINING COMPANY.**

Total sum paid during the above year as dividends to the shareholders (including all sums distributed in any manner and under any name among the shareholders on account of profits) .. .. .	£
Half the above amount .. .. .	

**SCHEDULE E.—RETURN OF INCOME BY TRAVELLING THEATRICAL COMPANY, OR OTHER TRAVELLING PUBLIC ENTERTAINER.**

Statement of Gross Income and Deductions therefrom for the the Period from to , 19 ..

GROSS TAKINGS.		
Place.	Amount.	Total.
	£	£
Gross income .. .. .	£	
DEDUCTIONS FROM GROSS INCOME.		
Salaries and wages (not to include any sums drawn by proprietors)		
Rent and lighting .. .. .		
Fire insurance (premiums on scenery, properties, and plant only)		
Repairs of scenery, properties, or plant (not to include additions or improvements to scenery, properties, or plant, nor any depreciation)		
Travelling-expenses incurred in New Zealand only		
Printing, stationery, and advertising ..		
Petty expenses, incurred for the business and in New Zealand only (not to include donations, gratuities, or subscriptions)		
Other items (to be specified) .. .. .		
Total deductions .. .. .	£	
Net income .. .. .		£

**SCHEDULE F.—RETURN OF INCOME BY COMPANY ENGAGED IN SHIPPING AND HAVING HEAD OFFICE IN NEW ZEALAND.**

Statement of Gross Income and Deductions therefrom for the Year ended , 19 ..

(NOTE.—This may be taken for TWELVE MONTHS ended at date of stocktaking or annual balance nearest to 31st March.)

GROSS INCOME.		
	Amount.	Total.
	£	£
Total gross income .. .. .	£	
DEDUCTIONS FROM GROSS INCOME.		
Salaries and wages .. .. .		
Rent (include only rent of premises of portion of premises used exclusively for the purposes of the business), not to include rental value of premises owned by taxpayer		
Rates on business premises or portion of premises used exclusively for the purposes of the business (not to include payments for land-tax or income-tax) ..		
Fire and marine insurance .. .. .		
Exchange and discounts allowed, less amounts received		
Repairs or maintenance (not to include additions or improvements to property or plant, or any depreciation)		
Travelling-expenses, incurred in the business only		
Printing, stationery, advertising, stamps, and telegrams		
Petty expenses, incurred in the business only (not to include donations, gratuities, or subscriptions)		
Bad debts (to include those proved to be bad during the year and actually written off the books, and no others)		
Interest on registered mortgages: [State names and addresses of mortgagees, and amounts paid to each]		
Other interest: [State name and address of, and amount paid to, each person]		
Other items (to be specified) .. .. .		
Total deductions .. .. .	£	
Net income .. .. .	£	

**SCHEDULE G.—RETURN OF INCOME BY PERSON OR COMPANY ENGAGED IN SHIPPING AND HAVING HEAD OFFICE OUT OF NEW ZEALAND.**

For Year ending , 19 ..

Date of Sailing.	Names of Ships.	Destination.	Value of Freight.	Value of Passages.
			£	£

This form, when completed, to be forwarded to Commissioner of Taxes direct.

**SCHEDULE H.—SPECIAL RETURN (under Section 108) by MASTER or AGENT of SHIP, on behalf of NON-RESIDENT PERSON, FIRM, COMPANY, or PUBLIC AUTHORITY deriving Income from the Carriage by Sea of Merchandise, Mails, or Passengers shipped or embarked in New Zealand for the undermentioned Voyage:—**

Principal's name: . . . . . Agent's name: . . . . .  
 Address: . . . . . Address: . . . . .

Vessel:	Owner:	Voyage from			
Freights by Weight.	Freights by Measurement.		Other Freights.		
£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
To		Date:			
Passages, &c.		Gross Total Freights and Passages, &c.			
£ s. d.	£ s. d.	£ s. d.			

£ s. d.  
 Tax payable on total assessable income to date..  
 Less total previous payments since 31st March last .. .. .  
 Balance now paid, voucher No. , of .. .. .  
 19 .. .. .

....., Officer of Customs.

£ s. d.  
 Assessable income (5 per cent. or 10 per cent.) ..  
 Assessable income for previous assessments since 31st March last:—  
 Tax: £ . . . . . Date: . . . . .  
 " £ . . . . . " . . . . .  
 " £ . . . . . " . . . . .  
 " £ . . . . . " . . . . .  
 " £ . . . . . " . . . . .  
 " £ . . . . . " . . . . .  
 " £ . . . . . " . . . . .  
 £ . . . . . Total .. £ . . . . .

Dated at , this day of , 192 .  
 Signature of Agent :

[Office Stamp.]

A signed copy of freight-list may be attached, showing required particulars.  
 This form when completed to be forwarded direct to Commissioner of Taxes, Wellington.  
 Duplicate copy to be retained by Collector of Customs and file with office copy of manifest.

I, , Master [Agent] of , do hereby declare that I have the means of knowing and do certify that the names, addresses, dates, places, quantities, rates, amounts, and other particulars entered by me on the face hereof are true and correctly stated.

, Master [or Agent].

Compared with bills of lading, freight-lists, charter, contract, or agreement and found correct.  
 ....., Officer of Customs.

*Notice to Masters or Agents.*

1. This return must be filled in by masters or agents of vessels shipping or embarking cargoes or passengers, coast-wise or foreign, whenever freights, passage-moneys, or charter-moneys are payable to or collected for non-resident persons, firms, companies, or authorities who have not made special arrangements with the Commissioner of Taxes for returns direct to him.  
 2. Where for any voyage non-resident owners or charterers claim they are deriving no income, or the gross income of non-resident is stated at less than the actual total freight and passage-money, the master or agent must give in writing any required particulars (such as names and addresses of parties, date, place, and *precis* of terms) from charter, contract, or agreement, producing same to the clearing-officer or attaching a copy hereto, to prove such claim or statement.

*Notice for Clearing-officer.*

1 Where tax is not collected by reason of special authority from the Commissioner, this authority should be retained and filed with the ship's papers.  
 2. If any exemption is allowed under notice 2 above, the clearing-officer should state clearly thereon under which clause of official instructions no tax has been collected.  
 3. If agent cannot produce satisfactory evidence of freight, rates, &c., the Collector should make an assessment of income at a maximum percentage of freight, &c., estimated at maximum known current rates.

**SCHEDULE I.—RETURN OF INCOME BY NON-RESIDENT TRADER.**

*Business carried on in New Zealand by Non-resident Trader for Year ended 31st March, 19 .*

Name of Trader.	Address.	Description of Goods.*	Gross Proceeds of Business.	Estimated Rate of Profits per Centum.	Amount of Profits.
			£		£
Total .. .. .			£		£

\* Here state " Soft goods," " Ironmongery," &c., as the case may be.

*Goods received from Abroad and sold in New Zealand on Consignment Account for Year ended 31st March, 19 .*

Name of Consignor.	Address.	Description of Goods.*	Net Proceeds of Account Sales.	Estimated Rate of Profits per Centum.	Amount of Profits.
			£		£
Total .. .. .			£		£

\* Here state " Soft goods," " Ironmongery," &c., as the case may be

**SCHEDULE J.—RETURN OF TOTAL BUSINESS DONE IN NEW ZEALAND, EITHER DIRECTLY OR INDIRECTLY, BY NON-RESIDENT AGENTS OR NON-RESIDENT TRADERS.**

*Period from to , 19 .*

Name of Customer.	Address.	Invoice.	Estimated Net Profit.
		£	£
Total .. .. .		£	£

FORM No. 4.

**NOTICE TO MAKE RETURNS OF LAND.**  
 Under the Land and Income Tax Act, 1923.

Land and Income Tax Department,  
 Wellington, 19 .

NOTICE is hereby given that, in pursuance of the above Act and the regulations made thereunder, every person and company within the meaning of the said Act, whether a taxpayer or not, being owner of land in New Zealand, is hereby required to make and furnish to me, in the prescribed form, returns of such land as at 12 o'clock noon on the 31st day of March, 19 .

If the total unimproved value of the land of any person or company, as assessed under the Valuation of Land Act, 1908, does not exceed £500, a return of land need not be furnished.

And, further, notice is hereby given that such returns shall in all cases be delivered at or forwarded to the office of the Commissioner of Taxes, in the Government Buildings at Wellington, on or before the day of , 19 .

.....  
 Commissioner of Taxes.



FORM No. 5.

NOTICE TO MAKE RETURNS OF INCOME.  
Under the Land and Income Tax Act, 1923.

Land and Income Tax Department,  
Wellington, 19 .

NOTICE is hereby given that, in pursuance of the above Act and the regulations made thereunder, every person and company, whether a taxpayer or not, having derived income within the meaning of the said Act during the year ending 31st March, 19 , from any source or by any means which is made the subject of taxation under the said Act, is hereby required to make and furnish to me, in the prescribed form, returns of such income on or before the day of 19 .

Returns of income are required to be furnished by all companies and persons in business, whether for the whole or part of the income-year. They are also required from all persons in receipt of income from salary, wages, interest, rent, annuity, or other annual payment, where such income exceeds £250 per annum. The returns are required annually from such persons notwithstanding that by reason of the special exemptions allowable by law they may not be liable to pay tax.

In cases where the Commissioner has agreed to accept returns for twelve months ending at a date subsequent to the 31st March, such returns shall be made within two months of such subsequent date.

And, further, notice is hereby given that such returns shall in all cases be delivered at or forwarded to the office of the Commissioner of Taxes, in the Government Buildings at Wellington.

.....  
Commissioner of Taxes.

FORM No. 6.

LAND-TAX ASSESSMENT NOTICE, 19 -19 .

Land and Income-tax Department,

To Wellington, 19 .

TAKE notice that you have been assessed for land-tax in respect of land owned as at 31st March, 19 , as shown below.

If the particulars appearing hereon are incorrect in any respect, you may make an objection in writing, stating shortly the grounds of your objection. The objection must be received at the office of the Commissioner of Taxes, Wellington, not later than 19 , otherwise the assessment must stand, and tax as assessed will become payable.

This notice should be retained for the purpose of checking the account when received. This is not a demand for tax, the due date for payment of which will be advertised and notified in the post-offices about the end of October.

Under this notice no objection to the value put on the land under the Valuation of Land Act, 1908, can be entertained.

.....  
Commissioner of Taxes.

Unimproved value of land (particulars hereunder)	£
Exemption .. .. .	.. .. .
Taxable amount .. .. .	.. .. .
Total tax payable .. .. .	.. .. .

No. on District Valuation Roll.	Description.	Area.	Un-Improved Value.
	Unimproved value of land as assessed last year	A. R. P.	£

FORM No. 7.

INCOME-TAX ASSESSMENT NOTICE, 19 -19 .

Land and Income Tax Department,  
Wellington, 19.

To Land and Income Tax Act, 1923

TAKE notice that you have been assessed for income-tax in respect of income derived during the year ended on the 31st day of March, 19 , as shown below.

If the particulars appearing hereon are incorrect in any respect you may make an objection in writing, stating shortly the grounds of your objection. The objection must be received at the Office of the Commissioner of Taxes, Wellington, not later than , otherwise the assessment must stand, and the tax as assessed will become payable.

This notice should be retained for the purpose of checking the account when received. This is not a demand for tax, the due date for payment of which will be advertised and notified in the post-offices about the end of January, 19 .

.....  
Commissioner of Taxes.

	Earned.	Unearned.
Gross income .. .. .	£	£
Add .. .. .	£	£
Deductions .. .. .	£	£
Less .. .. .	£	£
Assessable income .. .. .	£	£
Add .. .. .	£	£
Less special exemptions as under—		
Under section 74, Land and Income Tax Act, 1923 .. .. .	£	£
Children allowance .. .. .	£	£
Life-insurance premiums, Superannuation and National Provident Fund contributions .. .. .	£	£
Contributions to support of widowed mother .. .. .	£	
5 per cent. on capital value, £ , of the taxpayer's interest in land used	£	£
Taxable income .. .. .	£	£
Total taxable income .. .. .	£	£
Tax payable on £ .. .. .	£	
Less 20 per cent. thereof .. .. .	£	
„ 10 per cent. in respect of earned income .. .. .	£	
Tax payable .. .. .	£	£

FORM No. 8.

NOTICE OF OBJECTION TO ASSESSMENT OF LAND-TAX.

The Land and Income Tax Act, 1923.

To the Commissioner of Taxes, Wellington.

I HEREBY give notice that I object to your assessment of land-tax in respect of land owned by me for the following reasons [Here state shortly and clearly the reasons for objection.]  
[Date.] [Name.]  
[Address.]

FORM No. 9.

NOTICE OF OBJECTION TO ASSESSMENT OF INCOME-TAX.

The Land and Income Tax Act, 1923.

To the Commissioner of Taxes, Wellington.

I HEREBY give notice that I object to your assessment of my income-tax on the following grounds [Here state shortly and clearly the reasons for objection.]  
[Date.] [Name.]  
[Address.]

FORM No. 10.

DECLARATION AND INFORMATION REQUIRED IN SUPPORT OF AN APPLICATION FOR ADDITIONAL EXEMPTION UNDER SECTION 50 OF THE LAND AND INCOME TAX ACT, 1923.

Name of Applicant [Surname, Christian name, and address].

Question.	Answer.
1. What is your present age ? .. .. .	.. .. .
2. Are you married or single, widow or widower ? ..	.. .. .
3. What is your total annual income from all sources ? .. .. .	.. .. .
4. Are you entirely dependent upon the above income for your support ? .. .. .	.. .. .
5. Do you receive any monetary assistance from relatives or others; and, if so, how much? Have you included this amount in the total income stated under answer number 3 ? .. .. .	.. .. .
6. What are the respective ages of those dependent on you for support, if any? [State if wholly or partially dependent; and, if the latter, the extent of dependence] .. .. .	.. .. .
7. Are you incapacitated by any cause from increasing your income? If so, state cause .. .. .	.. .. .
8. If the premises you occupy are owned by yourself, what is the annual letting value of same ? ..	.. .. .

I, the person replying to the foregoing questions, do solemnly and sincerely declare that the answers written above are true and correct and contain all the information known to me in connection with the matters inquired into, and I make this declaration under the provisions of the Land and Income Tax Act, 1923.

Signed at \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_  
[Usual signature.]

FORM No. 11.

Land and Income Tax Act, 1923.

STATUTORY DECLARATION IN SUPPORT OF APPLICATION FOR EXEMPTION UNDER SECTION 61 OF THE LAND AND INCOME TAX ACT, 1923.

I, \_\_\_\_\_ of \_\_\_\_\_, do solemnly and sincerely declare:—  
1. That, on the \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_, I agreed to sell, and \_\_\_\_\_ of \_\_\_\_\_, agreed to purchase, the land described in the Schedule hereto.

2. That the said agreement has been duly executed and is still in force.

3. That possession of the said land has been delivered by me to the said purchaser on the \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_, in pursuance of the said agreement, and that he is still in possession of the same.

4. That the total purchase-money under the said agreement is £ \_\_\_\_\_, and that the sum of £ \_\_\_\_\_, being part thereof, has been paid to me by the said purchaser in pursuance of the said agreement.

5. That no money has been lent by me, directly or indirectly, to the said purchaser and is still unpaid.

6. That no liability of the said purchaser is directly or indirectly guaranteed by me.

7. That no money other than the said purchase-money is owing to me on the security of the said land.

And I make this solemn declaration conscientiously believing the same to be true, and by virtue of the Justices of the Peace Act, 1908.

Declared at \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_, before me—

Justice of the Peace  
[or Solicitor, or Notary Public].

THE SCHEDULE ABOVE REFERRED TO.

ALL that parcel of land, containing by admeasurement \_\_\_\_\_, and being \_\_\_\_\_

FORM No. 12.

NOTICE OF CHANGE OF OWNERSHIP OF LAND FOR LAND-TAX PURPOSES.

To the Commissioner of Taxes, Wellington.

REFERRING to the undermentioned land, at present assessed in the name of [Surname, Christian name, occupation, address], I hereby give you notice, pursuant to section 68 of the Land and Income Tax Act, 1923, that I have ceased to be the owner of the land, and that my successor in title is [Surname, Christian name, occupation, and address].

I also hereby declare that the particulars hereinafter set forth with respect to the said land are true and accurate:—

Valuation No.	Description.	Area.	Capital Value.	Un-improved Value.		Improvements.	
				Owner's Interest.	Lessee's Interest.	Owner's Interest.	Lessee's Interest.
		A. B. P.	£	£	£	£	£

Date of sale or other disposition : \_\_\_\_\_  
Date on which purchaser entered into possession : \_\_\_\_\_  
Mode of disposition (e.g., sale, gift, or exchange, or as the case may be) : \_\_\_\_\_  
Amount of purchase-money . . . . . £ \_\_\_\_\_  
Balance of purchase-money unpaid at noon on 31st March, 19 \_\_\_\_\_ (if any) . . . . . £ \_\_\_\_\_

[Signature.]

FORM No. 13.

Land and Income Tax Act, 1923, and the Justices of the Peace Act, 1908.

FORM OF DECLARATION TO ENABLE SOCIETIES, TRUSTS, INSTITUTIONS, AND OTHER BODIES, WHOSE INCOMES ARE EXEMPTED FROM TAXATION BY SECTION 78 OF THE LAND AND INCOME TAX ACT, 1923, TO RECEIVE PAYMENT OF INTEREST ON DEBENTURES WITHOUT DEDUCTION FOR INCOME-TAX.

I, \_\_\_\_\_, of [Insert place of abode and occupation], being the holder of debentures numbered \_\_\_\_\_, issued by \_\_\_\_\_, do solemnly and sincerely declare that—

1. The interest payable in respect of the debenture investment is the income of the [Insert name of society, trust, or institution].

2. Under the provisions of section 78 of the Land and Income Tax Act, 1923, the said income is exempt from income-tax.

And I make this solemn declaration conscientiously believing the same to be true, and by virtue of the Justices of the Peace Act, 1908.

Declared at \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_, before me—

Justice of the Peace  
[or Solicitor, or Notary Public].

Noted by \_\_\_\_\_ [Local Authority].

FORM No. 14.

Land and Income Tax Act, 1923, and the Justices of the Peace Act, 1908.

FORM OF DECLARATION TO ENABLE DEBENTURE-HOLDERS WHOSE HOME IS IN NEW ZEALAND, AND WHOSE TOTAL INCOME FROM ALL SOURCES DOES NOT EXCEED £300, TO RECEIVE PAYMENT OF THE INTEREST WITHOUT DEDUCTION FOR INCOME-TAX.

I, \_\_\_\_\_, of [Insert place of abode and occupation], being the holder of debentures numbered \_\_\_\_\_, issued by \_\_\_\_\_, do solemnly and sincerely declare that—

1. My home is in New Zealand.

2. My total income from all sources does not exceed £300.

And I make this solemn declaration conscientiously believing the same to be true, and by virtue of the Justices of the Peace Act, 1908.

Declared at \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_, before me—

Justice of the Peace  
[or Solicitor, or Notary Public].

Noted by \_\_\_\_\_ [Local Authority].

FORM No. 15.

DECLARATION AND INFORMATION REQUIRED IN SUPPORT OF AN APPLICATION FOR REFUND OF TAX UNDER SECTION 99 OF THE LAND AND INCOME TAX ACT, 1923.

Name of Applicant [Surname, Christian name, and address].

Particulars for the Year ended 31st March, 19 \_\_\_\_\_.

1. Name of Company.	2. Number of Shares held.	3. Description of Shares so held.	4. Amount paid up on such Shares.	5. Rate of Tax paid by the Company.	6. Rate of Dividend.	7. Amount of Dividends on such Shares received by me in respect of the above Year.
			£		Per Cent.	£

8. The amount of income derived by me from all sources, whether in New Zealand or elsewhere, during the above year was £ \_\_\_\_\_

I, the person furnishing the above information, do solemnly and sincerely declare that the particulars written above are true and correct and contain all the information known to me in connection with the matters inquired into; and I make this declaration under the provisions of the Land and Income Tax Act, 1923.

Signed at \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_.

[Usual signature.]



I, \_\_\_\_\_, of \_\_\_\_\_, do hereby solemnly and sincerely declare that this list includes particulars in respect of all the debentures owing on the date indicated, and that all the particulars contained therein are true, accurate, and complete in every respect.

Dated at \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.  
[Usual signature.]

FORM No. 24.

NOTICE OF CHANGE OF OWNERSHIP OF DEBENTURES FOR INCOME-TAX PURPOSES.

To the Commissioner of Taxes, Wellington.

REFERRING to the undermentioned debenture, the interest on which is at present assessed in the name of [Surname, Christian name, occupation, and address], I hereby give you notice, pursuant to section 119 of the Land and Income Tax Act, 1923, that I have ceased to be the owner of the debenture, and that the present holder is [Surname, Christian name, occupation, address].

I also hereby declare that the particulars hereinafter set forth with respect to the said debenture are true and accurate :-

Debenture No.	Date of Issue.	Name of Loan, Value of Debenture, and Date of Maturity.	Name of Local or Public Authority issuing Debenture.	Date of Sale.	Rate of Interest.

[Signature.]

NOTE.—Section 119 of the Land and Income Tax Act, 1923, provides that neglect to notify the Commissioner of change of ownership of debenture renders the former owner liable to be assessed with the interest.

FORM No. 25.

RETURN OF PERSONS EMPLOYED.

By [Name of employer] during any part of the Year ended the 31st March, 19\_\_\_\_.

Surname.	Christian Names (in full).	In what Capacity employed.	Place of Residence.	Amount earned during the Year, including Salary, Wages, Bonus, Commission, and Allowances, but excluding House Allowance.
				£

I, \_\_\_\_\_, of \_\_\_\_\_, do hereby solemnly and sincerely declare that the particulars set forth in the above return are true and correct in every particular.

Dated at \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.  
[Signature of employer.]

FORM No. 26.

RETURN OF INTEREST ALLOWED TO DEPOSITORS.

During the year ended 31st March, 19\_\_\_\_.

Name of Depositor.	Address.	Interest allowed.	Remarks.
		£ s. d.	

I, \_\_\_\_\_, of \_\_\_\_\_, do solemnly and sincerely declare that the particulars set forth in the above return are true and correct in every particular.

Dated at \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.  
[Signature.]

C. A. JEFFERY,  
Acting Clerk of the Executive Council

## New Zealand.



### ANALYSIS.

Title.

1. Short Title.

#### PART I.

##### PUBLIC REVENUES AND LOANS.

2. Empowering Minister of Finance to borrow £4,000,000 for certain public works.
3. Extension of authority to borrow moneys for purposes of Advances Office.
4. Additional authority to borrow money for purposes of Hauraki Plains Act.
5. Additional authority to borrow money for purposes of Rangitaiki Land Drainage Act.
6. Fixing rates of income-tax on income derived from debentures.
7. Moneys in Native Land Settlement Account may be used for redemption of debentures issued for purposes of that account.
8. Authorizing Minister of Finance to issue moneys from Consolidated Fund in payment for certain shares of Bank of New Zealand.
9. Cost of administration of Scenery Preservation Act to be paid out of Ordinary Revenue Account of Consolidated Fund.
10. Minister of Finance may pay to Waihi Borough Council certain moneys deducted from gold duty.
11. Gifts made for purposes of charitable trust not to be included in final balance of estate of donor, notwithstanding that he may die within three years after date of gift.
12. Special provisions as to subsidy payable in cases where two or more counties have united.
13. Provision for annuity to Miss Fraser.
14. Additional rate of travelling allowance for High Commissioner.
15. Appropriation of moneys for purposes of Main Highways Account.
16. Maori Land Board's administrative expenses may be charged on its funds.
17. Authority of Minister to fix charges in respect of goods handled by him but not carried on the railway.
18. Section 4 of Government Railways Amendment Act, 1911, amended.
19. Certain concessions to members of General Assembly resident in South Island with respect to steamer passages.
20. Protecting superannuation rights of officers of Public Service who may be appointed as Commissioner or Assistant Commissioner.
21. Extension of right of election to contribute to Superannuation Fund as if Public Expenditure Adjustment Act had not been passed.

22. Protecting superannuation rights of contributors to Teachers' Superannuation Fund who become students at training college.
23. Special provision as to service of R. H. W. Richardson for superannuation purposes.
24. Mileage fees may be paid to bailiff.
25. Authority for appointment of J. H. Richardson, Esquire, to membership of certain Boards.

#### PART II.

##### LOCAL AUTHORITIES AND PUBLIC BODIES.

26. Authorizing trustees of Auckland Savings-bank to contribute £10,000 to Auckland University College.
27. Expenditure by Auckland City Council on municipal handbook validated.
28. Local authorities authorized to expend moneys on exhibits for British Empire Exhibition.
29. Validating expenditure by local bodies in respect of visit of the cruiser "Jules Michelet."
30. Kawhia Harbour Board may levy rate to secure loan for antecedent liability over area comprised in Kawhia County.
31. Masterton Borough Council may create special-rating area for loan to extinguish antecedent liability.
32. Authorizing Ashburton County Council to pay compassionate allowance to widow of the late County Engineer.
33. Authorizing Board of Governors of Wellington College to refund to their members amount of certain surcharge.
34. Validating certain rates made by Wairau River Board.
35. Extension of provisions as to levying rates on an acreage basis for purposes of Rabbit Nuisance Act.
36. Local authority may by resolution amend any resolution made under section 2 of Local Authorities Superannuation Amendment Act, 1912.
37. As to overdraft authority of certain recently constituted local authorities.
38. As to powers of Governor-General to modify conditions subject to which local authorities have been empowered to borrow money.

#### PART III.

##### MISCELLANEOUS.

39. Protection of tenant in cases where landlord has agreed to reduction of rent, but without sufficient legal formalities.
40. Section 6 of Rural Credit Associations Act, 1922, amended.

*Public.*—27.]

1923, No. 27.

Title. AN ACT to make Provision with respect to Public Finance and other Matters. [28th August, 1923.]

BE IT ENACTED by the General Assembly of New Zealand in Parliament assembled, and by the authority of the same, as follows:—

Short Title.

1. This Act may be cited as the Finance Act, 1923.

## PART I.

## PUBLIC REVENUES AND LOANS.

Empowering  
Minister of Finance  
to borrow £4,000,000  
for certain public  
works.

2. (1.) The Minister of Finance is hereby empowered to borrow, on the security of and charged upon the public revenues of New Zealand, such sums of money as he thinks fit, not exceeding in the aggregate the sum of four million pounds.

(2.) The sums so borrowed shall bear interest at such rate as the Minister of Finance prescribes.

(3.) All moneys borrowed under the authority of this section shall, as and when borrowed, be paid into the Public Account to the credit of the General Purposes Account of the Public Works Fund, and shall from time to time be applied, in such amounts as may be from time to time appropriated by Parliament, for the following purposes, namely:—

(a.) The construction of railways and additions to open lines:

(b.) Additional rolling-stock for open lines, and such other works and purposes in connection therewith as may be authorized:

(c.) Telegraph-extension:

(d.) The construction and improvement of roads (including main highways), tracks, and bridges for the purpose of providing and improving means of access to any lands, developing goldfields, and such other works and purposes in connection therewith as may be authorized:

(e.) The construction of irrigation-works:

(f.) Other public works, including administrative charges in respect of any public works of the classes referred to in this section.

Extension of  
authority to borrow  
moneys for purposes  
of Advances Office.

3. (1.) For the purposes of the Advances Office the Minister of Finance may, pursuant to section eighteen of the State Advances Act, 1913, borrow money as follows:—

(a.) For the Advances to Settlers Branch, a sum not exceeding three million pounds in any one financial year:

(b.) For the Advances to Workers Branch, a sum not exceeding one million five hundred thousand pounds in any one financial year.

(2.) Subsection two of section eighteen of the State Advances Act, 1913, is hereby consequentially amended by omitting the words "one million five hundred thousand pounds," and substituting the words "three million pounds"; and by omitting the words "seven hundred and fifty thousand pounds," and substituting the words "one million five hundred thousand pounds."

Additional authority  
to borrow money for  
purposes of Hauraki  
Plains Act.

4. In addition to all moneys which the Minister of Finance has heretofore been authorized to borrow for the purposes of the Hauraki Plains Act, 1908, the said Minister may, for those purposes, borrow such further amount, not exceeding fifty thousand pounds, as he thinks

fit, and all moneys so borrowed shall be dealt with as provided in section two of the Hauraki Plains Amendment Act, 1913.

5. In addition to all moneys which the Minister of Finance has heretofore been authorized to borrow for the purposes of the Rangitaiki Land Drainage Act, 1910, the said Minister may, for those purposes, borrow such further amount, not exceeding fifty thousand pounds, as he thinks fit, and all moneys so borrowed shall be dealt with as provided in section two of the Rangitaiki Land Drainage Amendment Act, 1913.

Additional authority to borrow money for purposes of Rangitaiki Land Drainage Act.

6. (1.) Unless otherwise expressly provided in the annual taxing Act for any year, income derived from debentures and assessable for income-tax under subsection three of section one hundred and sixteen of the Land and Income Tax Act, 1923, shall, for the year commencing on the first day of April, nineteen hundred and twenty-four, and for each year thereafter, be taxable as follows:—

Fixing rates of income-tax on income derived from debentures.

(a.) On income derived from such debentures issued before the passing of this Act the rate of income-tax shall be three shillings for every pound thereof:

(b.) On income derived from such debentures issued after the passing of this Act the rate of income-tax shall be four shillings and sixpence for every pound thereof.

(2.) Unless otherwise expressly provided in the annual taxing Act for any year, income derived from debentures and assessable for income-tax under subsection three of section one hundred and eighteen of the Land and Income Tax Act, 1923, shall, for the year commencing on the first day of April, nineteen hundred and twenty-four, and for each year thereafter, be taxable as follows:—

(a.) On income derived from such debentures issued before the passing of this Act the rate of income-tax shall be two shillings and sixpence for every pound thereof:

(b.) On income derived from such debentures issued after the passing of this Act the rate of income-tax shall be four shillings and sixpence for every pound thereof.

7. (1.) The Minister of Finance is hereby empowered, without further appropriation than this section, to pay out of the Native Land Settlement Account any moneys required to redeem or pay off before, at, or after maturity any debenture or other security issued by the said Minister for the purposes of the Native Land Act, 1909.

Moneys in Native Land Settlement Account may be used for redemption of debentures issued for purposes of that account.

(2.) All securities so redeemed shall forthwith be cancelled, and the liabilities represented thereby shall thereupon cease to form part of the public debt.

(3.) Where any debentures or other securities as aforesaid have (whether before or after the passing of this Act) been redeemed out of moneys in the Consolidated Fund, the Minister of Finance may, without further appropriation than this section, transfer to the Consolidated Fund from the Native Land Settlement Account an amount not exceeding the amount so paid out of the Consolidated Fund.

8. For the purpose of exercising the power of purchase conferred on him by section twelve of the Bank of New Zealand Act, 1920, the Minister of Finance is hereby empowered to issue and pay out of the Consolidated Fund, without further appropriation than this section, a sum or sums, not exceeding in the aggregate the sum of three hundred

Authorizing Minister of Finance to issue moneys from Consolidated Fund in payment for certain shares of Bank of New Zealand.

and seventy-five thousand pounds, in payment for three hundred and seventy-five thousand preference B shares proposed to be created and issued by the Bank of New Zealand pursuant to the authority conferred on the said Bank by the section hereinbefore referred to.

Cost of administration of Scenery Preservation Act to be paid out of Ordinary Revenue Account of Consolidated Fund.

9. (1.) Section eleven of the Scenery Preservation Act, 1908, is hereby amended by omitting all words in subsection one after the words "shall be paid out of," and substituting the words "moneys to be appropriated by Parliament for the said purposes out of the Ordinary Revenue Account of the Consolidated Fund"; and by repealing subsection two.

(2.) Section twelve of the last-mentioned Act and so much of the Schedule to the Finance Act, 1921-22, as refers thereto are hereby repealed.

(3.) This section shall come into force on the first day of April, nineteen hundred and twenty-four, and thereupon any unexpended balance of loan-moneys or of revenues received under the said Act shall be transferred, without further appropriation, to the Ordinary Revenue Account of the Consolidated Fund.

Minister of Finance may pay to Waihi Borough Council certain moneys deducted from gold duty.

10. (1.) The Minister of Finance may, without further authority than this section, pay to the Waihi Borough Council, out of the Waihou and Ohinemuri Rivers Improvement Account, an amount or amounts, not exceeding in the aggregate the amount heretofore deducted since the thirty-first day of March, nineteen hundred and twenty-one, pursuant to section eighteen of the Waihou and Ohinemuri Rivers Improvement Act, 1910, from the gold duty that would otherwise have been payable to the said Council.

(2.) All moneys paid to the said Council pursuant to this section shall be recoverable from the Council in the same manner in all respects as are the moneys to which section eighteen of the Finance Act, 1922, relates.

Gifts made for purposes of charitable trust not to be included in final balance of estate of donor, notwithstanding that he may die within three years after date of gift.

11. (1.) Notwithstanding anything to the contrary in paragraph (b) of subsection one of section five of the Death Duties Act, 1921, the property comprised in any gift which is exempt from gift duty on the ground that it creates or is in aid of a charitable trust shall not be included in the final balance of the estate of the donor, notwithstanding that he may die within three years after having made the gift.

(2.) This section shall apply with respect to gifts made before or after the passing of this Act by any person who shall die after the passing of this Act.

Special provisions as to subsidy payable in cases where two or more counties have united.

12. Notwithstanding anything to the contrary in section nine of the Appropriation Act, 1916, but subject to the limitations imposed by subsection four or subsection five (as the case may require) of that section, the amount of subsidy payable to the Council of any county that may hereafter be formed by the union of two or more counties shall not in any year be less than the aggregate amount of subsidy paid or payable to the Councils of the united counties in respect of the general rates levied by them in the year immediately preceding their union:

Provided that if any area forming part of a united county is thereafter excluded therefrom the amount of subsidy payable to the Council of the united county in any year after such exclusion shall, save as hereinafter otherwise provided, be reduced by the amount by



which the aggregate amount of the subsidies payable to the uniting counties for the year preceding their union would have been reduced if the aforesaid area had been excluded from any of those counties before the beginning of that year. This proviso shall not operate to reduce the amount of subsidy payable to the Council of the united county below the maximum amount fixed by section nine of the Appropriation Act, 1916.

13. (1.) There shall from time to time, without further appropriation than this Act, be payable out of the Consolidated Fund, by monthly or other periodical instalments, the annual sum of one hundred and fifty pounds, during her life, to Miss Ida Fraser, daughter of the late Sir William Fraser, member of the Executive Council and of the Legislative Council.

Provision for annuity to Miss Fraser.

(2.) The first instalment payable under the last preceding subsection shall be for the period commencing on the first day of August, nineteen hundred and twenty-three.

(3.) In addition to the payment provided for in the foregoing provisions of this section there shall, without further appropriation, be payable to Miss Fraser the sum of five hundred pounds in recognition of the public services rendered by Sir William Fraser while acting as leader of the Legislative Council during the session of Parliament held in the year nineteen hundred and twenty-two.

14. Section seven of the High Commissioner Act, 1908, is hereby amended as follows:—

Additional rate of travelling-allowance for High Commissioner.

- (a.) By omitting the words "one pound ten shillings for each day he is so engaged," and substituting the words "two pounds for each day he is so engaged within the United Kingdom, or two pounds ten shillings for each day he is so engaged elsewhere than in the United Kingdom"; and
- (b.) By omitting from the proviso the words "two hundred and fifty pounds," and substituting the words "four hundred pounds."

15. (1.) The Minister of Finance shall, for the purposes of the year commencing on the first day of April, nineteen hundred and twenty-four, pay out of the Consolidated Fund into the Revenue Fund of the Main Highways Account, without further appropriation than this section, such sums as may be required for the purposes of that fund, being not less in the aggregate than thirty-five thousand pounds.

Appropriation of moneys for purposes of Main Highways Account.

(2.) The Minister of Finance shall, for the purposes of the year commencing on the first day of April, nineteen hundred and twenty-four, pay out of the Public Works Fund into the Construction Fund of the Main Highways Account, without further appropriation than this section, such sums as may be required for the purposes of that fund.

(3.) In addition to the moneys paid into the Construction Fund of the Main Highways Account pursuant to the foregoing provisions of this section the Minister of Finance may, at any time after the thirty-first day of March, nineteen hundred and twenty-four, transfer from the Public Works Fund to the said Construction Fund any amounts appropriated for the preceding financial year for roads which have before the date of such transfer been declared to be main highways

under the Main Highways Act, 1922, and unexpended on the thirty-first day of March, nineteen hundred and twenty-four.

(4.) The amounts to be transferred from the Public Works Fund to the Construction Fund of the Main Highways Account pursuant to subsections two and three of this section shall be not less in the aggregate than two hundred thousand pounds.

Maori Land Board's administrative expenses may be charged on its funds.

16. (1.) Any Maori Land Board shall, out of the funds of the Board, pay into the Consolidated Fund such sums as may from time to time be approved by the Native Minister for the purpose of recouping the Consolidated Fund in respect of moneys paid out of that fund for the Board's administrative expenses.

(2.) All moneys heretofore paid to the Consolidated Fund by any Maori Land Board in respect of the administrative expenses of that Board shall be deemed to have been lawfully so paid.

Authority of Minister to fix charges in respect of goods handled by him but not carried on the railway.

17. (1.) The power to fix scales of charges conferred on the Minister of Railways by section ten of the Government Railways Act, 1903, shall include, and shall be deemed always to have included, the power to fix scales of charges for sorting goods brought on to the railway and sorted by the Minister in any shed on the railway or on any other part of the railway, whether such goods are or are intended to be carried on the railway or not, and notwithstanding that such goods may be brought on to the railway in pursuance of any agreement or arrangement entered into or made by the Minister with respect to the working by the Minister of any wharf or jetty.

(2.) The Minister of Railways may, on application in that behalf made within three months after the passing of this Act, authorize the refund of any moneys received by him on or before the twenty-eighth day of November, nineteen hundred and twenty-two, by way of charges for sorting goods landed at the Wanganui wharf and not carried on the railway, to the person or persons by whom any such moneys were paid to the Minister. Any such refund may be made without further appropriation than this section.

Section 4 of Government Railways Amendment Act, 1911, amended.

18. Subsection one of section four of the Government Railways Amendment Act, 1911, is hereby amended by omitting the words "form part of the common fund of the Public Trust Office," and substituting the words "be invested by him in such manner as may be prescribed by regulations in that behalf."

Certain concessions to members of General Assembly resident in South Island with respect to steamer passages.

19. (1.) Notwithstanding anything in section nineteen of the Civil List Act, 1920, every member of the General Assembly resident in the South Island shall be entitled during each financial year to receive for his own use exclusively tickets for not more than twelve passages between the Port of Wellington and such one of the ports of Lyttelton, Picton, or Nelson as is most convenient of access to his home.

(2.) Every such ticket shall be paid for out of moneys to be appropriated by Parliament for the purpose.

(3.) No member to whom this section applies shall be entitled to receive any payment under section nineteen of the Civil List Act, 1920, in respect of fares for any passage made after the passing of this Act between the Port of Wellington and any of the aforesaid ports in the South Island.

20. (1.) On the termination of the appointment of the Commissioner or of an Assistant Commissioner under the Public Service Act, 1912 (otherwise than by his removal from office under section ten of that Act), the Commissioner or Assistant Commissioner, as the case may be, shall be eligible for appointment to the Public Service as if he were an officer of that service within the meaning of the said Act.

Protecting superannuation rights of officers of Public Service who may be appointed as Commissioner or Assistant Commissioner.

(2.) On the termination as aforesaid of the appointment of the Commissioner or of an Assistant Commissioner to whom section nine of the Public Service Act, 1912, applies, he shall, unless he is appointed or reappointed to the office of Commissioner or Assistant Commissioner, or appointed to another office of the Public Service, or has declined to accept such reappointment or any such appointment as aforesaid, be entitled to receive from the Public Service Superannuation Fund an annual retiring-allowance for the rest of his life computed in the manner prescribed by Part II of the Public Service Classification and Superannuation Act, 1908, notwithstanding that he may not have attained the age or have had the length of service which would entitle him in accordance with the terms of that Act to a retiring-allowance.

21. (1.) The right conferred on contributors to the Public Service Superannuation Fund, the Teachers' Superannuation Fund, or the Government Railways Superannuation Fund by section eleven of the Public Expenditure Adjustment Act, 1921-22, to elect to continue to contribute to any such fund as if their salaries or wages had not been reduced by the operation of that Act is hereby extended to empower any such contributor who, after the thirty-first day of December, nineteen hundred and twenty-one, and before the passing of the Public Expenditure Adjustment Act, 1921-22, was appointed to any position to elect to contribute on the basis of the salary that would on the date of such appointment have been appropriate to that position if the Public Expenditure Adjustment Act, 1921-22, had not been passed.

Extension of right of election to contribute to Superannuation Fund as if Public Expenditure Adjustment Act had not been passed.

(2.) Any election under this section may be made at any time before the thirty-first day of December, nineteen hundred and twenty-three.

22. Notwithstanding anything to the contrary in the Public Service Classification and Superannuation Amendment Act, 1908, a contributor to the Teachers' Superannuation Fund who becomes a student at a training college established under the Education Act, 1914, shall not be deemed to have retired from the Education service so long as he continues to be a student at the training college.

Protecting superannuation rights of contributors to Teachers' Superannuation Fund who become students at training college.

23. Whereas a superannuation fund under the Local Authorities Superannuation Act, 1908, was established by the Westport Harbour Board as from the first day of April, nineteen hundred and eighteen, for the benefit of the permanent employees of that Board: And whereas permanent employees of the Board at that date were required, by the resolution establishing the fund, to become contributors thereto within six months from that date: And whereas Robert Henry Watson Richardson, one of such permanent employees, being then absent with the Expeditionary Force, was unable to comply with such

Special provision as to service of R. H. W. Richardson for superannuation purposes.

requirement: And whereas he did not become a contributor to the said fund until the first day of October, nineteen hundred and twenty: And whereas by virtue of the Westport Harbour Act, 1920, he is now a contributor to the Public Service Superannuation Fund, but by reason of his not having become a contributor to the Westport Harbour Board's Superannuation Fund within the time limited as aforesaid is not entitled to count for the purposes of a retiring-allowance under the Public Service Classification and Superannuation Act, 1908, the portion of his service as a permanent employee of the Westport Harbour Board prior to the first day of October, nineteen hundred and twenty, aforesaid: And whereas it is deemed equitable that he should be entitled to count such service for the purpose of such retiring-allowance: Be it therefore enacted as follows:—

(1.) The said Robert Henry Watson Richardson, on payment by him into the Public Service Superannuation Fund of an amount determined as hereinafter in this section provided, shall be entitled to count for the purpose of a retiring-allowance under the Public Service Classification and Superannuation Act, 1908, the whole period of his service as a permanent employee of the Westport Harbour Board, and such service shall, notwithstanding his absence from duty for any period, be deemed to be continuous service.

(2.) The amount to be paid by him into the Public Service Superannuation Fund pursuant to this section shall be such amount as the Public Service Superannuation Board may determine, not exceeding the amount that he would have paid into the Westport Harbour Board's Superannuation Fund for the period elapsing between the first day of April, nineteen hundred and eighteen, and the said first day of October, nineteen hundred and twenty, had he become a contributor thereto on such first-mentioned date, together with interest thereon at such rate and for such period as the said Superannuation Board may determine.

Mileage fees may  
be paid to bailiff.

24. (1.) Where pursuant to regulations under the Magistrates' Courts Act, 1908, or other lawful authority, any fees payable under or by virtue of that Act in respect of mileages may be paid otherwise than by means of stamps, such fees may be paid to the bailiff or other person entitled, and shall not be payable into the Consolidated Fund.

(2.) Section one hundred and sixty-eight of the Magistrates' Courts Act, 1908, shall be read subject to the provisions of this section.

Authority for  
appointment of  
J. H. Richardson,  
Esquire, to  
membership of  
certain Boards.

25. (1.) This section shall apply with respect to the Public Trust Office Investment Board, the Government Insurance Board, the State Advances Board, the Public Service Superannuation Board, the Teachers' Superannuation Board, the State Fire Insurance Board, the Native Trust Office Board, and any other Board that may be charged with the control or investment of public moneys.

(2.) In addition to the full number of members that may be appointed to any Board to which this section applies the Governor-General may appoint Josephus Hargreaves Richardson, Esquire, retired Government Insurance Commissioner, as a member of that Board, to hold office during his pleasure.

## PART II.

## LOCAL AUTHORITIES AND PUBLIC BODIES.

26. The trustees of the Auckland Savings-bank are hereby authorized and empowered to contribute out of the surplus profits of the bank a sum not exceeding ten thousand pounds to the funds of the Auckland University College.

Authorizing trustees of Auckland Savings-bank to contribute £10,000 to Auckland University College.

27. All moneys paid or expended by the Auckland City Council during the financial years ending on the thirty-first day of March, nineteen hundred and twenty-two, and the thirty-first day of March, nineteen hundred and twenty-three, in or about the preparation, printing, and publishing of a municipal handbook and of a history of the City of Auckland shall be deemed to have been lawfully paid and expended, and such payment is hereby validated.

Expenditure by Auckland City Council on municipal handbook validated.

28. (1.) It shall be and be deemed to have been lawful—

(a.) For any local authority to expend out of its general fund (whether before or after the passing of this Act) any sum or sums of money on the preparation of or otherwise in connection with exhibits for inclusion in the official New Zealand Section at the British Empire Exhibition:

Local authorities authorized to expend moneys on exhibits for British Empire Exhibition.

(b.) For any Harbour Board to remit any charges payable to the Board in connection with any exhibits passing over the wharves under its control, either on the way to or on return from that Exhibition.

(2.) For the purposes of this section the term "local authority" means a Borough Council, County Council, Road Board, Town Board, Harbour Board, Education Board, Hospital Board, or Electric-power Board.

29. (1.) It shall be and be deemed to have been lawful for any local authority to expend out of its general fund any sum or sums of money for the purpose of welcoming, entertaining, and otherwise providing hospitality for Rear-Admiral Gilly and the officers and men of the French cruiser "Jules Michelet," and the members of the French Mission accompanying the vessel, during their visit to New Zealand.

Validating expenditure by local bodies in respect of visit of the cruiser "Jules Michelet."

(2.) For the purposes of this section the term "local authority" means a Borough Council, County Council, Road Board, Town Board, Harbour Board, Education Board, Hospital Board, or Electric-power Board.

30. For the purposes of any special rate to be made and levied by the Kawhia Harbour Board as security for any loan raised to pay off its antecedent liability under the Local Bodies' Finance Act, 1921-22, the area comprised in the Kawhia County shall be deemed to be the harbour district.

Kawhia Harbour Board may levy rate to secure loan for antecedent liability over area comprised in Kawhia County.

31. Whereas a certain area, known as Lansdowne, was added to the Borough of Masterton on the first day of April, nineteen hundred and twenty-one, and the borough was on that date divided into two wards—namely, the South Ward and the North Ward—the North Ward comprising the area added to the borough as aforesaid, and the South Ward comprising the area within the borough prior to the alteration of boundaries: And whereas the antecedent liability of the borough as defined in section five of the Local Bodies' Finance Act, 1921-22, was

Masterton Borough Council may create special-rating area for loan to extinguish antecedent liability.

fourteen thousand eight hundred and nineteen pounds four shillings and twopence, and the Council proposes to raise a loan for the purpose of extinguishing such antecedent liability: And whereas no part of such antecedent liability was expended or incurred in or on behalf of the area comprised within the North Ward, and it is desired that provision should be made enabling the Council to declare the South Ward a special-rating area for the purpose of levying a special rate to secure the repayment of such loan and of the interest thereon: Be it therefore enacted as follows:—

(1.) The Masterton Borough Council is hereby empowered to constitute the South Ward of the Borough of Masterton a special-rating area over which shall be made the special rate to secure the repayment of a loan to be raised by the Council for the extinction of the antecedent liability of the Council as defined in the Local Bodies' Finance Act, 1921–22. Notwithstanding anything to the contrary in the said Act, the said Council may borrow under the provisions of that Act the whole amount of its antecedent liability as aforesaid.

(2.) This section shall be deemed to have come into force on the thirtieth day of January, nineteen hundred and twenty-two, being the date of the commencement of the Local Bodies' Finance Act, 1921–22.

Authorizing Ashburton County Council to pay compassionate allowance to widow of the late County Engineer.

32. The Ashburton County Council may, out of its ordinary revenues, pay to Mary Ann Morrison, widow of the late Charles Morrison, formerly Engineer to the said Council, a sum not exceeding one hundred and fifty pounds by way of compassionate allowance.

Authorizing Board of Governors of Wellington College to refund to their members amount of certain surcharge.

33. It shall be lawful for the Board of Governors of the Wellington College and Girls' High School to refund to the members of that Board all moneys heretofore or hereafter paid by them in respect of the surcharge made by the Controller and Auditor-General pursuant to the Public Revenues Act, 1910, in respect of the payment by the Board of certain moneys in connection with the school magazine called *The Wellingtonian*.

Validating certain rates made by Wairau River Board.

34. All rates made by the Wairau River Board during the year ended on the thirty-first day of March, nineteen hundred and twenty-three, on a uniform scale instead of on a graduated scale according to a classification made by the Board of the rateable property within its district, as required by the River Boards Amendment Act, 1913, are hereby validated and declared to have been lawfully made.

Extension of provisions as to levying rates on an acreage basis for purposes of Rabbit Nuisance Act.

35. Where in any district constituted under Part III of the Rabbit Nuisance Act, 1908, it has been determined, pursuant to a poll of the ratepayers of the district taken under the provisions of section four of the Rabbit Nuisance Amendment Act, 1920, that the rates leviable therein for the purposes of the said Part III shall be levied on an acreage basis, any other rates leviable on rateable property by the Board of the district pursuant to any lawful authority (including any special rate leviable in respect of any loan) shall also be made and levied on an acreage basis, and the provisions of any enactment authorizing the levying of rates on any other basis shall be read subject to the provisions of this section.

Local authority may by resolution amend any resolution made under section 2 of Local Authorities Superannuation Amendment Act, 1912.

36. (1.) Any special resolution passed by a local authority under subsection one of section two of the Local Authorities Superannuation Amendment Act, 1912 (whether such resolution has been passed before or after the passing of this Act), may be in like manner from time to

time amended, but not so as to reduce the benefits to which any person may be entitled who is then a contributor to the superannuation fund established by the local authority or who may have theretofore retired from the service of that local authority.

(2.) Every amending resolution passed under the authority of this section shall be subject to the provisions of section six of the Local Authorities Superannuation Act, 1908, in the same manner as if it were a special resolution establishing a fund.

37. (1.) The authority conferred on the Minister of Internal Affairs by subsection five of section three of the Local Bodies' Finance Act, 1921-22, to fix the limit of the power to borrow moneys by way of bank overdraft in the case of local authorities constituted after the commencement of that Act is hereby extended so as to enable that Minister to fix the limits of the power to borrow by way of bank overdraft, during the second year of their existence, of the Rotorua Borough Council and the Manawatu-Oroua River Board respectively, and during the third and fourth years of its existence of the Wairoa Electric-power Board.

As to overdraft authority of certain recently constituted local authorities.

(2.) In the case of the several local authorities aforesaid the limits imposed by subsection two of the aforesaid section three shall not apply with respect to any year prior to the year ending on the thirty-first day of March, nineteen hundred and twenty-four.

38. Section eleven of the Finance Act, 1921, is hereby amended by omitting from subsection one the words "not less than ten years."

As to powers of Governor-General to modify conditions subject to which local authorities have been empowered to borrow money.

### PART III.

#### MISCELLANEOUS.

39. (1.) Where moneys have been paid by a tenant and accepted by a landlord as rent for a definite period of the term of a tenancy such payment shall be deemed to be a complete discharge to the tenant from further liability for rent for such period, notwithstanding that such moneys may be less than the rent reserved by or payable pursuant to the contract of tenancy, unless it is proved that, at or before the time of such payment and acceptance, there was an express stipulation by or on behalf of the landlord that such acceptance should not bar the right of the landlord thereafter to claim payment from the tenant of the balance, or any portion of the balance, of the full rent for that period.

Protection of tenant in cases where landlord has agreed to reduction of rent, but without sufficient legal formalities.

(2.) This section shall apply notwithstanding that in any case the rent may be reserved by deed, and payable by covenant.

(3.) This section shall apply whether any moneys paid as aforesaid have been so paid before or after the passing of this Act.

(4.) This section shall continue in force only while Part I of the War Legislation Amendment Act, 1916, is in operation.

40. Section six of the Rural Credit Associations Act, 1922, is hereby amended by repealing subsections two, three, four, and five thereof.

Section 6 of Rural Credit Associations Act, 1922, amended

## New Zealand.



### ANALYSIS.

Title.	Income-tax.
1. Short Title.	
<i>Land-tax.</i>	
2. Rates of land-tax for year commencing 1st April, 1923.	3. Rates of income-tax for year commencing 1st April, 1923. Schedule.

1923, No. 25.

AN ACT to fix the Rates of Land-tax and Income-tax for the Year commencing on the First Day of April, Nineteen hundred and twenty-three. Title.  
[28th August, 1923.]

BE IT ENACTED by the General Assembly of New Zealand in Parliament assembled, and by the authority of the same, as follows:—

1. This Act may be cited as the Land and Income Tax (Annual) Act, 1923, and shall be read together with and deemed part of the Land and Income Tax Act, 1923. Short Title.

#### *Land-tax.*

2. For the year commencing on the first day of April, nineteen hundred and twenty-three, land-tax shall be assessed, levied, and paid, pursuant to Part V of the Land and Income Tax Act, 1923, at the rates specified in Part I of the Schedule hereto. Rates of land-tax for year commencing 1st April, 1923.

#### *Income-tax.*

3. For the year commencing on the first day of April, nineteen hundred and twenty-three, income-tax shall be assessed, levied, and paid, pursuant to Part VI of the Land and Income Tax Act, 1923, at the rates specified in Part II of the Schedule hereto. Rates of income-tax for year commencing 1st April, 1923.



Schedule.

## SCHEDULE.

RATES OF LAND-TAX AND INCOME-TAX FOR THE YEAR COMMENCING ON THE 1ST APRIL, 1923.

*Part I.—Land-tax.*

1. WHERE the unimproved value on which land-tax is payable does not exceed £1,000, the rate of land-tax shall be 1d. for every £1 thereof.
2. Where the unimproved value on which land-tax is payable exceeds £1,000, the rate of land-tax shall be 1d. for every £1 thereof, increased by one twenty-thousandth part of 1d. for every £1 in excess of £1,000, but so as not to exceed in any case the rate of  $7\frac{1}{2}$ d. in the £1.

*Part II.—Income-tax.*

1. On income derived from debentures and assessable under subsection (3) of section 116 of the Land and Income Tax Act, 1923, the rate of income-tax shall be 3s. for every £1 thereof.
2. On income derived from debentures and assessable under subsection (3) of section 118 of the Land and Income Tax Act, 1923, the rate of income-tax shall be 2s. 6d. for every £1 thereof.
3. (1.) On the taxable income of all taxpayers other than those referred to in the two last preceding clauses the rates of income-tax shall, save as otherwise provided in this Part of this Schedule, be as follows:—
  - (a.) Where the income on which tax is payable does not exceed £400, the rate shall be 1s. for every £1 thereof.
  - (b.) Where such income exceeds £400 but does not exceed £6,000, the rate shall be 1s. for every £1 thereof, increased by the one-hundredth part of 1d. for every £1 in excess of £400.
  - (c.) Where such income exceeds £6,000, the rate shall be 5s. 8d. for every £1 thereof, increased by one two-hundredth part of 1d. for every £1 in excess of £6,000, but so as not to exceed in any case the rate of 7s. 4d. in the £1.
- (2.) From the income-tax computed in accordance with the last preceding sub-clause there shall in every case be deducted an amount equal to 20 per centum thereof.
4. The income-tax payable by any taxpayer as hereinbefore provided shall be reduced by 10 per centum of so much thereof as is levied in respect of earned income: Provided that if the earned income of a taxpayer for any year exceeds £2,000 the reduction provided for by this clause shall be made only in respect of the sum of £2,000.

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*Price 6d.]*

EXCERPT  
FROM  
NEW ZEALAND  
OFFICIAL YEAR-BOOK,  
1924.

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WELLINGTON, N.Z.  
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1924

# TAXATION.

## TOTAL TAXATION.

ALL revenue collected by means of taxation is applied to general purposes. Customs duties on imported goods, and excise duties on beer and tobacco, constitute the indirect taxation; while land and income taxes, death duties, a tax on bank-note issues, duties on cheques and on receipts for payments, a tax on totalizator investments, and an amusements-tax are the main sources of revenue by direct taxation.

Particulars of the collections during the last ten years, under the main headings, are shown in the following table:—

Year ended 31st March.	Amount of Taxation derived from					Total.
	Customs and Excise Duties.	Land-tax.	Income-tax.	Death Duties.	Other Taxes.	
	£	£	£	£	£	£
1914 ..	3,553,785	767,451	554,271	613,751	428,776	5,918,034
1915 ..	3,294,943	799,641	540,318	796,232	449,677	5,880,811
1916 ..	3,524,063	1,048,356	1,392,119	610,350	692,078	7,266,966
1917 ..	4,037,628	713,118	4,262,126	570,040	966,742	10,549,654
1918 ..	3,601,383	1,385,708	5,619,561	805,511	928,690	12,340,853
1919 ..	4,104,016	1,512,693	6,219,336	869,371	1,096,227	13,801,643
1920 ..	5,185,728	1,557,903	6,369,765	978,095	2,160,278	16,251,769
1921 ..	8,769,251	1,688,979	8,248,945	1,106,925	2,370,314	22,184,414
1922 ..	5,554,334	1,637,816	6,002,987	1,512,754	1,662,625	16,370,516
1923 ..	6,644,420	1,541,502	3,831,932	1,829,852	1,746,582	15,594,286

The percentage under each heading to the total amount collected for each year is as under:—

Year ended 31st March.	Proportion per Cent. derived from				
	Customs and Excise Duties.	Land-tax.	Income-tax.	Death Duties.	Other Direct Taxes.
	Per Cent.	Per Cent.	Per Cent.	Per Cent.	Per Cent.
1914 ..	60.05	12.97	9.37	10.37	7.24
1915 ..	56.03	13.60	9.19	13.54	7.64
1916 ..	48.49	14.43	19.16	8.40	9.52
1917 ..	38.27	6.76	40.40	5.40	9.17
1918 ..	29.18	11.23	45.54	6.53	7.52
1919 ..	29.74	10.96	45.06	6.30	7.94
1920 ..	31.91	9.59	39.19	6.02	13.29
1921 ..	39.53	7.61	37.18	4.99	10.69
1922 ..	33.93	10.00	36.67	9.24	10.16
1923 ..	42.61	9.89	24.57	11.73	11.20

Some remarkable alterations in percentages are noticed during the last few years, these being due to war and post-war conditions and to consequential alterations in the relative incidence of taxation.

## TAXATION PER HEAD.

The revenue from taxation per head of mean population during the last ten years is shown in the next table:—

Year ended 31st March.	Including Maoris.	Excluding Maoris.	Year ended 31st March.	Including Maoris.	Excluding Maoris.
	£ s. d.	£ s. d.		£ s. d.	£ s. d.
1914 ..	5 5 2	5 10 0	1919 ..	11 17 1	12 7 8
1915 ..	5 2 9	5 7 5	1920 ..	13 11 1	14 2 9
1916 ..	6 6 4	6 12 1	1921 ..	17 14 4	18 9 0
1917 ..	9 3 7	9 11 11	1922 ..	12 14 8	13 5 7
1918 ..	10 14 1	11 3 9	1923 ..	11 17 10	12 7 11

## CUSTOMS AND EXCISE TAXATION.

During the year ended 31st March, 1923, the sum of £6,032,292 was collected, after deduction of drawbacks, for duty on imported goods, and £612,128 for excise duties, a total of £6,644,420. The amount of revenue derived from these sources for each of the last ten years is shown below:—

Year ended 31st March.	Customs Duties.	Excise Duties.	Total.	Year ended 31st March.	Customs Duties.	Excise Duties.	Total.
	£	£	£		£	£	£
1914 ..	3,426,744	127,041	3,553,785	1919 ..	3,830,682	273,334	4,014,016
1915 ..	3,167,283	127,660	3,294,943	1920 ..	4,787,483	397,905	5,185,388
1916 ..	3,366,171	157,892	3,524,063	1921 ..	3,408,726	360,525	3,769,251
1917 ..	3,849,675	187,953	4,037,628	1922 ..	5,095,436	458,898	5,554,334
1918 ..	3,364,308	237,075	3,601,383	1923 ..	6,032,292	612,128	6,644,420

The revenue from Customs and excise duties in 1912-13 was £3,531,761, and the increase for the ten years is therefore 88 per cent. In the ten calendar years corresponding to the above period the value of imports (excluding specie) increased from £20,576,579 to £34,826,074, or approximately 69 per cent.

The abnormally high Customs revenue collected in 1920-21 was the direct outcome of the large importations resulting from the fulfilment of delayed orders of a very considerable quantity and value. As was to be expected, the revenue fell almost to its former level in 1921-22, but increased again in 1922-23, the figure for which year, while much in excess of any year prior to 1920-21, was nevertheless two millions of pounds short of the total for the record year.

Generally speaking, in spite of slight increases in Customs and excise duties as part of the war taxation, the average rate of duty has not increased greatly during the ten years. The increase in the total duties collected is thus almost entirely due to the increased prosperity of the country as reflected by its trade.

## LAND AND INCOME TAX.

Except in regard to minor details, the system of land and income taxation in force in 1915 had remained unaltered for many years. Probably the only noteworthy point was the gradual hardening-up of the graduated land-tax, designed to prevent aggregation of land and to compel the cutting-up of large estates rather than to secure additional revenue.

The war taxation of 1915, however, not only included increased rates of 33½ per cent. in the case of income-tax, ½d. in the pound in the case of land-tax payable on mortgages, and 50 per cent. in the case of graduated land-tax, but also

involved an important change of principle. Among the incomes previously exempt from income-tax were those derived directly from land, but in 1915 income-tax was made payable on such incomes.

With the exception of the abolition of the land-tax on mortgages and the substitution of an income-tax in its place, the principles of land-tax assessment were not altered in 1916, nor were the rates increased, but an entirely new scheme known as the excess-profits tax was brought into operation in respect of income-tax, the 1915 system remaining also, with increased rates, for ordinary income-tax. The excess-profits tax being found inequitable and otherwise unsatisfactory, a system of progressive land and income tax, with a special war tax on incomes, was adopted in 1917.

In 1920 a complete revision of the rates of taxation was made. The new rates became effective on assessments for the year commencing on the 1st April, 1921, and for following years. A feature of the new legislation was the introduction of a deduction from the amount of tax payable of 10 per cent. in respect of tax assessed on "earned income."

In 1923 further alterations were made, the principal being the restoration of the exemption from income-tax of income derived from the direct use or cultivation of land. Reductions in the rates of taxation were also made, and are referred to in detail under the heading of "Income-tax" further on.

#### LAND-TAX.

Land-tax is assessed on the unimproved value of land after deductions provided for by statute have been made by way of special exemption. These exemptions are referred to hereunder.

The basis of taxation prior to 1917 was a double system of ordinary and graduated tax. For some years the ordinary rate had been 1d. for each pound of unimproved value, while the graduated tax ranged at a varying rate from  $\frac{1}{2}$ d. to 5 $\frac{1}{2}$ d. in the pound, according as to whether the value of the land was from £5,000 to £200,000 or more. This system of taxation was abolished in 1917, and in its place was instituted a single progressive tax.

As the amended law operated for the four financial years 1917-18 to 1920-21, the scale of taxation ranged from 1d. to 7d. in the pound. The 1d. rate applied in cases where the unimproved value on which tax was payable did not exceed £1,000, and the rate was increased by  $\frac{1}{8}$ d. of a penny for every pound in excess of £1,000 up to a maximum of 7d. These rates, however, proved to be merely nominal, as for the four years concerned a super-tax of 50 per cent. virtually increased the rates from a minimum of 1 $\frac{1}{2}$ d. to a maximum of 10 $\frac{1}{2}$ d. in the pound. A further 50 per cent. increase on the total amount assessed is imposed in the case of absentees, including shareholders in companies, but not in the case of companies themselves.

Further alteration in the rate of land-tax was made by the Legislature in 1920, and became effective for assessments after the 1st April, 1921. The scale of taxation of land the unimproved value of which does not exceed £1,000 remained as before at the rate of a penny in the pound, but the rate thereafter was increased by  $\frac{1}{8}$ d. of a penny for every pound in excess of £1,000 up to a maximum of 7 $\frac{1}{2}$ d. For the year 1921-22 the rate of super-tax was reduced to 33 $\frac{1}{3}$  per cent., and on the whole of the land-tax a rebate of 10 per cent. was allowed for prompt payment. The super-tax was continued for the year 1922-23 at the rate of 10 per cent. only, without any rebate, and for the year 1923-24 is removed altogether.

The special exemptions deductible from the unimproved value for the purpose of arriving at the assessable amount have not been materially altered by recent legislation. Under the law as it has operated since the 1st April, 1917, an owner of land the unimproved value of which does not exceed £1,000 is allowed an exemption of £500, and where the unimproved value lies between £1,500 and £2,500 there is a similar exemption, diminished, however, by £1 for every £2 over the £1,500 mark, so that no exemption is allowed when £2,500 is reached. Where the land is subject to a registered mortgage an alternative scale is provided. Up to the 1st April, 1921, this was on the basis of £1,500 in cases where the unimproved value did not exceed £3,000, and the amount was diminished by £1 for every £2 above £3,000 where the

unimproved value lies between £3,000 and £6,000. For assessments after that date, however, the law provides for an alternative exemption of £4,000 in cases where the unimproved value does not exceed £6,000, and the exemption of £4,000 is to be diminished by £2 for every £1 above the margin of £6,000. When the unimproved value lies between £6,000 and £8,000, where the capital value of the mortgage is less than the amount of deduction provided, such capital value is to be deducted instead. For the year commencing with the 1st April, 1923, no special exemption is allowed in the case of land not situated in a borough, which has been owned by a person for three years and not improved to the extent of £1 per acre or equal to one-third of the unimproved value, when in the opinion of the Commissioner of Taxes it should have been so improved. In the case of such land, also, the rate of land-tax is 50 per cent. more than the ordinary rate.

In lieu of the special exemptions set out above, the Commissioner of Taxes has discretionary powers to grant relief in certain specified cases of hardship. Subject to deductions provided, lessees and life tenants are liable to tax, and joint owners are to be assessed jointly as regards the land held in conjunction, and also severally in respect of each owner's interest in such land and any other land. This liability for joint assessment also applies to companies owning land if half of the paid-up capital of one company is held by shareholders who also hold half of the paid-up capital in another company.

The total number of land-tax payers and the amount of revenue during each of the last ten years are as follows:—

LAND-TAX.—NUMBER OF PAYERS AND REVENUE RECEIVED.

Year ended 31st March.	Number of Payers.	Revenue.	Year ended 31st March.	Number of Payers.	Revenue.
1914	40,889	£ 787,451	1919	53,484	£ 1,512,693
1915	44,270	799,641	1920	53,807	1,557,903
1916	45,409	1,048,356	1921	54,363	1,688,978
1917	35,859	713,118	1922	54,715	1,637,822
1918	51,275	1,385,708	1923	55,907	1,541,302

INCOME-TAX.

Income-tax is payable on the full incomes of registered companies and of absentees, and in other cases on incomes in excess of £300 per annum. Between £600 and £900 the exemption is reduced by £1 for every £1 above £600, and no exemption at all is allowed for incomes above £900. Certain specified incomes are wholly exempt from taxation, and a further £50 is deductible from assessable income for each child under eighteen years of age. Prior to 1920 this deduction was £25, and the age-limit was sixteen years. Sundry other deductions are also provided for, of which that most generally applicable is a maximum exemption of 15 per cent. allowed for life-insurance premiums, National Provident Fund, superannuation, and similar contributions.

For the four financial years 1917-18 to 1920-21 the rates of progressive income-tax ranged from 6d. to 3s. in the case of persons and firms, and from 1s. to 3s. for companies. The 6d. rate for persons and firms applied where the taxable income was not more than £400, and the 1s. rate for companies where the taxable income did not exceed £1,600, the rates being increased by  $\frac{1}{100}$  of a penny for every additional pound until the maximum tax of 3s. in the pound was reached. Income derived by holders of company debentures from such debentures bore a uniform tax of 1s., plus a special war tax of 1s. 6d.

The special war tax also applied to assessable income in excess of £300 of all other income-tax payers. For incomes up to £400 the rate of special war tax was 9d. in the pound, and this was increased by  $\frac{1}{100}$  of a penny for every additional pound of income, but so as not to exceed 4s. 6d. in the pound. The maximum total rate of income-tax was thus 7s. 6d. in the pound.

New rates of income-tax were enacted in 1920. On the income of persons and firms the rate was fixed at 1s. in the pound up to a £400 limit of income, and between

£400 and £6,000 the tax was increased by  $\frac{1}{100}$  of a penny for each pound of income in excess of £400. On incomes exceeding £6,000 the rate was made 5s. 8d. in the pound, increased by  $\frac{1}{100}$  of a penny for each pound in excess of £6,000, with a maximum tax of 7s. 4d. in the pound. In addition to these rates a super-tax of 20 per cent. was levied in 1921-22, and the whole of the income-tax was made subject to a rebate of 5 per cent. for prompt payment. Both super-tax and rebate were in 1922-23 discontinued.

A new principle of taxation was introduced in the 1920 Act with regard to "earned income," which is defined to mean the salary or wages (including bonuses) received by the taxpayer in relation to his employment, and further includes all income derived by a taxpayer (other than a company or local body) by reason of his personal exertions. The tax on such income is, up to a limit of £2,000, subject to a reduction of 10 per cent.

For the year commencing with the 1st April, 1923, income-tax rates have been reduced by 20 per cent. in all cases.

Under the Act of 1920 a flat rate of 3s. in the pound was levied on income derived from company debentures, and of 2s. 6d. in the pound on income from debentures issued by local bodies in the Dominion. These rates still apply in respect of debentures issued prior to the 29th August, 1923, but for debentures (whether company or local body) issued after that date a uniform rate of 4s. 6d. in the pound has been fixed as from the 1st April, 1924.

It should be noted that the rates referred to—2s. 6d., 3s., or 4s. 6d., as the case may be—are maximum rates, and therefore that investment in local- or public-authority debentures is a favoured one so far as income-tax is concerned. A person whose income carries the maximum rate of tax, 5s. 10 $\frac{1}{2}$ d., would pay only 2s. 6d., 3s., or 4s. 6d., as the case may be, on such portion of it as is derived from debentures; on the other hand, the person whose income from debentures is less than £300 would pay no income-tax at all; while a person whose income carries a less rate than 2s. 6d., 3s., or 4s. 6d., as the case may be, would be charged only such lesser rate on debenture interest. Any deduction for tax which may be made by the local or public authority is adjusted later by the Department.

A holder, if resident outside New Zealand, of stock or debentures issued by the Government of New Zealand, or any local or public authority, or by the Public Trustee as agent of a land-settlement association, the interest on which is payable out of New Zealand, is not liable in New Zealand for income-tax on such interest.

The following table shows the number of income-tax payers and the revenue received for each of the last ten years:—

INCOME-TAX.—NUMBER OF PAYERS AND REVENUE RECEIVED.

Year ended 31st March.	Number of Payers.	Revenue.	Year ended 31st March.	Number of Payers.	Revenue.
		£			£
1914 ..	14,277	554,271	1919 ..	43,230	6,219,336
1915 ..	13,967	540,318	1920 ..	44,084	6,369,765
1916 ..	20,072	1,392,119	1921 ..	44,597	8,248,945
1917 ..	30,230	4,262,125	1922 ..	37,813	6,002,987
1918 ..	37,949	5,619,561	1923 ..	38,571	3,831,932

The very striking increases of recent years in this source of taxation are due mainly to the large growth in both number and incomes of taxpayers brought about by the increased value of business, particularly during the year ended 31st March, 1920, on which the taxation for 1921 is based, and in part to the investigation work and closer inspection by the Land and Income Tax Department of taxpayers' returns.

## DEATH DUTIES.

The law dealing with these classes of duty is embodied in the Death Duties Act, 1921, which is principally a consolidation of enactments previously in force. The main heads of taxation are estate and succession duties, which are generally referred to by the collective title of "death duties." In addition to these there is provision for a gift duty and a Native succession duty. The incidence of each is dealt with further on in this subsection. Estate and succession duties are due and payable to the Commissioner of Stamp Duties, on assessment, interest at 6 per cent. per annum being payable on duty not paid within three months after the death of the deceased. Gift duties are payable at the time the gift is made, and Native succession duties before the registration of the succession order by the Native Land Court. Generally the decision of the Commissioner of Stamp Duties in regard to matters of fact incidental to the assessment of duty is final, but there is an appeal on points of law by way of a case stated to the Supreme Court.

The net revenue received from death duties, including gift and Native succession duties, during each of the last ten years was—

Year ended 31st March.	Amount. £	Year ended 31st March.	Amount. £
1914 .. ..	613,751	1919 .. ..	869,371
1915 .. ..	796,232	1920 .. ..	978,095
1916 .. ..	610,350	1921 .. ..	1,106,925
1917 .. ..	570,040	1922 .. ..	1,512,754
1918 .. ..	805,511	1923 .. ..	1,829,852

## ESTATE DUTY.

When the final balance of the dutiable estate of a deceased person, estimated as at the date of his death, exceeds £1,000 an estate duty is levied on the amount thereof. In the case of any estate the final balance of which does not exceed £10,000, any interest acquired by the wife of the deceased up to the value of £5,000 is exempt from estate duty, but the rate of duty on the whole estate must be determined before the deduction is made.

Up to 1920 duty was leviable on property in excess of £500, and the scale of duties ranged from 1 per cent. in cases where the net estate was between £500 and £1,000 to a maximum of 15 per cent. for large estates. The amendment made to the scale in 1920 considerably increased the duty payable, and the rates, which are now embodied in the Act of 1921, run from 1 per cent. on estates not exceeding £2,000 in value to 20 per cent. on estates of more than £100,000. The scale of duties is shown in the table below.

## SCALE OF ESTATE DUTY.

Final Balance of Estate.		Rate per Cent.	Final Balance of Estate.		Rate per Cent.
£	£		£	£	
1,000 to	2,000 .. ..	1	30,000 to	35,000 .. ..	11
2,000 to	3,000 .. ..	2	35,000 to	40,000 .. ..	12
3,000 to	4,000 .. ..	3	40,000 to	45,000 .. ..	13
4,000 to	6,000 .. ..	4	45,000 to	50,000 .. ..	14
6,000 to	8,000 .. ..	5	50,000 to	60,000 .. ..	15
8,000 to	10,000 .. ..	6	60,000 to	70,000 .. ..	16
10,000 to	15,000 .. ..	7	70,000 to	80,000 .. ..	17
15,000 to	20,000 .. ..	8	80,000 to	90,000 .. ..	18
20,000 to	25,000 .. ..	9	90,000 to	100,000 .. ..	19
25,000 to	30,000 .. ..	10	Exceeding	100,000 .. ..	20



## SUCCESSION DUTY.

In addition to the estate duty referred to above, a succession duty is payable by any person who acquires a beneficial interest in the estate of a deceased person either by will or by intestacy. An exemption from duty is made in favour of charitable trusts, and special provision is made that the wife, lineal descendant, or lineal ancestor of a soldier who has met his death on account of the late war is allowed an additional £5,000 exemption to the amounts shown below.

The rates of duty vary according to the nearness of kin of the beneficiary to the deceased person. The rates shown below were introduced in amending legislation in 1920, and, as in the case of the estate duties, are embodied in the 1921 consolidating Act.

## SCALE OF SUCCESSION DUTY.

If Successor is	Value of Estate.	Rate per Cent.	If Successor is	Value of Estate.	Rate per Cent.
	£			£	
Wife ..	Up to 10,000 ..	Nil.	Child or lineal descendant	Up to 1,000 ..	Nil.
	10,000 to 20,000	2		1,000 to 5,000	1
	Over 20,000 ..	4		5,000 to 10,000	2
Husband ..	Up to 500 ..	Nil.		10,000 to 15,000	3
	500 to 1,500 ..	1		15,000 to 20,000	3½
	1,500 to 2,500 ..	2		Over 20,000 ..	4
	Over 2,500 ..	3	Other relative to 4th degree	Up to 500 ..	Nil.
Brother or Sister	Up to 500 ..	Nil.		500 to 10,000 ..	5
	500 to 20,000 ..	5		Over 10,000 ..	10
	Over 20,000 ..	10	Other person	Up to 500 ..	Nil.
		500 to 20,000 ..		10	
		Over 20,000 ..		20	

In respect to moneys exceeding £1,000 that may be payable to persons domiciled out of New Zealand, and where the beneficiary is not the husband or wife of the deceased or a relative of the deceased within the third degree of consanguinity, there is an additional rate equal to 10 per cent. of the excess over £1,000.

## NATIVE SUCCESSION DUTY.

Where any succession order is made by the Native Land Court on the death of a Native, no death duty in the ordinary way is payable on the property included in it, but a Native succession duty of 2 per cent. is payable on the value of the property, with a general exemption of £200.

## GIFT DUTY.

A gift means any disposition of property which is made otherwise than by will, whether with or without an instrument in writing, without full and adequate consideration in money or its equivalent. No duty is payable on a gift which, together with the value of all other gifts made at the same time or within twelve months previously or subsequently by the same donor to the same or any other beneficiary, otherwise than by way of a charitable trust, does not exceed the value of £1,000, and exemption from gift duty is provided in cases of the voluntary discharge of a mortgage debt where the donor and beneficiary are not connected by ties of blood or marriage. The amount of the gift duty is payable by either the donor or the beneficiary, but the beneficiary is entitled to be indemnified by the donor unless the terms of the gift provide otherwise. Particulars of any gift made are required to be furnished for assessment of duty within one month of the date of the gift.

and in default an additional duty of 50 per cent. is payable. Where duty is payable, the rate is based on the following scale:—

Value of Gift.	Rate of Duty.
£1,000 to £5,000 .. ..	5 per cent.
£5,000 to £10,000 .. ..	7½ "
Over £10,000 .. ..	10 "

These rates, which were introduced in 1920, superseded the flat rate then in force of 5 per cent. on all gifts exceeding £1,000 in value. The revenue from gift duty amounted to £48,556 for the financial year ended 31st March, 1923, the figures for the last six years being as follows:—

Year ended 31st March.	£	Year ended 31st March.	£
1918 .. ..	36,551	1921 .. ..	74,885
1919 .. ..	31,736	1922 .. ..	70,440
1920 .. ..	54,160	1923 .. ..	48,556

These amounts, it should be noted, are included under the revenue shown previously under the head of "Death Duties."

#### TOTALIZATOR-TAX.

The Government tax on totalizator investments is 2½ per cent. of the gross amount passed through the machines. Prior to the 1st March, 1910, the percentage was 1½.

From the 1st November, 1915, a tax of 1 per cent. was imposed on the total value of all stakes, and a tax of 2½ per cent. on totalizator dividends, in addition to the tax on totalizator investments. From the 22nd December, 1921, the tax on stakes was increased to 10 per cent., and that on dividends to 5 per cent. From the 1st April, 1924, the tax on stakes will be 5 per cent.

The following figures, taken from successive annual reports of the Inspector of Totalizators and covering the five years during which the system of inspection has been in operation, relate to the racing-year, which ends on the 31st July:—

	Year ended 31st July.				
	1919.	1920.	1921.	1922.	1923.
Number of racing-days ..	236	284	288	286	287
Number of races .. ..	1,848	2,235	2,271	2,263	2,269
Amount of stakes .. ..	£ 383,070	£ 502,225	£ 610,675	£ 653,285	£ 612,667
Totalizator investments ..	5,732,480	8,792,670	10,121,212	8,141,457	7,848,392
Amount paid in dividends ..	5,002,773	7,673,404	8,834,203	6,986,238	6,675,907
Government taxes—					
On totalizator investments	143,312	219,814	253,030	203,552	196,210
On dividends .. ..	129,001	197,841	227,688	303,301	353,301
On stakes .. ..	3,831	5,022	6,107	46,265	61,267
Totals .. ..	276,144	422,677	486,825	553,118	610,778
7½ per cent. of totalizator investments retained by clubs	429,936	659,443	759,091	610,656	587,729
Unpaid fractions* .. ..	27,458	42,068	47,200	37,709	35,245

\* Retained by the clubs, except for the period 1st July to 21st December, 1921, during which the unpaid fractions were payable into the Consolidated Fund.

The totalizator revenue accruing to the State during the 1922-23 racing-year is seen to have totalled £610,778. For the financial year ended the 31st March, 1923, the amount was £607,657.

## AMUSEMENTS-TAX.

A form of tax first introduced in 1917 is the amusements-tax, payable on payments for admission to entertainments. "Entertainment" is defined as "any exhibition, performance, amusement, game, or sport to which persons are admitted for payment." No tax is payable where the charge for admission is not more than 1s., but when the charge exceeds 1s. a tax of 1d. is imposed on each shilling or part of a shilling. In addition to the tax so calculated, a further sum of 1d. is payable where the price for admission exceeds 3s. 6d. These charges are operative from the 1st January, 1922, and are an increase in the rates which were in force from the initiation of the tax up to that date. Provision is made for exemption in certain specified cases—viz., shows promoted by agricultural, pastoral, horticultural, or poultry societies, meetings held for educational, scientific, patriotic, or philanthropic purposes, and swimming-sports.

Since the introduction of the tax the following amounts have been collected:—

Year ended 31st March.	Amount collected. £
1918 .. .. .	16,093
1919 .. .. .	39,845
1920 .. .. .	68,064
1921 .. .. .	79,921
1922 .. .. .	103,815
1923 .. .. .	137,546

## LOCAL TAXATION.

Local governing authorities have power under various Acts of the Legislature to impose taxes for general or special purposes as set out in another section of this book. The amount of revenue collected for local purposes during ten years is shown below:—

Year ended 31st March.	Local Revenue derived from			Total.
	General Rates.	Special and Separate Rates.	Licenses and other Taxes.	
	£	£	£	£
1913 ..	1,252,717	546,582	169,468	1,968,767
1914 ..	1,359,776	645,862	181,896	2,187,534
1915 ..	1,484,430	655,495	185,569	2,325,494
1916 ..	1,607,764	747,391	187,065	2,542,220
1917 ..	1,695,572	838,967	185,611	2,720,150
1918 ..	1,791,028	883,513	192,482	2,867,023
1919 ..	2,028,151	911,455	199,366	3,138,972
1920 ..	2,106,397	1,037,816	245,078	3,389,291
1921 ..	2,338,539	1,211,051	264,320	3,813,910
1922 ..	2,501,949	1,277,946	276,990	4,056,885

Of recent years there has been great activity in local enterprise, the necessary funds being provided partly out of general rates, but mainly by borrowing, interest on loans and payments to sinking funds being secured in most cases by special rates. The increase in the amount of general rates collected during the ten years 1911-12 to 1921-22 was £1,345,231, or 116 per cent.; special and separate rates increased by £756,787, or 145 per cent.; and total rates by £2,102,018, or 125 per cent. Licenses and other taxes show an increase for the ten years of £163,884, or 145 per cent.

A table is given setting out in greater detail the taxation by local authorities during the year ended the 31st March, 1922.

## REVENUE FROM LOCAL TAXATION, 1921-22.

Local Bodies.	Rates.		Licenses.	Other Taxes.	Total.
	General.	Special and Separate.			
	£	£	£	£	£
Counties .. .. .	1,167,506	242,304	20,227	33,033	1,463,070
Boroughs .. .. .	951,271	964,235	78,894	133,662	2,128,062
Town districts .. .. .	45,306	27,859	4,763	3,323	81,251
Road districts .. .. .	74,277	20,676	1,481	1,149	97,583
River districts .. .. .	16,200	5,599	..	..	21,799
Land-drainage districts .. .. .	21,694	8,196	..	..	29,890
Harbour districts .. .. .	110,082	..	..	..	110,082
City and suburban drainage districts .. .. .	111,869	5,673	..	458	118,000
Tramway districts.. .. .	..	2,665	..	..	2,665
Local railway districts .. .. .	1,596	..	..	..	1,596
Water-supply districts .. .. .	334	715	..	..	1,049
Electric-power districts .. .. .	1,814	24	..	..	1,838
Totals .. .. .	2,501,949	1,277,946	105,365	171,625	4,056,885

The figures quoted above are exclusive of wharfage dues, charges, fees, and tolls received by Harbour Boards.

## LOCAL GOVERNING BODIES.

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A STUDY of the finance of local governing bodies from their incipient stages to the present time reveals a process of evolution from a state of semi-dependence on the Central Government to a stage where, with the exception of subsidies on rates and occasional grants for special works, all expense is borne locally. While local bodies were the proper authorities to deal with such matters as the construction of roads and bridges, it was recognized that work of this nature was to a large extent of national significance, and governmental aid was freely accorded. This is evidenced by a consideration of the fact that under various Acts, including the Roads and Bridges Construction Act, 1882, advances were made under which the recipient body, although bound to pay a half-yearly interest for a number of years, the period varying inversely with the rate of interest, was relieved from all further liability, *ipso facto*, on payment of the last instalment. With the increase in population and growth of prosperity, however, the opinion grew that local authorities should, in all fairness, bear the greater part of the expense of their own activities. This resulted in the withdrawal of such advantageous conditions, and at the present time, although the credit of the State is still available for the benefit of those local bodies requiring loans, and such assistance as indicated above is given, they are to all intents and purposes self-supporting.

The sources from which the various classes of local bodies secure the moneys necessary to exercise their functions vary greatly according to the nature of the statutory duties of the local body concerned. Generally, however, receipts fall under one of three main classes—viz., rates, licenses and fees, and receipts which cannot properly be regarded as revenue. These three classes are dealt with in detail further on in this subsection, where the nature and relative importance of each is more particularly referred to.

### SYSTEM OF RATING.

The local authority of any district (other than a district wherein the system of rating on the unimproved value is in force) may from time to time by resolution determine whether the system of rating on the annual value or the capital value shall be in force in the district. The system of rating on the unimproved value can be adopted only by a poll of the ratepayers, and after three years the ratepayers may, by another poll, revert to the system previously in force in the district.

Section 29 of the Rating Amendment Act, 1910, as amended by section 7 of the Amendment Act of 1913, provides that when the union of two or more boroughs takes place the rating system in force in the borough having the largest population shall be observed throughout the united borough, unless otherwise agreed between the Councils of the boroughs concerned.

The system of rating in the Dominion is upon the basis that 1s. in the pound on the annual value is deemed to be equivalent to  $\frac{1}{4}$ d. in the pound on the capital value of rateable property; or where in a district not rating on the annual value it is necessary for any purpose to ascertain the annual value of any rateable property, then the annual value thereof is equal to 6 per cent. on the capital value of such property. Rating on the unimproved value must be so adjusted as to equal as nearly as may be, but not to exceed, in producing-capacity the limit of rating-power on the capital or annual value, as the case may be, a rate on the annual value being for this purpose first transposed into one on the capital value on the basis above mentioned.

Prior to 1911 the system of rating on the unimproved value did not apply to water rates, gas rates, electric-light rates, sewage rates, or hospital and charitable-aid rates, which could be levied on the annual or capital value only; but by the Rating Amendment Act, 1911, it was provided that the system should apply to these rates. This provision is not retrospective, but a poll in any district where the system was previously in force is, on petition, to be taken on the proposal that it shall apply to them.

The annual value is deemed to be the letting-value, less 20 per cent. in case of houses, buildings, and other perishable property, and 10 per cent. of land, but in no case is the rateable value to be less than 5 per cent. of the value of the fee-simple. The capital value is deemed to be the selling-value of the land, including improvements, at the time of valuation. The unimproved value is deemed to be the selling-value of the land at the time of valuation, excluding the value of any existing improvements.

#### MAXIMUM RATING-POWERS OF LOCAL AUTHORITIES.

Local authorities are largely dependent for funds to carry out their activities on revenue from rates, and even loans raised for special purposes are ultimately liquidated by such revenues—known then as special rates. As, however, the revenue from rates is not usually received till about half of the financial year has elapsed, the law has for many years allowed local bodies to borrow money in anticipation of the year's revenue. This borrowed money in many cases tended to become a permanent debt, and from time to time power had to be given to local bodies to raise a loan for the purpose of paying off such debts. This was done in 1913, but since then the debts again accumulated, and many local bodies were in financial difficulties. Consequently, in 1921, the Legislature dealt with the matter by passing the Local Bodies' Finance Act, which compelled any local body which had an overdraft or temporary deposits to capitalize its liability, forming what is known as an "antecedent liability," and to pay off this liability either (a) by seven annual instalments out of revenue, or (b) by a direct loan, or (c) by levying a special rate in each of seven years sufficient to cover each annual instalment. The powers of a local body to borrow by overdraft or by temporary deposit were also limited to three-fourths of its total revenue for the preceding year, and at the end of a year there is not to be owing a greater sum than the amount of revenue then outstanding. This will, of course, compel local bodies to live within their income, and will also ensure that money borrowed by overdraft or temporary deposit will simply be a temporary expedient in anticipation of revenue.

A synopsis of the statutory rating-powers of the various local authorities is now given. Generally, in addition to the statutes specified below, the provisions of the Rating Act, 1908 (and amendments), are applicable.

#### BOROUGHS.

Under the Municipal Corporations Act, 1920, cities and boroughs have conferred on them the following rating-powers, which represent the maximum a Council is empowered to levy in any one financial year:—

*General Rate.*—2s. 6d. in the pound on the annual value, or 2d. in the pound on the capital value of all rateable property, or its equivalent on the unimproved value. In divided boroughs the rate levied may vary in different wards, but must not in any case exceed the above limit.

*General Separate Rates for Special Works.*— $\frac{3}{4}$ d. in the pound in any one year on the capital value, or 1s. in the pound on the annual value, or its equivalent on the unimproved value of the rateable property. These rates can be made only on a petition of a majority of the ratepayers, and are known as general separate rates, in contradistinction to particular separate rates now immediately referred to.

*Water-supply.*—Ordinary supply, 10s. per annum where the annual value does not exceed £12 10s.; in excess of £12 10s., 6 per cent. Where rating on unimproved value in respect of water-supply is in force the charge must not exceed the equivalent of 1d. in the pound on the capital value, with a minimum of 10s. Half-rates only are to be levied on stores or warehouses, and all land and buildings to which water can be but

is not supplied, situate within 100 yards from any part of the waterworks. The rate or charge for extraordinary supply may be fixed by the Council.

*Lighting Streets and Public Buildings.*—6d. in the pound on the annual value.

*Sanitation.*—A rate, or in lieu thereof a uniform annual fee, may be levied of such an amount that the total proceeds of such fee shall be sufficient to meet the estimated expenditure on the service for the year.

*Drainage.*—6d. in the pound on the annual value of property served by a public drain.

*Library.*—1d. in the pound on the annual value.

*Harbour.*—Any Council appointed a Harbour Board may, for the purpose of constructing or maintaining harbour-works, levy a rate not to exceed in any one year  $\frac{3}{4}$ d. in the pound on the capital value.

In addition to the rating-power referred to above, certain Acts of the Legislature have conferred powers on Borough Councils to levy further separate rates for the purposes now indicated.

*Hospital and Charitable Aid.*—Under the Hospitals and Charitable Institutions Act, 1909, section 41, a rate sufficient to produce the amount of contribution for which the borough may be liable.

*Fire.*—By the Fire Brigades Act, 1908, section 21, a Borough Council within a fire district may, in order to raise the amount required to be contributed to the Fire Board, levy a separate rate, on the value of the buildings only, within the fire district.

*Small-birds Nuisance.*—Borough Councils are by the Injurious Birds Act, 1908, section 18, empowered to raise funds for the destruction of injurious birds by levying a general rate not exceeding  $\frac{1}{4}$ d. in the pound on the capital value, or its equivalent on the annual or unimproved value.

*Health.*—The Health Act, 1920, section 140, enables a separate rate to be levied to meet the expenses of carrying out the provisions of the Act.

*Special Rates (Payment of Loan Charges).*—Rates under this head are termed "special," and are levied for the purpose of producing interest, or interest and sinking fund, upon any special loan. They are not limited by statute. A special rate shall be made a continuing rate for a period of years equal to the currency of the loan. With certain exceptions no special loan may be raised without the consent of a majority of the ratepayers affected. Special rates are subject to the provisions of the Local Bodies' Loans Act, 1913.

In certain exceptional cases a Council's power may be subject to one or more of the three conditions referred to below.

*Increase of Rating-power authorized where Revenue lost in consequence of the Reduction or Prohibition of Licenses.*—A Borough Council which suffers loss of revenue from license fees under the Licensing Act in consequence of the reduction or prohibition of licenses in the district may, by section 41 of the Licensing Act, 1908, make good such loss by an equivalent sum to be levied and collected by an increase of the general rate in the district.

*Rates on Native Land.*—By the provisions of section 3 of the Rating Amendment Act, 1910, Native land that has become freehold and is held under individual title is liable to full rates, subject to certain exemptions. Lands held by Natives under Native custom are, however, totally exempt from rating.

*Rating of Mining Property in the South Island.*—All mining property held by an occupier in any borough within a mining district in the South Island of the Dominion is liable to be rated by the Borough Council in the same manner as other rateable property in the district, but subject to special provisions of the Rating Act, 1908, sections 45 to 47.

#### TOWN DISTRICTS.

The maximum general and separate rates that may be levied by the Board of a town district in any one year are set forth in the Town Boards Act, 1908, and amendments, indicated below.

*General Rate.*—By the Finance Act, 1921, section 34, a Town Board may levy a rate of 2d. in the pound on the capital value or its equivalent on the unimproved value, or 2s. 6d. in the pound on the annual value. In the case of town districts which are also subject to county control, however, the County Council has power to levy in addition a general rate up to  $1\frac{1}{4}$ d. in the pound on the capital value.

*Particular Separate Rates.*—On petition from a majority of the ratepayers in any portion of the district for a special work to be undertaken, the Board may by special order define such portion and make and levy a separate works rate not exceeding in any one year 1s. in the pound on the annual value or its equivalent.

The provisions of the Municipal Corporations Act, 1908, relating to water-supply, lighting, sanitation, drainage, and library rates, as already referred to under the head

of "Boroughs," apply equally to town districts. In like manner Town Boards may levy separate hospital and charitable-aid, fire, small-birds nuisance, and health rates under the statutory provisions indicated.

*Special Rates.*—The powers of Town Boards are the same as Borough Councils.

In the same way as they operate in boroughs the provisions relating to the rates on Native land, rating on mining property in the South Island, and the increase of the rating-power consequent on prohibition of licenses, apply to town districts.

#### COUNTIES.

Most of the provisions relating to the rating-powers of County Councils are included in the Counties Act, 1920. These are now briefly referred to.

*General Rate.*—In counties where there are no road or town districts a maximum rate of 3d. in the pound, or where there are road or town districts 3d. in the pound in outlying districts, and in all other parts of the county 1½d. in the pound on the capital value of rateable property, or its equivalent on the unimproved or annual value. The total amount of the general and separate rates together, however, must not exceed the maximum rate above, with the exception that the drainage rate may be additional to the maximum mentioned.

*Special-works (Separate) Rates.*—These rates may be levied on the county or a portion of the county upon a majority petition of ratepayers; the total amount that may be levied in one year is ¾d. in the pound on the capital value or its equivalent.

Particular separate rates which may be levied by County Councils refer to the following matters:—

*Water-supply and Drainage.*—For the purposes of any constructional work a rate of 1d. in the pound on the capital value on the county or subdivision, as the case may be. To provide for maintenance after construction a rate of ¾d. in the pound may be levied.

*Sanitation and Harbours.*—The provisions relating to boroughs apply, *mutatis mutandis*, to counties.

*Library.*—1d. in the pound on the annual value or its equivalent. The rate is levied by virtue of the Libraries and Mechanics' Institutes Act, 1908, and only applies where the library is managed by the County Council.

*Other Separate Rates.*—The expenses of a county in connection with lighting, &c., which come within its jurisdiction are met from either the General Account of the county or the Separate Accounts of the ridings. In regard to hospital and charitable-aid, health, injurious-birds, and fire rates, the provisions of the statutes as noted above under the head of "Boroughs" apply.

*Special Rates.*—The provisions of the Local Bodies' Loans Act, 1913, apply in the same manner as indicated for Borough Councils above. Special rates to provide interest, or interest and sinking fund, on loans are not limited by statute as to amount.

*Bridge Rate.*—In addition to other special rating-powers referred to, a special rate of ½d. in the pound on the capital value may be levied under section 5 of the Local Bodies' Loans Amendment Act, 1922, for reconstruction of bridges.

In the same way as they operate in boroughs the provisions relating to the rates on Native land, rating on mining property in the South Island, and the increase of the rating-power consequent on prohibition of licenses, apply to counties.

#### ROAD DISTRICTS.

For the main statutory provisions in regard to the rating-powers of Road Boards it is necessary to refer to the Road Boards Act, 1908. A summary of these, as amended by various statutes, is given below.

*General Rate.*—1½d. in the pound on the capital value or its equivalent on the unimproved value, or 2s. in the pound on the annual value, as the case may be. In the event of a Receiver being appointed, the power is extended by ¾d. in the pound if the Counties Act is suspended, or ½d. in the pound if the Act is in force, upon the capital value.

*Separate Rates (in Subdivided Road Districts).*—May be levied over any or every subdivision of the district, but must not, together with the general rate, exceed the limit of 1½d. in the pound on the capital value or its equivalent.

*Special Rates for Particular Works.*—¾d. in the pound on the capital value over the whole or any portion of the district.

*Water-supply for Domestic Use and Irrigation.*—Water-supply is according to the scale prescribed for boroughs, as indicated above. This applies only to certain Road



Boards specially authorized. With regard to irrigation, the provisions of the Water-supply Act, 1908, and amendments, provide that where the Counties Act is not in operation, or is suspended, two or more adjoining road districts may amalgamate for the purpose of forming a water-supply district with the full rating-powers of such districts. Any Road Board which had constructed water-races or irrigation-works prior to 1891 may continue to exercise in this respect the same rating-powers as a County Council.

*Library.*—1d. in the pound on the annual value or its equivalent, only where the public library is managed by the Road Board in terms of the Libraries and Mechanics' Institutes Act, 1908.

*Harbour.*—Should a Road Board be declared a Harbour Board it may, by consent of the ratepayers, levy a special rate for the construction or maintenance of harbour-works, such rate not to exceed in any one year  $\frac{3}{4}$ d. in the pound on the capital value or its equivalent.

*Other Particular Separate Rates.*—The provisions of special statutes with regard to hospital and charitable-aid, health, injurious-birds, and fire rates apply to road districts in the same manner as to boroughs.

*Special Rates.*—The powers of Road Boards are the same as Borough Councils.

In the same way as they operate in boroughs the provisions relating to the rates on Native land, rating on mining property in the South Island, and the increase of the rating-power consequent on prohibition of licenses, apply to road districts.

#### ELECTRIC-POWER DISTRICTS.

*General and Separate Rates.*—The Electric-power Boards Act, 1918, and amendments, provide that when the expenditure of a Board exceeds the amount of income in any year, the balance, or part of it, may be raised by a general or separate rate over the whole or part of the district. The Power Board may collect the rate itself, or may request the local authority in whose district the rate is levied to recover the amount on its behalf.

*Special Rates.*—The provisions of the Local Bodies' Loans Act, 1913, apply to Power Boards, and the Power Boards Act, 1918, also allows of a uniform rate being levied over the whole district to secure money borrowed for the preliminary work and expenses of a Board.

#### HARBOURS.

For any purpose connected with a harbour, or for interest, or interest and sinking fund, on loans, authority is contained in section 221 of the Harbours Act, 1908 (as amended in 1910), to levy a rate not exceeding the maximum specified in any special Act authorizing the Board to levy a rate, or, if no such limit is fixed, a maximum rate of  $\frac{3}{4}$ d. in the pound on the capital value, or its equivalent on the annual or unimproved value.

#### RIVER DISTRICTS.

*General Rate.*—By section 87 of the River Boards Act, 1908 (and amendments), a River Board may levy a general rate of  $1\frac{1}{4}$ d. in the pound on the capital value or its equivalent leviable on a uniform scale or graduated according to the classification of lands in the district.

*Separate Rates.*—These shall not, together with the general rates levied, exceed the amount limited in respect to general rates.

*Special Rates.*—Not limited by statute as to amount; may be levied to secure the interest and provide a fund for the repayment of loans.

#### LAND-DRAINAGE DISTRICTS.

*General Rate.*—The Land Drainage Act, 1908, section 31, provides for the levying of a general rate, according to the classification of the lands in the district, not exceeding  $1\frac{1}{4}$ d. in the pound on the capital value. By the Amendment Act of 1913 this rate may be increased to 3d. in the pound on a ratepayers' petition representing a majority of three-quarters in number and half in rateable property.

*Special Rates.*—As in the case of river districts.

#### WATER-SUPPLY DISTRICTS.

*Special Rate.*—By the Water-supply Act, 1908, section 34, a special rate may be levied on all lands in a water-supply district or subdivision to pay interest and provide for the repayment of any loan. The rate is levied according to a classification of the rateable lands.

Inset 1—Taxation.

## RABBIT NUISANCE.

*General Rate.*—Under the Rabbit Nuisance Act, 1908, section 98, a Rabbit-proof Fencing Board may levy a general rate of  $\frac{1}{4}$ d. in the pound on the capital value of all rateable property in the district under the control of the Board. Section 5 of the Rabbit Nuisance Amendment Act, 1918, provides that a Rabbit Board may levy a rate of 1d. in the pound on the capital value or its equivalent of all rateable property within the rabbit district, with a maximum of 1s. per acre for each holding affected, the proceeds of such rate to be expended in the destruction of rabbits.

*Special Rates.*—These are not limited by statute as to amount; may be levied to secure the interest and provide the repayment of loans.

## SYSTEM OF RATING ON UNIMPROVED VALUE OF LAND.

The Rating on Unimproved Value Act, 1896, was passed by the General Assembly to afford local bodies the opportunity of adopting the principle of rating which is expressed in the title of the measure. The Act is now incorporated in the Rating Act, 1908. It is entirely at the option of the bodies to adopt the system, and provision is made for a return to the old system of rating, if desired, after three years' experience of the new one. The Act provides that a proportion of the ratepayers on the roll, varying from 25 per cent. where the total number does not exceed 100, to 15 per cent. where the number exceeds 300, may by demand in writing, delivered to the chairman of the district, require that a proposal to rate property on the basis of the unimproved value may be submitted to the ratepayers, whose votes shall be taken between twenty-one and twenty-eight days after delivery of the demand. The poll is to be taken in the same manner as in the case of a proposal to raise a loan in the district under the Local Bodies' Loans Act, 1908.

Under the original Act it was necessary for a minimum number of one-third of the ratepayers to vote, and a majority of their votes carried the proposal. Now the question of adoption or otherwise is decided by a bare majority of the valid votes recorded, irrespective of the number of ratepayers who have voted.

A rescinding proposal can be carried at a poll by the same means as one for adoption, but not until after three years have elapsed; and, *vice versa*, rejection of a proposal bars its being brought forward for a similar period.

The valuation roll is supplied to the local authority by the Valuer-General under the provisions of the Valuation of Land Act, 1908, and the definitions of "capital value," "improvements," "unimproved value," and "value of improvements" found in that Act apply also to rating on unimproved value. Provision is made for adjustment of rating-powers given under previous Acts by fixing equivalents. Thus a rate of 1s. in the pound on the annual value under former Acts is to be considered equal to  $\frac{1}{4}$ d. in the pound on the capital value.

The adjustments are to be made so that the rates on the unimproved value shall be such as to produce as much as, but not more than, the rates under the Rating Act, 1908. For instance, supposing a local authority has a rating-power up to  $\frac{1}{4}$ d. in the pound on the capital value, then it can levy any rate in the pound on the unimproved value of land in its district so long as the producing-capacity of such rate is not greater than would be the producing-capacity of a  $\frac{1}{4}$ d. rate on the capital value of the district. When a fixed rate, under the older system of rating, is security for a loan, the Controller and Auditor-General is given power to interfere and fix the new rate himself if of opinion that the new rate on the unimproved value does not afford equally good security as the one to be given up.

It should be noted that some local authorities automatically adopt rating on unimproved value. For example, a town district, borough, or another county, formed from part of a county which itself rates on unimproved values, automatically rates on the system in force in the county; also two boroughs amalgamating adopt the system in force in the district with the greater population, unless their Councils agree to the contrary.

## LOCAL AUTHORITIES RATING ON UNIMPROVED VALUE.

Local districts in which a poll on the question of rating on unimproved value has been taken since the 31st March, 1914, are as shown below up to the 31st March, 1923. The result of all polls prior to the 31st March, 1914, are given on pages 876-79 of the Year-book for 1914.

## RESULTS OF RATING POLLS, 1914-23.

Local District.	Date of Poll.	Result of Poll.	Votes recorded.		
			For.	Against.	In-formal.
Avondale Borough ..	17 Feb., 1923	Carried ..	282	150	5
Avondale Road District ..	1 June, 1918	Rejected ..	231	300	1
Bay of Islands County ..	17 Nov., 1920	Carried ..	490	187	..
Cambridge Borough ..	9 Sept., 1919	" ..	153	61	2
Cambridge Borough*	8 Nov., 1922	Rating on U.V. remains	90	166	1
Carterton Borough ..	26 Nov., 1919	Carried ..	277	133	..
Christchurch City*	4 Mar., 1915	Rating on U.V. remains	1,914	2,086	..
Ellerslie Town District ..	8 Mar., 1916	Carried ..	175	25	1
Featherston County ..	16 Feb., 1915	" ..	315	164	2
Geraldine Borough ..	29 April, 1921	" ..	179	100	14
Great Barrier County ..	11 May, 1914	" ..	63	7	..
Greytown Borough ..	27 June, 1922	Rejected ..	62	198	4
Hauraki Plains County ..	10 Mar., 1921	Carried ..	301	14	..
Havelock North Town District	3 Nov., 1920	" ..	107	79	..
Huntly Town District ..	20 Oct., 1915	" ..	30	1	..
Inglewood County ..	16 Mar., 1921	" ..	160	25	2
Manawatu County ..	29 Jan., 1919	" ..	677	193	3
Mangaorongo Road District..	13 Mar., 1918	" ..	45	1	..
Mangapapa Town District ..	13 Oct., 1915	Rejected ..	109	164	14
Mangapapa Town District ..	1 July, 1920	Carried ..	244	80	4
Manurewa Town District ..	19 Nov., 1921	Rejected ..	66	108	..
Mataura Borough*	3 Nov., 1915	Rescission carried	136	129	2
Mataura Borough ..	12 Dec., 1919	Rejected ..	118	145	5
Mataura Borough ..	21 Feb., 1923	Carried ..	186	166	1
Milton Borough* ..	1 Nov., 1922	Rating on U.V. remains	137	216	10
Moa Road District ..	26 Mar., 1919	Carried ..	205	32	1
Mosgiel Borough*	28 Mar., 1916	Rating on U.V. remains	115	240	..
New Plymouth Borough ..	30 April, 1919	Carried ..	781	595	..
Ngaruawahia Borough ..	21 Mar., 1921	" ..	47	7	..
Normanby Town District*	24 May, 1919	Rating on U.V. remains	33	41	1
Northcote Borough ..	30 April, 1919	Rejected ..	123	140	..
Northcote Borough ..	22 Aug., 1922	Carried ..	260	150	..
Onehunga Borough ..	9 Mar., 1915	" ..	563	391	7
Ostend Road District ..	20 Dec., 1922	Rejected ..	29	50	..
Otaki Borough† ..	4 Mar., 1919	Carried ..	132	44	1
Otamatea County ..	6 May, 1922	" ..	505	312	..
Otautau Town District*	8 Mar., 1916	Rescission carried	40	33	1
Otorohanga Native Township	30 Oct., 1914	Carried ..	43	5	..
Paeroa Borough ..	30 April, 1919	" ..	155	71	..
Raglan Town District ..	15 Nov., 1916	" ..	54	19	..
Rangiora Borough*	19 June, 1919	Rescission carried	151	145	1
Rangiora Borough ..	7 Mar., 1923	Carried ..	266	87	..
Rodney County ..	21 April, 1921	" ..	520	433	..
Taihape Borough ..	26 Mar., 1919	" ..	141	21	..
Taradale Town District ..	15 Sept., 1919	" ..	128	39	..
Taranaki County ..	20 Mar., 1920	" ..	530	109	3
Tauranga Borough ..	6 Oct., 1920	Rejected ..	147	295	6
Te Awamutu Borough ..	19 Nov., 1919	" ..	89	127	..

\* For rescission.

† At that time a town district.

## RESULTS OF RATING POLLS, 1914-23—continued.

Local District.	Date of Poll.	Result of Poll.	Votes recorded.		
			For.	Against.	In-formal.
Te Awamutu Borough ..	14 Feb., 1923	Rejected ..	120	198	..
Thames Borough ..	19 June, 1919	Carried ..	260	50	..
Thames Borough* ..	12 Dec., 1922	Rating on U.V. remains	236	407	8
Timaru Borough ..	27 April, 1921	Carried ..	1,532	838	73
Oawa County ..	26 May, 1920	..	260	89	..
Waiatarua Drainage District	24 Dec., 1918	..	19	1	..
Waitomo County ..	8 June, 1922	..	752	73	11
Westport Borough ..	25 April, 1917	..	467	345	30
Whakatane Borough†	21 Sept., 1915	Rejected ..	70	105	1
Whakatane Borough ..	30 April, 1919	Carried ..	163	92	10
Whakatane County ..	8 Nov., 1919	..	319	166	..
Whangarei County ..	11 Nov., 1914	..	736	236	22

\* For rescission.

† At that time a town district.

The unimproved value of land is the basis on which some 36 per cent. of the local authorities (excluding harbour boards) assessed their rates for the year 1921-22. A comparative table is—

## SYSTEMS OF RATING IN FORCE, 1921-22.

—	System of Rating.						Total.
	Unimproved Value.	Capital Value.	Capital and Unimproved Values.	Annual Value.	Acreage Basis.	NH.	
Counties ..	41	76	4	..	..	8	129
Boroughs ..	60	22	2*	33†	..	..	117
Town districts ..	29	31	..	6	..	..	66
Road districts ..	4	55	..	..	..	..	59
River-protective districts	13	17	1	1	2	3	37
Land-drainage districts ..	21	33	..	..	..	..	54
Water-supply districts ..	..	6	..	..	..	..	6
City and suburban drainage districts	..	2	1	..	..	..	3
Tramway districts ..	1	1	..	..	..	..	2
Local railway districts ..	..	2	..	..	..	1	3
Totals ..	169	245	8	40	2	12	476

\* Annual also.

† Includes two on unimproved basis also.

Although the figures referred to indicate that the number of local authorities rating on the unimproved value is approximately 36 per cent. of the total, yet on a population basis the figures reveal that in reality a larger proportion of the ratepayers are being so rated. The position in regard to the four major classes of local bodies at 1st April, 1922, was as follows:—

## POPULATION RATED ON UNIMPROVED VALUE.

Districts.	Rating on Unimproved Value.		Total for Dominion.		Ratio of Unimproved Value to Dominion.	
	No.	Population.	No.	Population.	No.	Population.
Counties (excluding all town districts)	44	158,576	129	486,946	Per Cent.	Per Cent.
Boroughs ..	67	432,031	118	708,489	34·1	32·6
Town districts (dependent) ..	16	5,196	34	12,913	56·8	60·9
Town districts (independent) ..	14	17,612	36	34,678	47·1	40·2
					38·0	50·8

In addition to the foregoing, one road district with a population of 1,699 (1921 census) rated on unimproved value. Thus 49.5 of the people of New Zealand are rated on the unimproved value.

#### FINANCIAL STATISTICS OF LOCAL GOVERNING BODIES.

The figures given in the following tables are for the year ended 31st March, except in the case of certain harbour boards whose own financial year is taken in each case. The financial year of the Wellington Harbour Board ends on the 30th September (six months before the usual financial year); for the Coromandel, Grey-mouth, Half-moon Bay and Horseshoe Bay, Kaikoura, Kawhia, Mangonui, and Wairoa Harbour Boards the year ends on the 31st March, but in all other cases the harbour board year ends on the 31st December, or three months prior to the usual financial year.

#### RECEIPTS.

Local governing bodies received by way of rates in the financial year 1921-22 a total amount of £3,779,895, of which £2,501,949 consisted of general rates and £1,277,946 of special and separate rates. The sum of £105,365 was raised by licenses, and £171,625 by other taxes, making £4,056,885 altogether, which sum is equivalent to £3 5s. 10d. per head of the mean European population, as compared with £3 1s. 10d. for 1920-21, an increase of 4s.

Revenue derived from rates increased from £1,799,299 in 1912-13 to £3,779,895 in 1921-22. Revenue from the Government increased in the same period from £225,262 to £317,530. Receipts other than "revenue" were £2,383,123 in 1912-13, and £5,486,912 in 1921-22; but these figures vary from year to year according to circumstances, such as large operations by way of construction of works, for which money has to be specially raised.

The receipts of local governing bodies, divided into the various groups shown above, are given for each of the last ten years.

Financial Year.	Revenue from				Receipts not Revenue.	Total Receipts.
	Rates.	Licenses, Fees, Rents, and other Sources.	Government.	Total Revenue.		
1912-13 ..	£ 1,799,299	£ 2,306,424	£ 225,262	£ 4,330,985	£ 2,383,123	£ 6,714,108
1913-14 ..	2,005,638	2,484,893	234,219	4,724,750	2,411,575	7,136,325
1914-15 ..	2,140,086	2,622,221	239,076	5,001,383	2,595,706	7,597,089
1915-16 ..	2,355,155	2,705,562	262,083	5,322,800	2,469,275	7,792,075
1916-17 ..	2,534,539	3,001,324	242,618	5,778,481	1,411,422	7,189,903
1917-18 ..	2,674,541	3,034,894	248,855	5,958,290	1,250,047	7,208,337
1918-19 ..	2,939,606	3,184,741	267,330	6,391,677	942,780	7,334,457
1919-20 ..	3,144,213	4,219,608	266,974	7,630,795	3,329,003	10,959,798
1920-21 ..	3,549,590	5,048,791	287,583	8,885,964	3,429,662	12,315,626
1921-22 ..	3,779,895	5,757,252	317,530	9,854,677	5,486,912	15,341,589

A summary of receipts for the year 1921-22 is given on the next page. The total revenue of the local bodies for the financial year was £9,854,677, and they further received a sum of £5,486,912 which could not properly be termed "revenue," making altogether a grand total of receipts amounting to £15,341,589. The rates formed 38.35 per cent. of the revenue proper; licenses, rents, and other sources yielded 58.42 per cent.; and 3.23 per cent. was granted by the General Government.

While the revenue proper of the counties amounted to £1,835,210, of which £1,409,810, or 76.82 per cent., was raised by way of rates, the Road Boards' revenue was only £123,265, of which £94,953, or 77.03 per cent., represented the result of their rating. It is seen that these bodies rely on their taxing-powers for the greater

part of their income. In the case of boroughs, on the other hand, whose revenue totalled £5,819,843, rates accounted for £1,915,506, or only 32·91 per cent. of the total. Receipts by way of licenses, rents, &c., yielded the considerable sum of £3,867,426, representing 66·45 per cent. of the aggregate income.

LOCAL GOVERNING BODIES.—RECEIPTS, 1921-22.

	Revenue from			Receipts not Revenue.	Total Receipts.
	Rates.	Licenses, Rents, &c.	Government.		
	£	£	£	£	£
Counties .. ..	1,409,810	190,655	234,745	898,195	2,733,405
Boroughs .. ..	1,915,506	3,867,426	36,911	3,023,610	8,843,453
Town districts ..	73,165	40,642	5,015	126,555	245,377
Road districts ..	94,953	15,234	13,078	58,511	181,776
River districts ..	21,799	18,705	21	10,460	50,985
Land-drainage districts	29,890	1,463	..	58,768	90,121
Water-supply districts ..	1,049	2,896	..	..	3,945
Tramway districts ..	2,665	273,496	..	141,250	417,411
City and suburban drainage districts	117,542	3,619	1	31,898	153,060
Railway districts ..	1,596	19,981	..	2	21,579
Harbour districts ..	110,082	1,279,162	27,759	636,221	2,053,224
Electric-power districts	1,838	43,973	..	501,442	547,253
Totals .. ..	3,779,895	5,757,252	317,530	5,486,912	15,341,589

RATES.

As stated above, rates contributed in 1921-22 the sum of £3,779,895 to the revenue of local governing bodies. General rates levied brought in £2,501,949, and special and separate rates £1,277,946. Of the latter, £964,235 was received by boroughs and £242,304 by counties. The whole of the rates in harbour districts were general rates, while all those collected by Tramway Boards came under the heading of "special and separate."

General rates bring in about two-thirds of the total revenue from rates.

RATES LEVIED BY LOCAL GOVERNING BODIES, 1912-13 TO 1921-22.

Financial Year.	General.	Special and Separate.	Total.
	£	£	£
1912-13 .. ..	1,252,717	546,582	1,799,299
1913-14 .. ..	1,359,776	645,862	2,005,638
1914-15 .. ..	1,484,591	655,495	2,140,086
1915-16 .. ..	1,607,764	747,391	2,355,155
1916-17 .. ..	1,695,572	838,967	2,534,539
1917-18 .. ..	1,791,028	883,513	2,674,541
1918-19 .. ..	2,028,151	911,455	2,939,606
1919-20 .. ..	2,106,397	1,037,816	3,144,213
1920-21 .. ..	2,338,539	1,211,051	3,549,590
1921-22 .. ..	2,501,949	1,277,946	3,779,895

Separate rates are of two classes—"general" and "particular." General separate rates are levied for the construction, maintenance, &c., of any public work, for the acquisition of land or buildings, or for engaging in any undertaking for the benefit of the whole or part of a local district. Particular separate rates are levied in respect of water-supply, lighting, sanitation, and libraries. Special rates are those levied as security for the repayment of loans.

It is of interest to note that for the year 1921-22 the total of all rates collected by counties was equal to £4.42 per £1,000 of rateable capital value (land and improvements). In boroughs it was £11.85; independent town districts, £8.95; and in town districts forming parts of counties, £6.63.

#### LICENSES, TOLLS, RENTS, ETC.

Rates are not the only form of local taxation. Local authorities derive a certain amount of revenue from publicans' licenses, auctioneers' and hawkers' licenses, abattoir fees, dog-taxes, pound-taxes, tolls, &c. Sources of revenue not classed as taxation are—Rents; fines and penalties; market dues; sales of material; sale of light and power from gasworks and electric-supply works; tramway receipts; interest on deposits; wharf dues, &c.

#### RECEIPTS FROM GENERAL GOVERNMENT.

Revenue received from the Government comprises—Rates on Crown and Native lands; timber and flax royalties; goldfields revenue and gold duty; fees and fines; subsidy on rates; one-third of receipts from lands sold on deferred payment and from perpetual leases; one-fourth of rents from small grazing-runs; other. In addition there are special grants from the General Government for various local works of a public or semi-public character. These are not considered revenue, and are included with "Receipts not revenue."

A further class of receipts from the Government is provided by loans under the various Government Loans to Local Bodies Acts and from the New Zealand State Advances Office.

A statement of all receipts by controlling bodies of local districts from the Government during the last five financial years is given in the next table:—

#### LOCAL GOVERNING BODIES.—RECEIPTS FROM GOVERNMENT.—QUINQUENNIAL SUMMARY.

	Year ended 31st March.				
	1918.	1919.	1920.	1921.	1922.
	£	£	£	£	£
Rates on Crown and Native lands	202	1,914	8,143	9,834	7,990
One-third receipts from land sold on deferred payment and from perpetual leases	35,731	35,094	20,467	42,737	44,381
One-fourth of rents from small grazing-runs	5,391	7,722	5,655	7,568	6,068
Timber and flax royalties ..	4,288	5,100	3,961	4,900	5,197
Goldfields revenue and gold duty	34,340	25,822	26,565	20,672	17,095
Subsidies on rates .. ..	160,032	168,835	177,074	192,241	200,722
Fees and fines .. ..	2,359	4,564	3,067	4,010	3,729
Other receipts .. ..	6,555	18,279	18,128	21,030	32,348
<b>Total Revenue Account ..</b>	<b>248,898</b>	<b>267,330</b>	<b>263,060</b>	<b>302,992</b>	<b>317,530</b>
Loans from Government under Government Loans to Local Bodies Acts and from New Zealand State Advances Office	118,373	208,158	515,363	1,130,371	1,005,160
Grants for special works. &c. ..	87,362	156,354	248,110	304,233	338,594
<b>Total receipts from Government..</b>	<b>454,633</b>	<b>631,842</b>	<b>1,026,533</b>	<b>1,737,596</b>	<b>1,661,284</b>

Of the total of £1,661,284 for 1921-22, no less than £782,547 went to counties, boroughs received £571,403, while harbour districts accounted for £143,410.

## EXPENDITURE.

The expenditure of local governing bodies during each of the last twenty years is as follows:—

Financial Year.	Expenditure. £	Financial Year.	Expenditure. £
1902-3 ..	2,867,506	1912-13 ..	6,537,769
1903-4 ..	3,230,712	1913-14 ..	6,796,314
1904-5 ..	3,497,321	1914-15 ..	6,806,567
1905-6 ..	3,601,506	1915-16 ..	6,920,736
1906-7 ..	3,897,515	1916-17 ..	6,758,593
1907-8 ..	4,491,113	1917-18 ..	7,103,073
1908-9 ..	4,800,711	1918-19 ..	7,320,277
1909-10 ..	4,898,482	1919-20 ..	10,883,586
1910-11 ..	5,360,261	1920-21 ..	12,761,690
1911-12 ..	6,074,372	1921-22 ..	15,091,875

The expenditure of the various classes of local governing bodies during 1921-22 is shown below in more detail:—

## LOCAL GOVERNING BODIES.—EXPENDITURE, 1921-22.

	Public Works.	Hospitals and Charitable Aid.	Management.	Interest on Loans and Overdraft.	Other.	Total Expenditure.
	£	£	£	£	£	£
Counties ..	1,913,961	305,360	253,516	231,365	37,586	2,741,788
Boroughs ..	6,186,118	202,775	279,379	938,697	871,418	8,478,387
Town districts ..	190,961	6,947	18,324	23,827	6,962	247,021
Road districts ..	143,331	11,119	16,811	11,469	8,254	190,984
River districts ..	33,001	..	8,535	9,295	5,742	56,573
Land-drainage districts	70,526	..	5,222	11,349	2,244	89,341
Water-supply districts	1,609	..	2,362	632	274	4,877
Tramway districts ..	367,751	..	*	33,120	40,817	441,688
City and suburban drainage districts	40,265	..	10,822	72,541	7,956	131,584
Railway districts ..	18,740	..	..	2,702	300	21,742
Harbour districts ..	1,328,258	..	171,280	372,034	185,619	2,057,191
Electric-power districts	573,289	..	..	51,784	5,626	630,699
Totals ..	10,867,810	526,201	766,251	1,758,815	1,172,798	15,091,875

\* Included in Public Works.

It is seen that during the year the total expenditure was £15,091,875, of which £10,867,810, or 70·81 per cent., was expended on public works and £1,758,815, or 11·65 per cent., on debt charges. The item "management expenses" does not rank very high in the aggregate, though the table following shows that in some classes of local bodies the expenses of management account for a fair percentage of the revenue:—

	Management Expenses as Percentage of		
	Revenue.	Total Receipts.	Expenditure.
Counties ..	13·81	9·27	9·25
Boroughs ..	4·80	3·16	3·30
Town districts (Independent)	14·80	6·59	6·72
Town districts (Dependent)	17·95	13·56	11·45
Road districts ..	13·63	9·24	8·80
River districts ..	21·06	16·74	15·08
Land-drainage districts	16·65	5·84	5·79
Water-supply districts	59·87	59·87	48·43
City and suburban drainage districts..	8·93	7·07	8·22
Harbour districts ..	12·09	8·34	8·33



The table following gives, in respect of boroughs only, the expenditure out of loan-money during the last ten years, classified under various heads:—

EXPENDITURE OUT OF LOANS.—BOROUGHS ONLY, 1912-13 TO 1921-22.

Year ended 31st March.	Streets, and Footways, and Bridges.	Drainage and Sanitation.	Waterworks.	Tramways.	Abattoirs, Slaughterhouses, and Pounds.	Lighting and Power Services.	Other Public Works.	Management, Interest, and Sundries.	Total.
	£	£	£	£	£	£	£	£	£
1913	182,251	205,373	169,447	61,224	15,596	134,873	103,985	16,433	889,182
1914	244,619	131,547	129,601	47,427	3,074	199,757	58,368	20,491	834,884
1915	153,209	68,061	70,306	28,889	5,463	201,651	58,982	25,098	611,659
1916	175,248	98,366	86,864	45,390	3,860	235,071	78,398	17,818	741,016
1917	98,595	92,677	84,012	21,497	14,970	130,489	60,902	16,794	519,936
1918	72,290	86,346	45,917	6,880	..	104,359	57,086	12,571	385,449
1919	92,923	62,710	40,593	..	671	68,276	34,014	5,163	304,350
1920	109,858	77,471	49,383	1,231,571	..	84,283	100,248	286	1,653,100
1921	227,774	118,730	95,107	93,113	5,141	158,473	128,152	8,437	834,927
1922	229,495	217,503	174,514	116,799	52	605,019	107,142	47,347	1,497,871

ASSETS AND LIABILITIES.

The assets and liabilities of local governing bodies at the end of the financial year 1921-22 are as shown in the table following. The figures shown in the column "Other assets" are taken from the respective balance-sheets, but are far from complete. In quite a number of cases no assets whatever are shown, while in the majority of the others nothing is included for the reserves held. These totals can only be taken as a very approximate indication of the property held in addition to the actual cash assets.

	Assets.		Liabilities.			
	Cash Assets.	Other Assets (as estimated in published Balance-sheets).	Loans (excluding Government Loans and those from the State Advances Office).	Loans from State Advances Office. (Net Indebtedness on 31st March, 1922.)	Inscribed Stock, i.e., Loans from Treasury under Loans to Local Bodies Act, (Estimated Present Indebtedness.)	Liabilities other than the Loans included in preceding Columns (Bank Overdrafts, Outstanding Accounts, &c.).
	£	£	£	£	£	£
Counties ..	958,976	1,144,389	1,734,947	1,078,285	701,124	170,563
Boroughs ..	1,986,083	20,316,753	15,766,392	1,777,362	507,306	474,628
Town districts ..	55,580	426,708	356,690	182,127	6,657	37,479
Road districts ..	49,539	94,346	89,847	129,536	25,415	10,643
River districts ..	19,277	65,620	61,551	39,007	33,607	14,263
Land-drainage districts	37,977	45,105	61,864	151,254	53,500	2,578
City and suburban drainage districts	44,725	604,919	1,203,314	163	..	13,943
Tramway districts	432,964	1,133,919	987,206	..	..	1,539
Water-supply districts	446	1,360	8,846	..	565	25
Railway districts	3,171	76,705	49,113	..	..	923
Harbour districts	1,199,728	11,417,991	7,390,189	139,361	..	281,231
Electric-power districts	696,891	707,964	1,480,177	..	..	48,473
Totals ..	5,485,357	36,035,779	29,190,136	4,097,095	1,323,174	1,056,238

Inset 2—Taxation.

In the following table details of the estimated assets of boroughs are given for the four years 1919-22. Particulars for earlier years are not available.

## ESTIMATED ASSETS OF BOROUGHS, 1919-22.

Assets.	Year ended 31st March.			
	1919.	1920.	1921.	1922.
	£	£	£	£
Reserves, public parks, gardens, &c.	1,672,459	1,544,206	1,631,277	1,840,149
Endowments .. .. .	2,649,631	2,110,303	2,226,999	2,236,505
Town halls, libraries, and fittings	319,482	728,513	799,310	855,144
Other premises, plant, tools, and implements	1,168,890	818,118	815,872	886,734
Gasworks .. .. .	926,974	979,551	1,112,373	1,200,539
Electrical works .. .. .	1,811,979	1,971,639	2,290,727	3,125,991
Tramways .. .. .	1,339,622	2,373,493	2,818,650	3,129,018
Abattoirs and saleyards .. .. .	189,476	178,866	197,437	188,468
Drainage, sewerage, and water systems	3,330,649	3,986,646	4,673,602	4,963,930
Other assets .. .. .	1,300,809	2,260,775	1,803,627	1,890,275
Totals .. .. .	14,709,971	16,952,110	18,369,874	20,316,753

During the four years 1919-22 the fixed assets of boroughs have accordingly increased by approximately £5,600,000, or 37 per cent. The growth is seen to pertain chiefly to gas and electrical works, tramways, and drainage and water systems, thus indicating the modern trend of municipal activity.

## LOANS OF LOCAL BODIES.

The outstanding loans of local bodies at the end of each of the last twenty years are shown in the following table :—

As at 31st March.	Debentures and Stock in Circulation.		Loans from State Advances Office.		Inscribed Debt.		Total Debt.	
	Gross Debt.	Net Debt.	Gross Debt.	Net Debt.	Gross Debt.	Present Indebtedness.	Gross Debt.	Net Debt.
	£	£	£	£	£	£	£	£
1903	8,217,196	7,338,676	..	..	1,669,480	1,354,516	9,880,676	8,693,192
1904	8,898,910	7,975,320	..	..	1,857,152	1,493,055	10,756,062	9,468,375
1905	10,018,242	9,005,196	..	..	2,038,494	1,621,491	12,056,736	10,626,687
1906	10,718,051	9,722,081	..	..	2,155,114	1,679,958	12,873,165	11,402,039
1907	11,616,048	10,536,565	..	..	2,287,105	1,748,086	13,903,153	12,284,651
1908	12,532,334	11,343,352	..	..	2,399,017	1,798,834	14,931,351	13,142,186
1909	13,303,622	12,184,409	..	..	2,617,135	1,943,728	15,920,757	14,128,137
1910	14,937,685	13,765,802	..	..	2,872,232	2,119,023	17,809,917	15,884,825
1911	15,727,613	14,462,770	405,195	404,163	2,972,795	2,173,293	19,105,603	17,040,228
1912	16,590,877	15,161,727	1,195,080	1,186,611	2,985,998	2,169,447	20,772,555	18,541,224
1913	17,483,332	15,882,920	1,740,925	1,711,797	2,988,298	2,169,252	22,212,555	19,791,022
1914	18,923,482	17,202,764	2,063,005	2,007,797	2,842,150	2,079,570	23,828,637	21,189,925
1915	19,454,475	17,602,669	2,399,420	2,312,754	2,780,492	1,975,860	24,634,387	21,803,381
1916	20,754,168	18,822,896	2,680,245	2,562,970	2,728,174	1,372,990	26,162,587	23,196,157
1917	21,432,767	19,277,706	2,836,055	2,676,407	2,690,412	1,795,080	26,959,234	23,708,308
1918	22,260,537	19,782,845	2,962,190	2,762,900	2,680,244	1,681,330	27,852,971	24,210,714
1919	22,673,712	19,922,153	3,095,740	2,846,837	2,554,401	1,552,423	28,323,853	24,321,413
1920	24,608,293	21,017,235	3,400,290	3,108,468	2,471,191	1,466,727	30,485,774	26,492,420
1921	26,196,960	23,230,084	3,852,465	3,492,374	2,425,623	1,415,567	32,465,048	28,138,025
1922	29,266,204	27,018,370	4,557,545	4,097,095	2,381,790	1,328,174	37,206,539	32,443,039

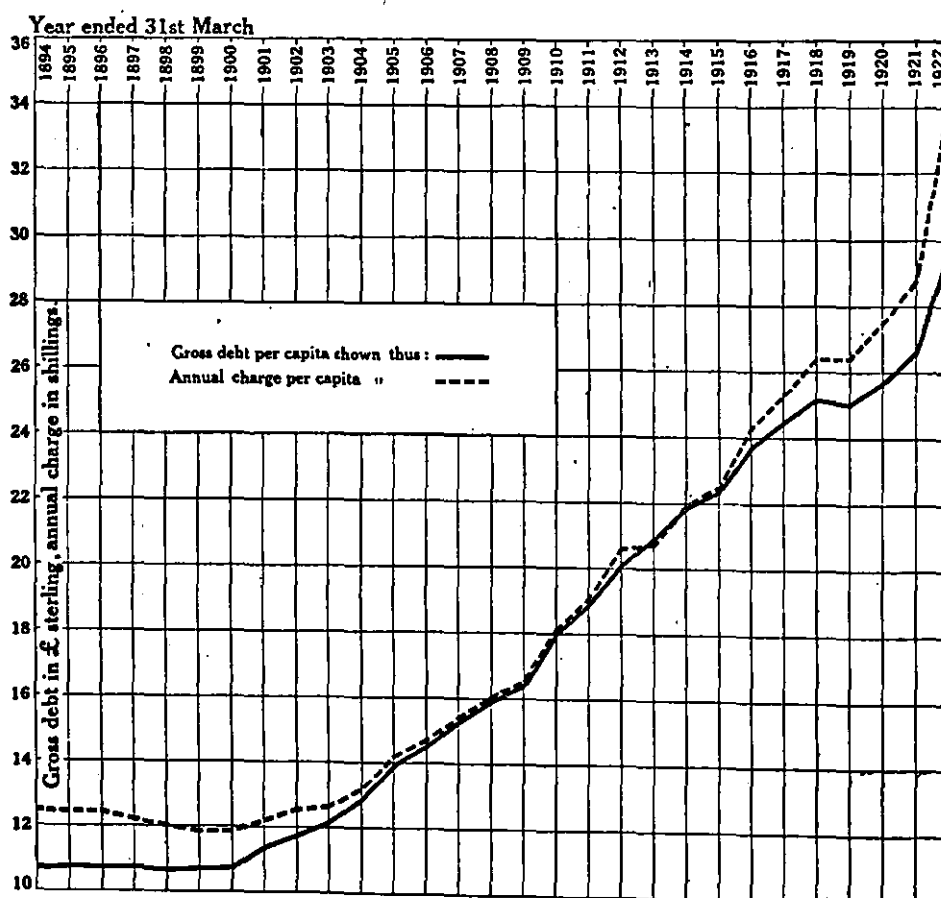
The net indebtedness of local governing bodies on account of outstanding loans has increased in the twenty years 1901-2 to 1921-22 from £7,016,632 to £27,018,370, exclusive of moneys borrowed from the Government, which represented a further indebtedness of £5,425,269 at the end of March, 1922, made up as follows: Inscribed debt—i.e., debentures under the Roads and Bridges Construction Act, 1882, converted, and amounts borrowed from the Treasury under the Government Loans to Local Bodies Acts, £1,328,174; and loans from the New Zealand State Advances Office, £4,097,095.

Of the total net indebtedness of £32,443,639 at the 31st March, 1922, boroughs were responsible for no less than £16,960,804, which represents 10.49 per cent. of their rateable capital value. In the case of counties, which have a much less *per capita* expenditure on public works, the percentage is only 1.36. As may be expected, it is higher in independent town districts, the figure being 6.98.

The following table shows, per head of the population, the gross debt of local governing bodies and the annual charge thereon for the years 1893-94 to 1921-22:—

Year ended 31st March.	Estimated or Census Population.	Gross Debt.		Annual Loan Charge.	
		Amount.	Rate per Head.	Amount.	Rate per Head.
		£	£ s. d.	£	£ s. d.
1894 ..	676,747	7,253,072	10 14 4	425,713	0 12 7
1895 ..	689,475	7,422,306	10 15 4	431,931	0 12 6
1896 ..	703,187	7,547,511	10 14 8	439,253	0 12 6
1897 ..	717,649	7,675,814	10 13 11	439,057	0 12 3
1898 ..	731,713	7,783,445	10 12 9	442,676	0 12 1
1899 ..	746,673	7,995,400	10 14 2	446,697	0 11 11
1900 ..	758,616	8,149,272	10 14 10	453,186	0 11 11
1901 ..	772,719	8,785,303	11 7 4	474,163	0 12 3
1902 ..	789,994	9,245,364	11 14 1	497,565	0 12 7
1903 ..	814,842	9,886,676	12 2 8	516,670	0 12 8
1904 ..	838,954	10,756,062	12 16 5	556,193	0 13 3
1905 ..	864,971	12,056,736	13 18 9	617,147	0 14 3
1906 ..	889,968	12,873,165	14 9 4	654,500	0 14 9
1907 ..	913,873	13,903,153	15 4 3	704,335	0 15 5
1908 ..	937,587	14,931,351	15 18 6	752,949	0 16 1
1909 ..	968,313	15,920,757	16 8 10	803,194	0 16 7
1910 ..	987,481	17,809,917	18 0 9	895,059	0 18 2
1911 ..	1,008,468	19,105,603	18 17 10	960,810	0 19 1
1912 ..	1,031,500	20,772,555	20 2 9	1,004,251	1 0 8
1913 ..	1,061,748	22,212,555	20 18 5	1,104,474	1 0 10
1914 ..	1,089,827	23,828,637	21 17 4	1,195,288	1 1 11
1915 ..	1,100,586	24,634,387	22 7 8	1,238,065	1 2 6
1916 ..	1,100,406	26,162,587	23 15 6	1,339,420	1 4 4
1917 ..	1,101,166	26,959,234	24 9 8	1,393,394	1 5 4
1918 ..	1,104,783	27,852,971	25 4 3	1,459,606	1 6 5
1919 ..	1,128,630	28,323,853	25 1 11	1,489,890	1 6 5
1920 ..	1,187,139	30,485,774	25 13 7	1,633,341	1 7 6
1921 ..	1,218,913	32,465,048	26 12 8	1,755,951	1 8 10
1922 ..	1,248,216	37,205,539	29 16 2	2,133,764	1 14 2

It is evident that since 1900 the increase has been continuous, the rate for 1922 being practically three times that of 1900. The accompanying diagram indicates the movement more clearly.



The loans outstanding, other than Government loans, at the end of the financial year 1921-22 are shown below, classified according to various rates of interest and as to whether raised in New Zealand or abroad:—

Rate of Interest: Per Cent.	Raised in New Zealand.	Raised Abroad.	Total.
	£	£	£
Under 4 per cent. .. ..	8,221	..	8,221
4 per cent. .. ..	2,759,809	..	2,759,809
4½ " .. ..	911,400	2,088,500	2,999,900
4¾ " .. ..	90,000	1,027,500	1,117,500
5 " .. ..	3,751,884	1,923,350	5,675,234
5¼ " .. ..	11,000	..	11,000
5½ " .. ..	311,340	166,250	477,590
6 " .. ..	3,892,213	1,472,085	5,364,298
6½ " .. ..	121,500	..	121,500
7 " .. ..	4,999,072	11,425	5,010,497
7½ " .. ..	1,541,003	95,100	1,636,103
8 " .. ..	10,000	..	10,000
8½ " .. ..	348,260	..	348,260
9 " .. ..	1,420,321	1,938,900	3,359,221
9½ " .. ..	809,694	150,000	959,694
10 " .. ..	210,377	197,000	407,377
<b>Totals .. ..</b>	<b>21,196,094</b>	<b>9,070,110</b>	<b>30,266,204</b>

A further table is given showing for each of the last twenty years the amount of the debt raised in New Zealand and elsewhere, other than loans from the General Government. Columns are added showing the interest payable and the average rate of interest per cent. It will be noticed that the amount of outstanding loans shown to have been raised in New Zealand was only a small percentage of the total at the end of the first of the twenty financial years shown, but increased gradually at first, and rapidly later, till at the end of the year 1912-13 it was nearly £3,000,000 in excess of the amount raised abroad. During 1913-14, however, the New Zealand amount decreased slightly, while the loans raised abroad showed a large increase. From 1914-15 the proportion raised in New Zealand mounted rapidly, until at the 31st March, 1922, it represented 70 per cent. of the total.

## INDEBTEDNESS AND INTEREST CHARGES.

Financial Year.	Raised in New Zealand.	Raised Abroad.	Total Indebtedness.	Interest.	Average Rate per Cent.
	£	£	£	£	£
1902-3 .. ..	2,880,596	5,336,600	8,217,196	409,238	4.91
1903-4 .. ..	3,369,410	5,529,500	8,898,910	439,879	4.94
1904-5 .. ..	3,479,642	5,638,600	10,018,242	487,145	4.86
1905-6 .. ..	5,250,551	5,467,500	10,718,051	515,188	4.81
1906-7 .. ..	6,145,548	5,470,500	11,616,048	548,387	4.72
1907-8 .. ..	7,246,834	5,285,500	12,532,334	587,564	4.69
1908-9 .. ..	7,785,922	5,517,700	13,303,622	616,330	4.63
1909-10 .. ..	7,967,385	6,970,300	14,937,685	684,630	4.58
1910-11 .. ..	8,254,313	7,473,300	15,727,613	715,289	4.55
1911-12 .. ..	9,574,527	7,016,350	16,590,877	748,805	4.51
1912-13 .. ..	10,134,782	7,348,550	17,483,332	787,827	4.51
1913-14 .. ..	10,106,082	8,817,400	18,923,482	855,063	4.52
1914-15 .. ..	10,998,775	8,455,700	19,454,475	870,992	4.48
1915-16 .. ..	12,793,543	7,960,620	20,754,168	948,511	4.57
1916-17 .. ..	13,218,617	8,214,155	21,432,767	983,408	4.59
1917-18 .. ..	14,096,187	8,164,350	22,260,537	1,034,272	4.64
1918-19 .. ..	14,749,763	7,923,940	22,673,712	1,048,999	4.63
1919-20 .. ..	16,854,725	7,753,579	24,608,295	1,137,057	4.62
1920-21 .. ..	17,737,891	8,449,069	26,186,960	1,221,549	4.66
1921-22 .. ..	21,196,094	9,070,110	30,266,204	1,462,039	4.83

The average rate of interest showed a steady fall until 1914-15, since when it has risen considerably.

The total indebtedness at the end of 1921-22, excluding loans from the State Advances Office and the inscribed debt under the Government Loans to Local Bodies Acts (the latter including stock exchanged for debentures under the Roads and Bridges Construction Act), was £30,266,204, as shown above. Against this were sinking funds amounting to £3,247,834, leaving the net indebtedness, other than to the State, £27,018,370. The annual charge for interest was £1,462,039, and for sinking fund £295,505. The net indebtedness to the State Advances Office was £4,097,095, representing loans originally amounting to £4,557,545. The instalments of principal and interest on this amounted to an annual charge of £287,029. The section of this book dealing with State advances contains further information regarding State advances to local authorities.

The estimated net indebtedness under the Government Loans to Local Bodies Acts, including inscribed stock exchanged for debentures under the Roads and Bridges Construction Act, 1882, was £1,328,174 at the end of the year. This debt is decreasing yearly, and will be extinguished in course of time. The amount outstanding is repayable by annual instalments of £89,191.

## RELATIVE GROWTH OF LOAN INDEBTEDNESS AND ASSETS.

From a consideration of the tables given previously it is evident that liabilities on account of loans have increased considerably during the last few years. No survey of the finances of local bodies is complete, however, from this aspect alone. It is necessary to consider in what manner the loan-money has been expended, and the benefits that have accrued to the community therefrom. In the case of boroughs, which are responsible for approximately half the debt, it seems that an increasing tendency to engage in public-utility services of the social monopoly type has accompanied their development. A progressive increase throughout the municipalities of the Dominion in such assets as electrical works, gasworks, water-systems, tramways, reclamations, and a multiplicity of similar undertakings is the outcome of loan-money raised.

The table given below shows (a) for all local bodies, and (b) for boroughs only, the relative increase in the net indebtedness on account of loans, and in assets, during the last ten years. In the case of boroughs the amount of inscribed debt, which is not available for the earlier years of the table, has been omitted. The net liability under this heading amounted at the 31st March, 1922, to £507,306.

Some indication of the character of the assets included below is given in the table showing details of assets of boroughs on page 26.

COMPARATIVE TABLE SHOWING NET INDEBTEDNESS ON ACCOUNT OF LOANS, AND ASSETS, DURING THE DECENNIUM 1913-22.

Year ended 31st March.	All Local Bodies.				Boroughs only.			
	Net Loan Indebtedness.	Index No.	Assets.	Index No.	Net Loan Indebtedness.	Index No.	Assets.	Index No.
	£		£		£		£	
1913 ..	19,458,004	1000	21,726,178	1000	9,255,733	1000	10,229,838	1000
1914 ..	20,042,526	1030	24,888,273	1145	10,234,148	1105	13,068,568	1277
1915 ..	21,388,635	1099	26,149,182	1203	10,492,268	1133	13,900,549	1358
1916 ..	22,732,452	1168	28,468,179	1310	11,406,126	1232	15,286,325	1494
1917 ..	23,183,581	1191	29,946,457	1378	11,831,780	1278	16,335,731	1597
1918 ..	23,634,702	1214	29,263,695	1346	12,194,940	1317	16,584,774	1621
1919 ..	24,321,413	1249	28,606,307	1312	12,275,657	1326	15,800,458	1544
1920 ..	26,492,420	1361	31,940,487	1470	13,721,374	1482	18,176,050	1776
1921 ..	28,138,025	1446	36,546,900	1682	14,275,988	1542	19,682,278	1924
1922 ..	32,443,639	1667	41,521,136	1911	16,156,017	1745	22,302,836	2180

The index numbers show the proportionate increases for each year over 1913, which is taken as the base year. It is evident that while the increase in loans has been considerable, the growth of assets has been greater still. In the case of boroughs, for example, assets have increased by over £12,000,000 during the decade, while the burden of debt shows an advance of slightly under £7,000,000.

## ADVANCES TO SETTLERS.

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THE Advances to Settlers Office was established by an Act passed in 1894. An administrative officer called the Superintendent was appointed early in the following year, and a Board set up to advise and co-operate with the Superintendent. Advances can be granted only with the consent of the Board.

The capital fund was limited to £3,000,000, which was to be raised within two years after the passing of the Act at an annual rate of interest not higher than 4 per cent. The first issue of £1,500,000 realized £94 8s. 9d. per £100 stock. The minimum advance was fixed at £25, and the maximum at £2,500 (now £3,500), repayable in thirty-six years and a half by half-yearly instalments of 3 per cent. on the amount borrowed.

The legislation has been amended at different times, and is now embodied in the State Advances Act, 1913, and its amendments. It authorizes the borrowing of moneys for the purpose of lending to settlers, workers, and local authorities. Each year there may be borrowed for advances to settlers £3,000,000, to workers £1,500,000, and to local authorities £1,000,000.

Money is advanced to settlers on first mortgage of lands and improvements held under the following classes of tenure, free from all encumbrances, liens, and interests other than leasehold interests:—

- (a.) (1.) Freehold land in fee-simple under the Land Transfer Act, 1915.  
(2.) Freehold land in fee-simple the title to which is registered under the Deeds Registration Act, 1908.
- (b.) Crown land on perpetual lease under the Land Act, 1885.
- (c.) Crown land held under Part III or Part IV of the Land Act, 1892, or of the Land Act, 1908.
- (d.) Crown land held on lease as a small grazing-run under the Land Act, 1885, the Land Act, 1892, or the Land Act, 1908.
- (e.) Crown land held on agricultural lease under the Mining Act, 1891.
- (f.) Crown land held on lease (not being for mining purposes) under the Westland and Nelson Coalfields Administration Act, 1877.
- (g.) Native land held on lease under the West Coast Settlement Reserves Act, 1881, or under the West Coast Settlement Reserves Act, 1892.
- (h.) Land held on lease under the Westland and Nelson Native Reserves Act, 1887.
- (i.) Land held under the Thermal Springs Districts Act, 1881, or the Thermal Springs Districts Act, 1908.
- (j.) Educational and other reserves held under leases administered by the Land Boards.

- (k.) Crown land held by license on the deferred-payment system under Part III of the Land Act, 1885.
- (l.) Land held under lease from a leasing authority as defined by the Public Bodies' Leasing-powers Act, 1908, or the Public Bodies' Leases Act, 1908, and providing for the payment by the incoming tenant of valuation for improvements made upon the land.
- (m.) Land held under lease from a Maori Land Board under the Maori Land Settlement Act, 1905.
- (n.) Crown lands held on lease for agricultural purposes under the Mining Districts Land Occupation Act, 1894, or Part VIII of the Land Act, 1908.
- (o.) Crown lands held on license for residence-sites under the Mining Act, 1891, or the Mining Act, 1905.
- (p.) Crown lands held on lease under section 45, Part III, of the Mining Act, 1898, and section 45, Part III, of the Mining Act, 1908.
- (q.) Maori lands which have been transferred in trust for leasing to and are held under leases from a Maori Land Board under the powers contained in the Maori Lands Administration Act, 1900, and its amendments.
- (r.) Land held under certain classes of lease granted by a Borough Council under the Municipal Corporations Act, 1908, or the Municipal Corporations Act, 1920.
- (s.) Land held under certain leases granted by the Wanganui River Trust.
- (t.) Land held under lease granted by a leasing authority as defined by the Public Bodies' Leases Act, 1908, in any case where the lease is for any term not less than fourteen years, with a recurrent right of renewal for further terms of not less than fourteen years.
- (u.) Crown land or settlement land held on lease or license under section 4, Discharged Soldiers Settlement Act, 1915.
- (v.) Crown land held on lease or license for pastoral purposes under Part VI of the Land Act, 1892, or Part VI of the Land Act, 1908.

Loans can be granted only on the instalment system and for periods not exceeding thirty-six and a half years—

- (a.) On all freeholds, up to three-fourths of the value of the security :
- (b.) On leaseholds, up to three-fourths of the value of the lessee's interest in the lease.

Where an advance is required for the purpose of erecting a building, the amount of the loan granted by the Board may be advanced in progress-payments from time to time as the erection of the building proceeds. An inspection and report must be made by an officer of the Valuation Department prior to payment of any progress-payment on account of the loan, and for each such inspection a fee of 15s. is payable by the applicant.

No loan of less than £25 or more than £3,500 can be granted. Applications for loans not exceeding £500 shall have priority over applications for larger sums. If the applicant has already obtained any advance under the Act and is desirous of obtaining a further advance, the amount of the application, added to the amount of the advances already obtained, must not exceed £3,500. The property which the applicant offers as security for the loan must consist of one or more holdings of the several classes of tenure mentioned previously, and must, of course, be of the necessary value; and, if the property is leasehold, all the covenants and conditions of the lease, including the payment of rent, must have been regularly complied with.

All applications must be accompanied by a valuation fee according to the following scale :—

				£	s.	d.
Not exceeding £100	..	..	..	..	0	15 0
Exceeding £100 but not exceeding £250	..	..	..	..	1	11 6
.. £250	..	..	..	..	2	2 0
.. £500	..	..	..	..	2	12 6



Mortgages are repayable by half-yearly payments of principal and interest combined. They may also be wholly repaid at any time. Interest is charged at the rate of 5 per cent., reducible to 4½ per cent., save on advances authorized for the purpose of repaying mortgages, in which case the rate is 6 per cent., reducible to 5½ per cent., provided that in each case payment is made not later than fourteen days after due date and no arrears in respect of instalments or other payments under the mortgage remain outstanding.

The following tables show, taking a loan of £100 as an instance, how much of each instalment is applied to repaying the principal, and how much is in payment of interest. They show also the amount of rebate in respect of each instalment and the balance of principal remaining due after payment of the respective instalments until the loan is entirely repaid.

TABLE OF PRESCRIBED HALF-YEARLY INSTALMENTS FOR EVERY ONE HUNDRED POUNDS OF THE LOAN AT 5 PER CENT.

Half-year.	Half-yearly Instalment.	Apportioned thus:		Rebate † per Cent. of Interest.	Balance of Principal owing.	Half-year.	Half-yearly Instalment.	Apportioned thus:		Rebate † per Cent. of Interest.	Balance of Principal owing.
		On Account of Interest at 5 per Cent.	On Account of Principal					On Account of Interest at 5 per Cent.	On Account of Principal		

Thirty-six-and-a-half-years Term.

1	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.					
2	3	0	0	2	10	0	0	10	0	5	0	89	10	0	38	3	0	0	1	15	1	1	4	11	3	6	08	17	7
3	3	0	0	2	9	9	0	10	3	5	0	88	19	9	39	3	0	0	1	14	5	1	5	7	3	5	67	12	0
4	3	0	0	2	9	6	0	10	6	4	11	88	9	3	40	3	0	0	1	13	10	1	6	2	3	5	66	5	10
5	3	0	0	2	9	3	0	10	9	1	11	87	18	6	41	3	0	0	1	13	2	1	6	10	3	4	64	19	0
6	3	0	0	2	8	0	0	11	0	4	11	87	7	6	42	3	0	0	1	12	6	1	7	6	3	3	63	11	6
7	3	0	0	2	8	8	0	11	4	4	10	86	16	2	43	3	0	0	1	11	9	1	8	3	3	2	62	3	3
8	3	0	0	2	8	5	0	11	7	4	10	86	4	7	44	3	0	0	1	11	1	1	8	11	3	1	60	14	4
9	3	0	0	2	8	1	0	11	11	4	10	85	12	8	45	3	0	0	1	10	4	1	9	8	3	0	59	4	3
10	3	0	0	2	7	10	0	12	2	4	9	85	0	6	46	3	0	0	1	9	7	1	10	5	2	11	57	14	3
11	3	0	0	2	7	6	0	12	6	4	9	84	8	0	47	3	0	0	1	8	10	1	11	2	2	11	56	3	1
12	3	0	0	2	7	2	0	12	10	4	9	83	15	2	48	3	0	0	1	8	1	1	11	11	2	10	54	11	2
13	3	0	0	2	6	11	0	13	1	4	8	83	2	1	49	3	0	0	1	7	3	1	12	9	2	9	52	18	5
14	3	0	0	2	6	7	0	13	5	4	8	82	8	8	50	3	0	0	1	6	6	1	13	6	2	8	51	4	11
15	3	0	0	2	6	3	0	13	9	4	7	81	14	11	51	3	0	0	1	5	8	1	14	4	2	7	49	10	7
16	3	0	0	2	5	10	0	14	2	4	7	81	0	9	52	3	0	0	1	4	9	1	15	3	2	0	47	15	4
17	3	0	0	2	5	6	0	14	6	4	7	80	6	3	53	3	0	0	1	3	11	1	16	1	2	5	45	19	3
18	3	0	0	2	5	2	0	14	10	4	6	89	11	5	54	3	0	0	1	3	0	1	17	0	2	4	44	2	3
19	3	0	0	2	4	9	0	15	3	4	6	88	16	2	55	3	0	0	1	2	1	1	17	11	2	2	42	4	4
20	3	0	0	2	4	5	0	15	7	4	5	88	0	7	56	3	0	0	1	1	1	1	18	11	2	1	40	5	6
21	3	0	0	2	4	0	0	16	0	4	5	87	4	7	57	3	0	0	1	0	2	1	19	10	2	0	38	5	7
22	3	0	0	2	3	7	0	16	5	4	4	86	8	2	58	3	0	0	0	10	2	2	0	10	1	11	36	4	9
23	3	0	0	2	3	2	0	16	10	4	4	85	11	4	59	3	0	0	0	18	1	2	1	11	1	10	34	2	10
24	3	0	0	2	2	9	0	17	3	4	3	84	14	1	60	3	0	0	0	17	1	2	2	11	1	8	31	19	11
25	3	0	0	2	2	4	0	17	8	4	3	83	16	5	61	3	0	0	0	16	0	2	4	0	1	7	29	15	11
26	3	0	0	2	1	11	0	18	1	4	2	82	18	4	62	3	0	0	0	14	11	2	5	1	1	6	27	10	10
27	3	0	0	2	1	6	0	18	6	4	2	81	19	10	63	3	0	0	0	13	9	2	6	3	1	4	25	4	7
28	3	0	0	2	0	6	0	19	0	4	1	81	0	10	64	3	0	0	0	12	7	2	7	5	1	3	22	17	2
29	3	0	0	2	0	0	1	0	0	4	0	80	1	4	65	3	0	0	0	11	5	2	8	7	1	2	20	8	7
30	3	0	0	1	19	6	1	0	6	3	11	78	0	10	66	3	0	0	0	10	3	2	9	9	1	0	17	18	10
31	3	0	0	1	19	0	1	1	0	3	11	78	19	10	67	3	0	0	0	9	0	2	11	0	0	11	15	7	10
32	3	0	0	1	18	6	1	1	6	3	10	75	18	1	68	3	0	0	0	7	8	2	12	4	0	9	12	15	6
33	3	0	0	1	18	0	1	2	0	3	10	74	16	4	69	3	0	0	0	6	5	2	13	7	0	8	10	1	11
34	3	0	0	1	17	5	1	2	7	3	9	72	13	9	70	3	0	0	0	5	1	2	14	11	0	6	7	7	0
35	3	0	0	1	16	10	1	3	2	3	8	72	10	7	71	3	0	0	0	3	8	2	16	4	0	4	4	10	8
36	3	0	0	1	16	3	1	3	9	3	7	71	6	10	72	3	0	0	0	2	4	2	17	8	0	3	1	13	0
37	3	0	0	1	15	8	1	4	4	3	7	70	2	6	73	1	13	10	0	0	10	1	13	0	0	1	..	..	..

TABLE OF PRESCRIBED HALF-YEARLY INSTALMENTS FOR EVERY ONE HUNDRED POUNDS OF THE LOAN AT 5 PER CENT.—*continued.*

Table header with columns: Half-year, Half-yearly Instalment, Apportioned thus: On Account of Interest at 5 per Cent., On Account of Principal, Rebate of Interest, Balance of Principal owing.

Thirty-years Term.

Table for 30 half-yearly instalments under 'Thirty-years Term' with columns for year, instalment, interest, principal, and balance.

Twenty-years Term.

Table for 20 half-yearly instalments under 'Twenty-years Term' with columns for year, instalment, interest, principal, and balance.

TABLE OF PRESCRIBED HALF-YEARLY INSTALMENTS FOR EVERY ONE HUNDRED POUNDS OF THE LOAN AT 6 PER CENT.

Half-year.	Half-yearly Instalment.	Apportioned thus:		Rebate of Interest.	Balance of Principal owing.	Half-year.	Half-yearly Instalment.	Apportioned thus:		Rebate of Interest.	Balance of Principal owing.
		On Account of Interest at 6 per Cent.	On Account of Principal					On Account of Interest at 6 per Cent.	On Account of Principal		
<i>Thirty-years Term.</i>											
1	£ 3 12 3	£ 3 0 0	£ 0 12 3	s. 5 0	£ 99 7 9	31	£ 3 12 3	£ 2 2 6	£ 1 9 9	s. 3 3	£ 69 6 7
2	3 12 3	2 19 7	0 12 8	5 0	98 15 1	32	3 12 3	2 1 7	1 10 8	3 6	67 15 11
3	3 12 3	2 19 3	0 13 0	4 11	98 2 1	33	3 12 3	2 0 8	1 11 7	3 5	66 4 4
4	3 12 3	2 18 10	0 13 5	4 11	97 8 8	34	3 12 3	1 19 9	1 12 6	3 4	64 11 10
5	3 12 3	2 18 5	0 13 10	4 10	96 14 10	35	3 12 3	1 18 9	1 13 6	3 3	62 18 4
6	3 12 3	2 18 0	0 14 3	4 10	96 0 7	36	3 12 3	1 17 9	1 14 6	3 2	61 3 10
7	3 12 3	2 17 7	0 14 8	4 10	95 5 11	37	3 12 3	1 16 8	1 15 7	3 1	59 8 3
8	3 12 3	2 17 2	0 15 1	4 9	94 10 10	38	3 12 3	1 15 8	1 16 7	3 0	57 11 8
9	3 12 3	2 16 9	0 15 6	4 9	93 15 4	39	3 12 3	1 14 6	1 17 9	2 11	55 13 11
10	3 12 3	2 16 3	0 16 0	4 8	92 19 4	40	3 12 3	1 13 5	1 18 10	2 9	53 15 1
11	3 12 3	2 15 9	0 16 6	4 8	92 2 10	41	3 12 3	1 12 3	2 0 0	2 8	51 15 1
12	3 12 3	2 15 3	0 17 0	4 7	91 5 10	42	3 12 3	1 11 0	2 1 3	2 7	49 13 10
13	3 12 3	2 14 9	0 17 6	4 7	90 8 4	43	3 12 3	1 0 10	2 2 5	2 6	47 11 5
14	3 12 3	2 14 3	0 18 0	4 6	89 10 4	44	3 12 3	1 8 6	2 3 9	2 5	45 7 8
15	3 12 3	2 13 8	0 18 7	4 6	88 11 9	45	3 12 3	1 7 3	2 5 0	2 3	43 2 8
16	3 12 3	2 13 2	0 19 1	4 5	87 12 8	46	3 12 3	1 5 10	2 6 5	2 2	40 16 3
17	3 12 3	2 12 7	0 19 8	4 5	86 13 0	47	3 12 3	1 4 6	2 7 9	2 1	38 8 6
18	3 12 3	2 12 0	1 0 3	4 4	85 12 9	48	3 12 3	1 3 0	2 9 3	1 11	35 19 3
19	3 12 3	2 11 4	1 0 11	4 3	84 11 10	49	3 12 3	1 1 7	2 10 8	1 10	33 8 7
20	3 12 3	2 10 9	1 1 6	4 3	83 10 4	50	3 12 3	1 0 1	2 12 2	1 8	30 16 5
21	3 12 3	2 10 1	1 2 2	4 2	82 8 2	51	3 12 3	0 18 6	2 13 9	1 7	28 2 8
22	3 12 3	2 9 5	1 2 10	4 1	81 5 4	52	3 12 3	0 16 10	2 15 5	1 5	25 7 3
23	3 12 3	2 8 9	1 3 6	4 1	80 1 10	53	3 12 3	0 15 2	2 17 1	1 3	22 10 2
24	3 12 3	2 8 0	1 4 3	4 0	78 17 7	54	3 12 3	0 13 6	2 18 9	1 2	19 11 5
25	3 12 3	2 7 4	1 4 11	3 11	77 12 8	55	3 12 3	0 11 9	3 0 6	1 0	16 10 11
26	3 12 3	2 6 7	1 5 8	3 11	76 7 0	56	3 12 3	0 9 11	3 2 4	0 10	13 8 7
27	3 12 3	2 5 10	1 6 5	3 10	75 0 7	57	3 12 3	0 8 1	3 4 2	0 8	10 4 5
28	3 12 3	2 5 0	1 7 3	3 9	73 13 4	58	3 12 3	0 6 1	3 6 2	0 6	6 18 3
29	3 12 3	2 4 2	1 8 1	3 8	72 5 8	59	3 12 3	0 4 2	3 8 1	0 4	3 10 2
30	3 12 3	2 3 4	1 8 11	3 7	70 16 4	60	3 12 3	0 2 1	3 10 2	0 2	..
<i>Twenty-years Term.</i>											
1	£ 4 6 6	£ 3 0 0	£ 1 6 6	s. 5 0	£ 98 13 6	21	£ 4 6 6	£ 1 18 7	£ 2 7 11	s. 3 3	£ 61 19 2
2	4 6 6	2 19 2	1 7 4	4 11	97 6 2	22	4 6 6	1 17 2	2 9 4	3 1	59 9 10
3	4 6 6	2 18 4	1 8 2	4 10	95 18 0	23	4 6 6	1 15 8	2 10 10	2 10	56 19 0
4	4 6 6	2 17 6	1 9 0	4 10	94 9 0	24	4 6 6	1 14 2	2 12 4	3 0	54 6 8
5	4 6 6	2 16 8	1 9 10	4 9	92 19 2	25	4 6 6	1 12 7	2 13 11	2 9	51 12 9
6	4 6 6	2 15 9	1 10 9	4 8	91 8 5	26	4 6 6	1 11 0	2 15 6	2 7	48 17 3
7	4 6 6	2 14 10	1 11 8	4 7	89 16 9	27	4 6 6	1 9 4	2 17 2	2 5	46 0 1
8	4 6 6	2 13 10	1 12 8	4 6	88 4 1	28	4 6 6	1 7 7	2 18 11	2 4	43 1 2
9	4 6 6	2 12 11	1 13 7	4 5	86 10 6	29	4 6 6	1 5 10	3 0 8	2 2	40 0 6
10	4 6 6	2 11 10	1 14 8	4 4	84 15 10	30	4 6 6	1 4 0	3 2 6	2 0	36 18 0
11	4 6 6	2 10 10	1 15 8	4 3	83 0 2	31	4 6 6	1 2 1	3 4 5	1 10	33 18 7
12	4 6 6	2 9 10	1 16 8	4 2	81 3 6	32	4 6 6	1 0 2	3 6 4	1 8	30 7 3
13	4 6 6	2 8 8	1 17 10	4 1	79 5 8	33	4 6 6	0 18 2	3 8 4	1 6	26 18 11
14	4 6 6	2 7 6	1 18 0	4 0	77 6 8	34	4 6 6	0 16 2	3 10 4	1 4	23 8 7
15	4 6 6	2 6 4	2 0 2	3 10	75 6 6	35	4 6 6	0 14 1	3 12 5	1 2	19 16 2
16	4 6 6	2 5 2	2 1 4	3 9	73 5 2	36	4 6 6	0 11 11	3 14 7	1 0	16 1 7
17	4 6 6	2 3 11	2 2 7	3 8	71 2 7	37	4 6 6	0 9 7	3 16 11	0 10	12 4 8
18	4 6 6	2 2 8	2 3 10	3 7	68 18 9	38	4 6 6	0 7 4	3 19 2	0 7	8 5 6
19	4 6 6	2 1 4	2 5 2	3 5	66 13 7	39	4 6 6	0 5 0	4 1 6	0 5	4 4 0
20	4 6 6	2 0 0	2 6 6	3 4	64 7 1	40	4 6 6	0 2 6	4 4 0	0 3	..

The mortgagor may at any time repay the whole balance of principal owing with interest to date of payment, and obtain a discharge of the mortgage on payment of the fee prescribed for such discharge.

The mortgagor may also from time to time pay, in addition to the half-yearly payments, sums of £5 or a multiple of £5, which, at the next instalment due date, may be applied in one of the following methods, according as he directs:—

- (a.) In payment of the half-yearly instalments (consisting partly of interest and partly of principal) as they fall due, until the deposit is exhausted; or,

(b.) In payment of as many future half-yearly instalments of principal (but not of interest) as it will cover, and, as far as such instalments are concerned, the corresponding interest will not be charged. On the next half-yearly date, however, the mortgagor will be required to continue his payments as before, the advance payment having the effect of reducing the period during which he would have to pay such instalments. For instance, a mortgagor has a loan of £100 for a term of 36½ years. On the due date of his eighth half-yearly instalment he pays, in addition to the amount due, a sum of £5. This is applied in payment of his ninth, tenth, eleventh, twelfth, thirteenth, fourteenth, and fifteenth instalments of principal—12s. 2d., 12s. 6d., 12s. 10d., 13s. 1d., 13s. 5d., 13s. 9d., 14s. 2d., making a total of £4 11s. 11d.; and the corresponding interest—£2 7s. 10d., £2 7s. 6d., £2 7s. 2d., £2 6s. 11d., £2 6s. 7d., £2 6s. 3d., £2 5s. 10d. (which has not begun to accrue)—is not charged. A balance of 8s. 1d. remains in his favour. Then on the next due date he has to make the half-yearly payment as usual (less 8s. 1d.), but, instead of being the ninth, it counts as the sixteenth instalment, and by this means the whole loan is repaid three and a half years earlier than it otherwise would be.

On the due date of any instalment, after at least one-tenth of the loan has been repaid by means of the half-yearly instalments or of moneys repaid in advance, or both, the mortgagor (provided he is not in arrear with any instalment or other payment due under the mortgage) may, with the consent of the Superintendent, readjust the loan by treating the balance of principal then unpaid, if not less than £100, as a fresh loan duly granted on that date for a fresh term. Under this arrangement the mortgagor will be relieved of paying interest on the original amount of the loan, and will pay only on the balance of principal owing.

Following is the scale of fees payable for preparation of mortgages:—

*Mortgages under the Land Transfer Act, 1915.*

Law-costs of perusing title, preparing, completing, and registering mortgage (to be deducted from the advance):—

	£	s.	d.
If advance be not exceeding £250 .. .. .	0	7	6
Exceeding £250 but not exceeding £500 .. .. .	0	10	0
"    £500 .. .. .	0	15	0
"    £750 .. .. .	1	1	0
"    £1,000 .. .. .	1	6	0
"    £1,500 .. .. .	1	11	6
"    £2,000 .. .. .	1	17	6

With cash disbursements, which are the same in every case, namely:—

Mortgage forms .. .. .	0	2	0
Search fee (with an additional 2s. for every certificate of title after the first) .. .. .	0	2	0
Registration (with an additional 2s. for every certificate of title after the first) .. .. .	0	10	0

*Mortgages under the Deeds Registration Act, 1908.*

Law-costs of perusing title, preparing, completing, and registering mortgage (to be deducted from the advance):—

	£	s.	d.
If advance be not exceeding £150 .. .. .	0	18	0
Exceeding £150 but not exceeding £250 .. .. .	1	0	6
"    £250 .. .. .	1	5	0
"    £500 .. .. .	1	13	0
"    £750 .. .. .	2	3	0
"    £1,000 .. .. .	2	13	0
"    £1,500 .. .. .	3	13	0
"    £2,000 .. .. .	4	13	0

With cash disbursements:—

Mortgage form .. .. .	0	1	0
Fee chargeable by solicitor not residing in registration centre for employing agent to register mortgage .. .. .	0	5	0
Fee for partial or total discharge of mortgage .. .. .	0	5	0
Fee for execution of consent by the Superintendent to any document .. .. .	0	5	0
Fee for production of title-deeds held by the Superintendent .. .. .	0	5	0

## ADVANCES TO SETTLERS ON STOCK AND FARM IMPLEMENTS.

Advances may also be made on the security of stock and farm implements. Every advance shall be secured by a mortgage of land or chattels either with or without any collateral security to be approved by the Board of the Office. Not more than £500 may be advanced to any one borrower, the term of the loan not to exceed five years.

The principal moneys comprised in any advance are repayable by instalments as follows:—

(a.)	10 per cent.	at the end of the first year.
(b.)	15	" " second year.
(c.)	20	" " third year.
(d.)	25	" " fourth year.
(e.)	30	" " fifth year.

Interest on the amount of the loan for the time being outstanding shall be payable at the rate of 7 per cent. per annum, reducible to 6½ per cent. per annum provided that the half-yearly instalments of principal and interest are paid within fourteen days of due date.

Every application must be accompanied by a valuation fee according to the following scale:—

		£	s.	d.	
On application for loan not exceeding £250	..	..	2	2	0
On application for loan exceeding £250 but not exceeding £500	..	..	2	12	6

The fees for searching Chattels Register-book, and of preparing, completing, and registering instrument by way of security (exclusive of cash disbursements), are—

		£	s.	d.	
For advance not exceeding £250	..	..	1	1	0
For advance exceeding £250	..	..	1	17	6

## STATISTICAL.

From the inception of the scheme of advances to settlers in 1894, applications have been received to the number of 74,872 for loans totalling £33,157,298. The Advances Board authorized loans of £22,197,865 to 56,892 applicants, the total actual payments to 31st March, 1923, being £21,576,915, of which £13,319,519 has been repaid in respect of principal, leaving £8,157,396 still outstanding. A table is given showing the business to date and for each of the last ten years.

## ADVANCES TO SETTLERS, 1913-14 TO 1922-23.

Year ended 31st March.	Applications received.		Loans authorized.		Amount advanced.	Amount repaid.
	Number.	Amount.	Number.	Amount.		
		£		£	£	£
1914 .. ..	3,604	1,400,248	2,390	878,855	978,395	710,590
1915 .. ..	3,870	1,826,265	2,100	749,040	1,136,475	754,810
1916 .. ..	2,507	982,800	2,022	746,630	814,555	713,177
1917 .. ..	1,619	660,975	1,412	515,270	589,975	643,751
1918 .. ..	1,228	511,532	984	353,465	367,160	501,009
1919 .. ..	1,326	579,022	986	363,875	350,140	529,023
1920 .. ..	2,841	1,520,128	2,219	1,031,855	808,180	1,118,486
1921 .. ..	2,505	1,661,974	2,085	1,107,430	1,060,260	1,065,003
1922 .. ..	2,197	1,321,480	1,524	773,375	805,975	552,269
1923 .. ..	3,678	2,649,669	2,140	1,209,035	945,900	611,480
Totals to 31st March, 1923	74,872	33,157,298	56,892	22,197,865	21,576,915	13,319,519

Not all the advances to settlers are made by the Advances to Settlers Branch of the State Advances Office. Part of the business shown in the above table relates to the Public Debt Sinking Funds Branch and the Advances Office Sinking Fund

Branch. The advances to settlers authorized by the three branches during 1922-23 are as follows:—

Branch.	Advances authorized.	
	Number	Amount. £
Advances to Settlers .. ..	1,580	827,750
Public Debt Sinking Funds .. ..	392	271,255
Advances Office Sinking Fund .. ..	168	110,030
<b>Totals .. ..</b>	<b>2,140</b>	<b>£1,209,035</b>

The advances authorized in each provincial district during the year, and the total to 31st March, 1923, are next shown.

Provincial District.	Advances authorized, 1922-23.		Total Advances authorized to 31st March, 1923.	
	Number.	Amount. £	Number.	Amount. £
Auckland .. ..	772	421,910	19,361	7,066,493
Taranaki .. ..	126	78,730	5,681	2,675,414
Hawke's Bay .. ..	163	87,250	3,020	1,138,215
Wellington .. ..	589	351,815	13,603	5,681,858
Marlborough .. ..	42	21,705	1,389	592,635
Nelson .. ..	31	14,915	1,018	328,815
Westland .. ..	17	7,325	992	271,865
Canterbury .. ..	256	141,240	5,650	2,058,450
Otago—				
Otago portion .. ..	62	31,285	2,775	1,094,720
Southland portion .. ..	82	52,860	3,403	1,289,400
<b>Totals .. ..</b>	<b>2,140</b>	<b>1,209,035</b>	<b>56,892</b>	<b>22,197,865</b>

Dealing now only with the operations of the Advances to Settlers Branch, it is seen that during the year 1922-23 the advances authorized numbered 1,580, representing a total amount of £827,750. The number of borrowers and the sums actually advanced during the year, classified according to amount, were—

Category.	Number of Advances.	Amount advanced. £
Not exceeding £500 .. ..	593	205,575
Exceeding £500 but not exceeding £1,000 .. ..	494	327,080
" £1,000 .. .. £2,000 .. ..	35	47,655
<b>Totals .. ..</b>	<b>1,122</b>	<b>£580,310</b>

The nature of the security upon which these advances were made was as follows:—

Security.	Number of Advances.	Amount advanced. £
Freehold .. ..	845	430,775
Leasehold .. ..	266	142,055
Freehold and leasehold combined .. ..	11	7,480
<b>Totals .. ..</b>	<b>1,122</b>	<b>£580,310</b>

The advances outstanding, classified according to amount, are as follows:—

Category.	Number of Advances.	Amount outstanding. £
Not exceeding £500 .. ..	14,291	3,147,014
Exceeding £500 but not exceeding £1,000 .. ..	2,647	2,113,566
" £1,000 .. .. £2,000 .. ..	1,037	1,503,564
" £2,000 .. .. £3,000 .. ..	88	226,148
<b>Totals .. ..</b>	<b>18,063</b>	<b>£6,990,292</b>

The nature of the security for the total amount of advances outstanding on the 31st March, 1923, was—

Security.	Number of Advances.	Amount outstanding. £
Freehold .. .. .	11,136	5,096,425
Leasehold .. .. .	6,724	1,767,603
Freehold and leasehold combined .. .. .	203	126,264
<b>Totals .. .. .</b>	<b>18,063</b>	<b>£6,990,292</b>

The average freehold advance is £458, the average leasehold advance £263, and the average of advances secured on both freehold and leasehold combined £622. Corresponding figures for the year ended the 31st March, 1922, are—Freehold, £470; leasehold, £266; and combined freehold and leasehold, £615.

The number and amounts of current advances on rural and on urban and suburban land are—

	Number.	Amount. £
On rural land .. . . .	11,056	4,510,688
On urban and suburban land .. .. .	7,007	2,479,604
<b>Totals .. .. .</b>	<b>18,063</b>	<b>£6,990,292</b>

The average rural advance is £408, and the average urban and suburban advance is £354.

The gross profits for the year ended the 31st March, 1923, were £51,579, and the cost of management and expenses of the branch £19,886, being 0.203 per cent., or 4s. per £100 of the capital employed. The net profits amounted to £29,255.

The sinking fund established under the State Advances Act, 1913, after redemption of loans totalling £45,000, amounts to £1,403,177.

The liabilities and assets at the 31st March, 1923, of the Settlers Branch of the State Advances Office were—

Liabilities.			Assets.				
£	s.	d.	£	s.	d.		
Sundry loans .. .. .	9,238	195	10	Investment Account—Total principal owing by mortgagors ..	6,990,292	5	10
Temporary advances from Public Debt Sinking Funds Branch ..	194,000	0	0	Interest due .. .. .	40,737	12	6
Temporary advances from Advances Office Sinking Fund Account .. .. .	445,500	0	0	Interest on mortgages, accrued but not due .. .. .	76,303	5	9
Advances Suspense Account .. .. .	17,950	0	0	Temporary advances to Local Authorities Branch .. .. .	145,500	0	0
Fire Loss Suspense Account .. .. .	1,779	10	5	Temporary advances to Workers Branch .. .. .	845,000	0	0
Suspense Account .. .. .	3,312	5	11	Temporary investments .. .. .	1,160,000	0	0
Reserve Fund .. .. .	25,000	0	0	Interest on temporary investments, accrued but not due ..	18,413	8	3
Sundry creditors .. .. .	2,252	19	8	Insurance Premiums Account ..	479	6	2
Interest payable on loans, accrued but not due .. .. .	75,055	9	3	Office Furniture and Equipment Account .. .. .	2,212	12	11
Income-tax Suspense Account ..	16,033	16	4	Sundry debtors .. .. .	21	0	0
Sinking Fund .. .. .	982,812	8	3	Realization Account .. .. .	2,451	7	3
				Sinking Funds—			
				Advances Office Sinking Fund Account .. .. .	1,387,119	6	8
				Public Debt Sinking Funds Branch .. .. .	16,058	3	6
				Cash in bank at 31st March, 1923	296,803	16	10
				<b>£10,981,892</b>	<b>5</b>	<b>8</b>	
				<b>£10,981,892</b>	<b>5</b>	<b>8</b>	

## ADVANCES TO WORKERS.

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THE system of advances to workers, instituted in 1906, is on much the same general lines as that of the advances to settlers. Advances are made on first mortgage of lands and improvements held under the various classes of tenure enumerated on page 531. The scales of charges and of payments of principal and interest, and the provisions for paying off the whole or part of the principal outstanding, apply to the workers' scheme as well as to the settlers'.

A worker is defined as a person of either sex engaged (whether as an employee or on his or her own account) in manual or clerical work who is not in receipt of an annual income exceeding £300, increased by £25 in respect of each child or other person dependent on him, and is not the owner of any land other than that offered as security.

Originally the scheme of advances to workers was confined to persons in receipt of not more than £200 per annum, and the maximum amount that could be advanced to any applicant was £450. Legislation passed in 1923, however, greatly enlarged the scope of the scheme.

Not more than £1,250 may now be granted to any one borrower; and an advance must not exceed 95 per cent. of the total value of the security in the case of freehold land, or 95 per cent. of the value of the lessee's interest in the case of leasehold land, or, where the loan is to provide for the erection of a dwellinghouse, 95 per cent. of the cost of the dwellinghouse inclusive of the cost of the land and improvements. No advance can be made to any applicants who do not take up their permanent residence on the property. Married applicants must make the declaration on the application form jointly with wife or husband, as the case may require.

Where an advance is required for the purpose of erecting a dwelling, the application form must be accompanied by evidence in the form of sale-note, receipt, agreement, or otherwise as to the purchase price of the section and tender accepted or contract entered into for the erection of the dwelling. The amount of the loan granted by the Board may be advanced in progress-payments as the erection of the building proceeds. An inspection and report must be made by an officer of the Valuation Department prior to any progress-payment being made on account of the loan, and for each such inspection a fee of 10s. 6d. must be paid by the applicant. The Department requires that not less than three inspections be made, and that the fencing be completed before all the loan is paid over.

The total of the advances to workers up to the 31st March, 1923 (including moneys repaid and again advanced), was £5,579,095.

The applications received for loans during the year ended the 31st March, 1923, numbered 3,878, the aggregate amount required being £2,649,669. Advances authorized during 1922-23 numbered 1,748, representing a total amount of £871,805.



The total number of loans and the aggregate amount authorized in each provincial district are as follows:—

Provincial District.	Advances authorized, 1922-23.		Total Advances authorized to 31st March, 1923.	
	Number.	Amount.	Number.	Amount.
Auckland .. .. .	710	£ 352,910	5,628	£ 1,958,770
Taranaki .. .. .	39	19,170	555	174,890
Hawke's Bay .. .. .	107	49,155	1,379	484,770
Wellington .. .. .	404	206,175	4,599	1,592,670
Marlborough .. .. .	27	11,530	499	155,675
Nelson .. .. .	9	3,695	257	66,615
Westland .. .. .	..	..	194	42,030
Canterbury .. .. .	342	176,285	4,191	1,458,835
Otago—				
Otago portion .. .. .	56	27,330	1,174	355,390
Southland portion .. .. .	54	25,555	549	163,095
Totals .. .. .	1,748	871,805	19,025	6,452,740

Dealing only with the operations of the Advances to Workers Branch and excluding the Advances Office Sinking Fund and Public Debt Sinking Fund, it is noticed that the advances actually paid during the year numbered 1,206 for an aggregate of £623,925. The tenures upon which these loans were made were—

Tenure.	Number of Loans.	Aggregate Amount. £
Freehold .. .. .	1,152	598,510
Leasehold .. .. .	54	25,415
Totals .. .. .	1,206	£623,925

The net amount outstanding at the end of the financial year was £3,253,026, secured upon the following tenures:—

Tenure.	Number of Loans outstanding.	Aggregate Amount outstanding. £
Freehold .. .. .	9,943	3,120,706
Leasehold .. .. .	595	132,320
Totals .. .. .	10,538	£3,253,026

The gross profits for the year ended the 31st March, 1923, were £15,559, and the cost of management and expenses of the branch £3,830, being 0.117 per cent., or 2s. 4d. per £100 of capital employed. The net profits amounted to £11,228. The Sinking Fund, after redemption of loans totalling £187,000, amounts to £67,952.



## ADVANCES TO LOCAL AUTHORITIES.

DURING the twelve years which have elapsed since the system of State advances to local authorities was initiated 2,606 applications under this head have been received for loans totalling £10,103,402. Loans authorized, 2,004 in number, have aggregated £5,865,059, of which £5,348,355 has been actually advanced. Repayments to the 31st March, 1923, have totalled £573,274, leaving an indebtedness of £4,775,081 in respect of principal moneys. Figures for each of the last ten years and to date are as follows:—

### ADVANCES TO LOCAL AUTHORITIES, 1913-14 TO 1922-23.

Year ended 31st March.	Applications received.		Loans authorized.		Amount advanced.	Amount repaid.
	Number.	Amount.	Number.	Amount.		
		£		£	£	£
1914 .. ..	167	166,165	72	84,970	259,430	29,600
1915 .. ..	77	222,070	48	254,430	237,285	29,800
1916 .. ..	170	263,858	164	238,970	285,410	35,192
1917 .. ..	118	154,025	103	127,135	152,310	38,874
1918 .. ..	110	171,110	109	158,055	128,150	41,681
1919 .. ..	125	225,988	119	214,300	130,575	46,615
1920 .. ..	284	1,041,380	229	717,160	311,880	49,034
1921 .. ..	310	1,865,460	194	689,225	444,825	53,926
1922 .. ..	213	573,805	246	725,730	780,410	138,591
1923 .. ..	253	526,310	213	478,035	711,375	78,694
<b>Totals from inception to 31/3/23</b>	<b>2,606</b>	<b>10,103,402</b>	<b>2,004</b>	<b>5,865,059</b>	<b>5,348,355</b>	<b>573,274</b>

As in the case of advances to settlers and workers, advances to local authorities are made from three distinct sources—viz., the funds of the Advances to Local Authorities Branch of the State Advances Office, the Public Debt Sinking Funds, and the Advances Office Sinking Fund. Of the £711,375 advanced in 1922-23 as shown above, only £191,365 came from the Local Authorities Branch, the Advances Office Sinking Fund contributing £26,725, and the Public Debt Sinking Funds £493,285. Of the amount outstanding at the 31st March, 1923, the Public Debt Sinking Funds claimed £1,875,696, and the Advances Office Sinking Fund £325,413.

A statement of the liabilities and assets of the Local Authorities Branch as at the 31st March, 1923, is appended.

<i>Liabilities.</i>	£	s.	d.	<i>Assets.</i>	£	s.	d.
Sundry loans .. ..	2,775,529	9	5	Investment Account, less total repayments .. ..	2,573,971	14	6
Loan-moneys—Unexpended balances .. ..	3,937	12	10	Interest on debentures—			
Temporary advances from Settlers Branch .. ..	145,500	0	0	Overdue .. ..	5,421	4	3
Suspense Account .. ..	22	8	8	Accrued but not due .. ..	21,015	14	8
Sundry creditors .. ..	25	0	0	Loan Charges Account .. ..	31,271	14	5
Interest on loan-moneys, accrued but not due .. ..	36,385	16	7	Interest accrued but not due on temporary investments .. ..	898	7	3
Sinking Fund .. ..	72,205	0	8	Sinking funds—			
				Advances Office Sinking Fund Account .. ..	283,066	12	4
				Public Debt Sinking Funds Branch .. ..	14,762	13	3
				Profit and Loss Account .. ..	82,192	6	3
				Cash in hand and in bank at 31st March, 1923 .. ..	21,055	1	3
	<b>£3,033,655</b>	<b>8</b>	<b>2</b>		<b>£3,033,655</b>	<b>8</b>	<b>2</b>

# VALUATION OF LAND.

## HISTORICAL ACCOUNT.

THE system of separately assessing the value of the land itself and the value of the buildings and improvements effected thereon was first put into practice in New Zealand for the purposes of State taxation on the passing of the Land-tax Act, 1878, under which a tax was levied on land-values, the impost being  $\frac{1}{4}$ d. in the pound on the capital value of real estate, less the assessed value of the improvements.

The Land-tax Act, 1878, was superseded by the Property-tax Act, 1879, which provided for the levy of a uniform tax of 1d. in the pound on the capital value of all property—real and personal—above the amount of £500 in value.

The Property-tax Act, 1879, was in its turn superseded by the Land and Income Assessment Act, 1891. Under this enactment a land-tax was imposed on land and mortgages of land, with an exemption for improvements on land up to £3,000. An exemption from income-tax was also allowed on all incomes derived from land and mortgages of land.

Two years later, under the provisions of the Land and Income Assessment Acts Amendment Act, 1893, all improvements on land were entirely exempted.

An endeavour to extend the principle of general exclusion of improvements to local taxation resulted in the passing of the Rating on Unimproved Value Act, 1896, which gave local authorities the option of deciding that equivalent rates on the unimproved values of lands in their jurisdiction should be substituted for the rates levied on the full capital values or on the annual values.

The valuing of land up to the year 1896 was not conducted on a uniform basis. Each State Department and each local authority worked quite independently, and employed as valuers whom it thought fit. The Land-tax Department periodically employed a small army of temporary valuers when it required a new valuation of lands for taxation purposes, and each local authority had its own particular method of making up its roll for the levying of rates. Estimates of values arrived at by various authorities varied to a dangerous degree. Some values were very high, being based on speculative prices, while many were extremely low. Frequently the same property had several values assigned to it.

In order to overcome as far as possible the obvious defects of the old system it was decided to establish a new system of valuation, by which all valuations required by State Departments—whether for loan, taxation, or other purposes—and by local authorities that rate on the capital or unimproved value, should be made by valuers employed by the State at fixed salaries and responsible to the Government alone.

The Government Valuation of Land Act, 1896, was in due course introduced and passed. This Act provided for the setting-up of a separate Department of State charged with the duty of estimating the values of real estate in the Dominion for taxation and other purposes of the General Government and for local rating purposes.

The whole of the existing law relating to the valuation of land in New Zealand is contained in the Valuation of Land Act, 1908 (which is a consolidation of the Government Valuation of Land Act, 1896, and the Acts amending the same), the Valuation of Land Amendment Act, 1908, and the Valuation of Land Amendment Act, 1912, and the regulations made under these Acts.

## SYSTEM AND PROCEDURE.

The work of the Valuation Department is directed by the Valuer-General. The actual work of valuation is done by District Valuers and assistant valuers. The former are permanent officers, while the latter are temporarily employed to make valuations at such times and on such terms and conditions as are found necessary. Assistant valuers are remunerated by fees.

A valuation made by an assistant valuer or local valuer is subject to endorsement by the District Valuer before it is accepted by the Valuer-General.

The essential qualifications of a valuer who is employed in a country district are local knowledge of land-values and a practical knowledge of farming pursuits, both agricultural and pastoral, and of values of improvements. A valuer who is employed in a city or suburban district must have a special knowledge of building-construction and of the values of all kinds of improvements in addition to a knowledge of land-values.

The Dominion is divided for administrative purposes into convenient valuation districts, to each of which is assigned a District Valuer, whose functions are not, however, confined to a specific district, but may be exercised in such districts as the Valuer-General from time to time directs.

The duty of a valuer is to examine each property and to estimate to the best of his ability (1) the unimproved value of the land contained therein, (2) the value of the buildings (if any) or other improvements (if any) upon such land, and (3) the "capital value" of the property.

The definition of "land" in the Valuation of Land Act, 1908, as amended by the Valuation of Land Amendment Act, 1912, is as follows: "'Land' means all land, tenements, and hereditaments, whether corporeal or incorporeal, in New Zealand, and all chattel or other interests therein, and all timber or flax growing or standing thereon: Provided that native bush or trees which have been planted for shelter or ornamental or utility purposes shall not be included in the definition of land."

"Unimproved value" is defined in the Valuation of Land Amendment Act, 1912, as follows: "'Unimproved value' of any land means the sum which the owner's estate or interest therein, if unencumbered by any mortgage or other charge thereon, might be expected to realize at the time of valuation if offered for sale on such reasonable terms and conditions as a *bona fide* seller might be expected to impose, and if no improvements (as hereinafter defined) had been made on the said land."

Under the New Zealand law the increased value attaching to any piece of land which is due to the successful working of other lands in the district, or to State expenditure on public works, or to the general prosperity and development of the country, forms portion of the "unimproved value." Any increased value, however, which is represented by the improvements effected by the individual possessor, either past or present, does not form part of the "unimproved value."

Valuers are enjoined not to strain after high values, nor to accept isolated "boom" prices, values involved in exchanges of land, or special prices paid for land under exceptional circumstances, as a standard of value, but to determine the value neither above nor below the fair selling-value in view of the many and diverse purposes for which the values are used.

The Valuation of Land Amendment Act, 1912, defines "improvements" as follows: "'Improvements' on land means all work done or material used at any time on or for the benefit of the land by the expenditure of capital or labour by any owner or occupier thereof in so far as the effect of the work done or material used is to increase the value of the land, and the benefit thereof is unexhausted at the time of valuation; but does not include work done or material used on or for the benefit of the land by the Crown or by any statutory public body, except so far as the same has been paid for by the owner or occupier either by way of direct contribution or by way of special rates on loans raised for the purpose of constructing within a county any road, bridge, irrigation-works, water-races, drainage-works, or river-protection works: Provided that the value of improvements made out of loan-moneys raised for the purpose of constructing within a county any road, bridge, irrigation-works, water-races, drainage-works, or river-protection works as aforesaid shall not exceed the amount of principal estimated by the Valuer-General to have been repaid by the owner in respect of any such loan by way of special rates."

Subject to the limitations contained in the above definition, all buildings, fencing, planting, draining, constructing of private roads and water-races, clearing of timber, &c., permanent grassing, and all other work of a permanent nature effected upon or for the benefit of land are improvements. No work can, however, be considered an improvement if the benefit thereof is exhausted at the date of valuation.

The Valuation of Land Amendment Act, 1912, defines "value of improvements" as "the added value which at the date of valuation the improvements give to the land."

"Capital value" is defined in the Valuation of Land Act, 1908, as follows: "Capital value" of land means the sum which the owner's estate or interest therein, if unencumbered by any mortgage or other charge thereon, might be expected to realize at the time of valuation if offered for sale on such reasonable terms and conditions as a *bona fide* seller might be expected to require."

The capital value is the fair selling-value in the open market, but not the auction value or value derivable at a forced sale.

Land containing or supposed to contain oil, coal, or other mineral deposits is valued as for the surface use only, and is of the same unimproved value as similar land in the neighbourhood, always without any regard to speculative mineral value, until the oil or minerals are produced, when the profits (if any) will be duly valued.

#### THE VALUATION ROLL.

The Valuation of Land Act directs that a valuation roll shall be prepared for each district setting forth in respect of each separate property the following particulars:—

- (a.) The name of the owner of the land and the nature of his estate or interest therein, together with the name of the beneficial owner in the case of land held in trust:
- (b.) The name of the occupier within the meaning of the Rating Act:
- (c.) The situation, description, and area of the land:
- (d.) The nature and value of the improvements on the land:
- (e.) The unimproved value of the land:
- (f.) The capital value of the land:
- (g.) Such other particulars as are prescribed.

The district valuation roll so long as it continues in force is by law the roll from which the valuation roll of every local authority rating on the capital or on the unimproved value is framed.

The district valuation rolls may be revised by the Valuer-General as at such date or dates as the Governor-General in Council from time to time directs, and the revision may relate either to all the properties on a valuation roll or to any of them. There are no fixed periods between one general revision and the next—the periods vary from two years in recently settled districts to three years or more in old-established districts. The necessity for revision really depends upon the extent to which values have moved since the last revision.

After the values in a district have been revised a new valuation roll is prepared and the Valuer-General addresses to each person whose name appears thereon a notice setting forth the values at which his property is entered, and naming a date on or before which all objections to the values must be lodged. An objection to the valuation must be made in writing.

#### THE ASSESSMENT COURT.

The Valuer-General refers objections to values to the District Valuer to enable him to review valuations before the sitting of the Assessment Court. If after careful reconsideration by the District Valuer it is decided that an objection shall be allowed or a reasonable compromise effected, the valuation is altered accordingly. On the other hand, if the Valuer-General is in possession of evidence that the valuer's estimates are fair, but the objector will not accept them, the objection is heard and determined by the Assessment Court.

The Assessment Court consists of three members, of whom one—the President—is a barrister or solicitor of the Supreme Court of New Zealand, appointed by the Governor-General in Council. Of the other two members of the Court, one member is appointed by the Governor-General in Council for each land district under the Land

Act, 1908, and the other member by the local authority of the district whose roll has been revised, or by two or more local authorities acting in unison, provided the appointee is not a member or a paid officer of any local authority. If the local authority fails to appoint an assessor, then the appointment is made by the Governor-General in Council. If the objection is allowed, the reduction is immediately entered on the valuation roll. If the objection is disallowed, the owner may, within fourteen days after the hearing by the Assessment Court, give notice to the Valuer-General that he requires the capital value to be reduced to the value which he (the objector) considers to be the fair selling-value as specified in his notice, or the land to be acquired on behalf of His Majesty at that value.

If the Valuer-General is of opinion that the Assessment Court has made an unfair reduction in a valuation he may, within fourteen days of the hearing, require the owner to consent to what he (the Valuer-General) considers is the fair selling capital value, and, failing such consent being given within thirty days after notice is delivered at his address, he may, with the approval of the Governor-General in Council, acquire the property at that value on behalf of His Majesty.

The decision of the Assessment Court on any objection before it is subject to appeal to the Supreme Court on a question of law. On all other questions the decision of the Assessment Court is final.

#### CAPITAL AND UNIMPROVED VALUES OF LAND IN NEW ZEALAND.

General valuations of land for the whole of New Zealand were made periodically up to the year 1897-98. Since that year no general valuations for the whole Dominion have been made, but portions are revalued from time to time. The figures in the following table, showing valuations over a number of years, therefore represent general valuations up to 1897 only, while for subsequent years the figures have been revised to include the latest valuations of small divisions.

In the twenty-four years from 1878 to 1902 the value, both of unimproved land and of improvements, increased by slightly over 50 per cent. In the twenty years from 1902 to 1922, as the effect of a long period of prosperity, the total valuations have more than trebled.

#### CAPITAL AND UNIMPROVED VALUES, 1878-1922

Year.	Capital Value (Land and Im- provements).	Unimproved Value of Land (Included in pre- vious Column).	Year.	Capital Value (Land and Im- provements).	Unimproved Value of Land (Included in pre- vious Column).
	£	£		£	£
1878 ..	99,566,679	62,573,868	1911 ..	293,117,065	184,062,798
1882 ..	101,000,000	..	1912 ..	315,503,213	199,184,261
1885 ..	113,270,649	..	1913 ..	340,559,728	212,963,468
1888 ..	111,137,714	75,497,379	1914 ..	365,342,237	228,493,376
1891 ..	122,225,029	75,832,465	1915 ..	371,076,683	230,705,147
1897 ..	138,591,347	84,401,244	1916 ..	389,164,729	241,322,255
1902 ..	154,816,132	94,847,727	1917 ..	405,466,071	251,087,708
1905 ..	197,684,475	122,937,126	1918 ..	421,383,373	260,921,812
1907 ..	236,644,536	149,682,689	1919 ..	445,533,445	275,988,409
1908 ..	253,440,172	161,324,763	1920 ..	470,093,697	290,880,264
1909 ..	271,516,022	172,759,948	1921 ..	518,584,318	317,631,245
1910 ..	277,630,083	175,289,861	1922 ..	544,503,376	329,174,337

Information covering the last ten years as to the gross capital and unimproved values in the North and South Islands and in the whole Dominion is given in the following table, which also shows the separate totals for counties, boroughs, and town districts (independent of county jurisdiction).

## GROSS VALUES, 1913-22.

Year.	Number.	North Island.		South Island.*		New Zealand.	
		Capital Value (Land and Im- provements).	Unimproved Value of Land (Included in previous Column).	Capital Value (Land and Im- provements).	Unimproved Value of Land (Included in previous Column).	Capital Value (Land and Im- provements).	Unimproved Value of Land (Included in previous Column).
<i>Counties.</i>							
		£	£	£	£	£	£
1913 ..	124	130,946,882	87,361,655	87,335,156	64,912,274	216,282,038	152,273,929
1914 ..	125	136,142,912	90,361,877	93,708,093	69,484,292	229,851,005	159,846,169
1915 ..	125	137,669,168	91,079,543	94,296,275	69,841,015	231,965,443	160,920,558
1916 ..	125	146,242,118	97,379,015	96,811,084	71,199,250	243,041,202	168,578,265
1917 ..	125	154,477,641	102,981,689	100,636,688	74,108,106	255,114,329	177,089,795
1918 ..	125	164,928,221	109,611,569	103,714,879	76,670,835	268,643,100	186,282,404
1919 ..	131	182,705,967	120,687,776	108,086,615	80,086,519	290,792,582	200,774,295
1920 ..	134	192,504,367	126,201,659	114,988,297	85,947,072	307,492,664	212,148,731
1921 ..	134	206,439,797	134,007,675	125,642,531	93,566,567	332,082,328	227,574,242
1922 ..	134	210,502,471	136,866,105	127,069,782	94,059,679	337,572,253	229,925,784
<i>Boroughs.</i>							
1913 ..	116	76,763,298	41,734,848	42,207,280	17,354,970	118,970,578	59,089,818
1914 ..	117	84,945,582	47,017,463	45,875,023	19,367,115	130,820,605	66,384,578
1915 ..	117	87,671,609	48,150,309	46,638,663	19,396,948	134,310,272	67,547,257
1916 ..	116	92,902,160	50,443,309	48,313,999	20,050,324	141,216,159	70,493,733
1917 ..	115	96,297,345	51,510,819	48,770,852	20,018,500	144,978,197	71,529,319
1918 ..	118	97,648,139	51,772,269	49,660,410	20,358,456	147,808,558	72,130,725
1919 ..	117	98,520,644	51,910,886	50,615,526	20,737,636	149,136,170	72,648,522
1920 ..	116	103,409,093	53,707,077	52,511,730	21,877,277	155,920,823	75,584,354
1921 ..	117	119,091,896	61,297,945	60,050,052	25,330,865	179,141,948	86,628,750
1922 ..	118	137,157,309	70,173,035	62,096,949	25,594,465	199,254,258	95,767,500
<i>Independent Town Districts.</i>							
1913 ..	24	2,487,087	1,228,438	820,025	371,283	3,307,112	1,599,721
1914 ..	33	3,808,368	1,880,433	802,259	382,196	4,870,627	2,262,629
1915 ..	34	3,916,101	1,854,576	884,867	382,756	4,800,968	2,237,332
1916 ..	35	4,273,975	1,989,761	921,393	260,496	4,805,368	2,250,257
1917 ..	36	4,732,948	2,207,633	940,597	260,961	5,373,545	2,468,594
1918 ..	36	4,820,083	2,255,646	911,632	253,037	5,431,715	2,508,683
1919 ..	37	4,941,519	2,301,302	963,174	294,290	5,604,693	2,565,592
1920 ..	39	5,979,357	2,851,680	700,853	295,499	6,680,210	3,147,179
1921 ..	36	6,663,746	3,126,936	696,296	301,317	7,360,042	3,128,253
1922 ..	36	6,944,401	3,175,747	732,464	305,306	7,676,865	3,481,053
<i>Grand Totals.</i>							
1913 ..	..	210,197,267	130,324,941	130,362,461	82,638,527	340,559,728	212,963,468
1914 ..	..	224,896,862	139,259,773	140,445,375	89,233,603	365,342,237	228,493,376
1915 ..	..	229,256,878	141,084,428	141,819,805	89,620,719	371,076,683	230,705,147
1916 ..	..	243,418,253	149,812,085	145,746,476	91,510,170	389,164,729	241,322,255
1917 ..	..	255,417,934	156,790,141	150,048,137	94,387,567	405,466,071	251,087,708
1918 ..	..	267,396,443	163,639,484	153,986,930	97,232,328	421,383,373	260,921,812
1919 ..	..	286,168,130	174,899,964	159,365,315	101,088,445	445,533,445	275,988,409
1920 ..	..	301,892,817	182,760,416	168,200,880	108,119,848	470,093,697	290,880,264
1921 ..	..	332,195,439	198,432,556	186,328,379	119,198,689	518,584,318	317,631,245
1922 ..	..	354,604,181	209,214,887	189,899,195	110,059,450	544,503,376	329,174,337

\* Including Stewart Island and Chatham Islands.

The values shown in the preceding table are, as stated, the gross values; they include the value not only of rateable properties, but also of churches, schools, unoccupied Crown lands, and other lands exempt from local rating. A summary of rateable values for the year 1922 is next given.

## RATEABLE VALUES, 1922.—SUMMARY.

	North Island.		South Island.*		New Zealand.	
	Capital Value (Land and Im- provements).	Unimproved Value of Land (Included in previous Column).	Capital Value (Land and Im- provements).	Unimproved Value of Land (Included in previous Column).	Capital Value (Land and Im- provements).	Unimproved Value of Land (Included in previous Column).
	£	£	£	£	£	£
Counties ..	202,816,926	130,281,124	121,853,363	90,591,230	324,670,289	220,872,354
Boroughs ..	123,324,499	62,231,108	55,775,690	23,191,781	179,100,180	85,422,889
Town Districts (Independent)	6,449,100	3,002,720	662,137	285,858	7,131,287	3,288,578
Totals ..	332,590,525	195,514,952	178,311,190	114,068,869	510,901,715	309,583,821

\* Including Stewart Island and Chatham Islands.



As has been pointed out above, the figures shown for 1922 and other years subsequent to 1898 do not represent general revaluations of the whole Dominion in the years shown. Revaluations are made, district by district, as circumstances permit, or as progress of the district renders advisable. An analysis of the gross capital value shown for the year 1922 gives the following results:—

## GROSS CAPITAL VALUES.—YEAR OF VALUATION.

Last revised as at April In Year	Counties.	Boroughs.	Town Districts (Independent).	Total.
	£	£	£	£
1897 .. ..	161,627	..	..	161,627
1898 .. ..	17,984	74,966	..	92,950
1904 .. ..	167,626	31,442	..	199,068
1905 .. ..	..	310,975	..	310,975
1906 .. ..	..	248,302	..	248,302
1907 .. ..	..	1,286,672	..	1,286,672
1908 .. ..	..	1,281,401	59,128	1,340,529
1909 .. ..	..	679,354	..	679,354
1910 .. ..	..	252,258	..	252,258
1911 .. ..	1,411,482	7,591,208	..	9,002,690
1912 .. ..	..	1,362,164	357,893	1,720,057
1913 .. ..	4,690,436	4,937,344	34,382	9,662,162
1914 .. ..	7,477,976	4,044,912	815,089	12,337,977
1915 .. ..	3,911,966	482,395	..	4,394,361
1916 .. ..	14,628,688	12,545,717	115,290	27,289,695
1917 .. ..	22,634,133	4,785,320	71,048	27,490,501
1918 .. ..	39,820,173	3,330,129	787,314	43,937,616
1919 .. ..	66,273,178	3,692,555	..	69,965,733
1920 .. ..	44,733,330	19,715,760	2,181,299	66,630,389
1921 .. ..	97,339,055	81,251,736	2,647,957	181,238,748
1922 .. ..	34,304,599	51,349,648	607,465	86,261,712
Totals.. ..	337,572,253	199,254,258	7,676,865	544,503,376

It should be explained that in those few cases where a borough, town district, or local division of a county has been valued partly in one year and partly in another, and information is not available as to the amounts represented by the valuations in the respective years, the whole district has been included in the latest of the years shown. Napier Borough, for instance, was revised partly in 1914 and partly in 1917, but is wholly included in the 1917 figures shown above.

Those districts which have not been revalued during, say, the last ten years may be regarded as having made little or no progress since the last valuation, which has accordingly been allowed to stand. Fiord County, with a gross capital value of £144,293 and a rateable capital value of only £15,851, has not been revalued since 1897, nor have certain islands.

The gross capital and unimproved values for each county, borough, and independent town district as in 1922 are next given. The particulars for component parts of administrative counties—viz., road districts, dependent town districts, and portions of outlying country—are given in the Annual Statistical Report on Local Government.

## COUNTIES.

TABLE SHOWING GROSS CAPITAL AND UNIMPROVED VALUES OF EACH COUNTY IN NEW ZEALAND.

County.	Capital Value (Land and Improvements).	Unimproved Value of Land (Included in previous Column).	County.	Capital Value (Land and Improvements).	Unimproved Value of Land (Included in previous Column).
	£	£		£	£
Mongonui .. ..	961,108	569,888	Islands—		
Whangaroa .. ..	287,661	181,549	Kapiti, Mana, and	17,984	13,378
Bay of Islands .. ..	1,725,428	1,024,142	Somes		
Hokianga .. ..	1,271,690	772,246	Chatham Islands	285,872	195,901
Whangarei .. ..	4,767,641	2,313,822	Pahiatua .. ..	2,545,756	1,434,132
Hobson .. ..	2,141,445	1,277,538	Akitio .. ..	1,187,712	609,001
Otamatea .. ..	1,725,462	960,930	Castlepoint .. ..	833,467	538,112
Rodney .. ..	1,794,294	935,079	Eketahuna .. ..	1,850,854	1,006,378
Waitemata .. ..	3,843,229	2,625,392	Mauriceville .. ..	541,829	304,002
Eden .. ..	4,541,300	2,571,021	Masterton .. ..	4,335,244	2,727,656
Manukau .. ..	4,068,554	2,940,193	Wairarapa South	3,022,878	1,770,233
Franklin .. ..	5,627,248	3,794,482	Featherston .. ..	4,683,760	2,991,050
Great Barrier Island	133,758	108,440	Hutt .. ..	2,388,272	1,308,520
Islands—			Makara .. ..	1,067,821	504,462
Little Barrier, Wal-	393,649	249,631	Collingwood .. ..	450,613	277,192
heke, &c.			Takaka .. ..	706,891	393,230
Waikato .. ..	4,740,365	3,378,396	Waimea .. ..	3,173,316	1,764,066
Raglan .. ..	3,689,873	2,369,049	Sounds .. ..	793,775	478,652
Waipa .. ..	6,005,862	4,094,545	Marlborough .. ..	5,066,909	3,711,813
Coromandel .. ..	697,248	398,437	Awatere .. ..	2,241,556	1,759,594
Thames .. ..	655,844	442,392	Buller .. ..	1,445,765	765,503
Hauraki Plains	1,916,425	1,562,835	Murchison .. ..	783,692	478,494
Ohinemuri .. ..	721,067	454,950	Inangahua .. ..	679,183	337,590
Tauranga .. ..	1,807,693	1,062,216	Grey .. ..	1,026,609	625,063
Piako .. ..	3,526,825	2,407,360	Westland .. ..	1,165,796	819,157
Matamata .. ..	3,107,362	1,941,578	Kaikoura .. ..	1,682,947	1,232,978
Rotorua .. ..	1,033,112	628,678	Cheviot .. ..	1,792,746	1,469,520
Whakatane .. ..	2,226,844	1,503,070	Amuri .. ..	2,613,722	2,126,630
Opotiki .. ..	2,411,751	1,326,549	Waipara .. ..	4,343,464	3,737,186
Taupo .. ..	626,250	427,606	Ashley .. ..	1,160,923	932,212
Taumarunui .. ..	693,221	597,887	Kowai .. ..	1,696,884	1,401,876
Ohura .. ..	1,982,672	1,177,382	Oxford .. ..	1,155,155	951,869
Kawhia .. ..	994,365	583,838	Ranglora .. ..	1,788,422	1,455,583
Waikomo .. ..	3,539,835	2,178,247	Eyre .. ..	1,722,515	1,394,375
Otorohanga .. ..	2,266,979	1,535,473	Waimairi .. ..	4,037,045	2,306,860
Island—			Paparua .. ..	2,271,757	1,568,003
Motiti .. ..	33,120	19,150	Malvern .. ..	2,693,131	2,056,725
Matakaoa .. ..	1,072,191	592,542	Tawera .. ..	580,129	483,579
Waipapu .. ..	3,819,581	2,032,103	Henthcote .. ..	1,160,341	612,025
Uawa .. ..	1,537,280	1,022,760	Halswell .. ..	855,754	682,894
Waikohu .. ..	5,124,027	3,124,919	Seiwyn .. ..	1,728,177	1,396,977
Cook .. ..	6,578,762	4,405,614	Springs .. ..	1,269,340	1,040,495
Waioa .. ..	3,843,117	2,461,367	Ellesmere .. ..	2,900,327	2,362,837
Hawke's Bay	10,870,228	8,180,493	Mount Herbert	770,585	640,183
Waipawa .. ..	2,959,428	2,100,181	Wairewa .. ..	1,558,974	1,280,359
Waipukurau .. ..	912,913	681,603	Akaroa .. ..	2,789,444	2,383,310
Dannevirke .. ..	3,365,233	2,214,998	Ashburton .. ..	11,711,643	9,842,211
Woodville .. ..	2,044,292	1,474,150	Geraldine .. ..	3,632,304	2,871,518
Patangata .. ..	4,624,228	3,602,033	Levels .. ..	3,665,638	2,065,430
Weber .. ..	742,743	490,097	Mackenzie .. ..	2,980,220	2,299,070
Clifton .. ..	879,366	512,757	Waimate .. ..	6,787,594	5,591,071
Taranaki .. ..	1,430,475	841,307	Waitaki .. ..	5,418,639	4,121,113
Inglewood .. ..	980,729	493,250	Maniototo .. ..	1,468,287	1,034,790
Egmont .. ..	1,806,380	948,807	Waihemo .. ..	816,400	698,711
Stratford .. ..	3,343,130	2,107,250	Waikouaiti .. ..	1,250,344	802,651
Whangamomona	1,039,813	559,799	Peninsula .. ..	632,116	291,530
Waimate West	2,101,116	1,542,172	Talari .. ..	2,306,986	1,658,875
Eltam .. ..	3,049,680	1,785,138	Tunapeka .. ..	2,450,391	1,682,843
Hawera .. ..	4,316,380	3,116,558	Bruce .. ..	1,783,193	1,186,182
Patea .. ..	3,626,094	2,387,730	Clutha .. ..	3,165,366	1,980,296
Waitotara .. ..	2,706,878	1,833,613	Islands—		
Waimarino .. ..	2,445,669	1,427,050	Quarantine and Goat	3,454	900
Wanganui .. ..	3,105,465	1,849,324	Vincent .. ..	1,637,183	1,069,324
Rangitikei .. ..	10,045,133	6,300,229	Lake .. ..	554,027	407,485
Kiwitea .. ..	3,418,927	2,238,484	Fiord .. ..	144,293	137,513
Pohangina .. ..	1,781,059	1,141,806	Wallace .. ..	3,704,629	2,559,785
Kaitieke .. ..	1,479,370	964,147	Southland .. ..	14,683,751	9,677,610
Mannawatu .. ..	3,599,962	2,567,401	Stewart Island	167,626	129,120
Oroua .. ..	3,162,099	2,117,618	Islands—		
Kafranga .. ..	4,809,213	3,363,477	Antipodes, &c.	13,880	13,880
Horowhenua .. ..	5,446,255	3,769,406			

## BOROUGHES.

TABLE SHOWING GROSS CAPITAL AND UNIMPROVED VALUES OF EACH BOROUGH IN NEW ZEALAND.

Borough.	Capital Value (Land and Improvements).	Unimproved Value of Land (Included in previous Column).	Borough.	Capital Value (Land and Improvements).	Unimproved Value of Land (Included in previous Column).
Whangarei .. ..	£ 1,153,173	£ 545,598	Shannon .. ..	£ 189,834	£ 87,876
Dargaville .. ..	482,395	232,450	Levin .. ..	570,669	219,219
Birkenhead .. ..	732,295	356,740	Otaki .. ..	340,670	174,647
Devonport .. ..	2,226,788	1,000,061	Pahiatua .. ..	248,302	100,928
<b>AUCKLAND CITY—</b>			Masterton .. ..	2,149,621	855,265
City Portion	25,332,150	16,335,917	Carterton .. ..	293,294	103,172
Parnell .. ..	1,289,558	616,960	Greytown .. ..	205,462	86,017
Grey Lynn .. ..	1,335,141	516,921	Lower Hutt .. ..	1,588,690	822,293
Arch Hill .. ..	229,170	105,045	Petone .. ..	1,538,325	675,697
Eden Terrace .. ..	325,867	139,587	Eketahuna .. ..	157,672	66,135
Point Chevallier .. ..	416,575	197,085	Featherston .. ..	175,458	46,781
Epsom .. ..	1,322,019	606,360	Eastbourne .. ..	383,407	144,425
Remuera .. ..	2,661,639	1,202,674	Richmond .. ..	228,273	117,503
Total of City .. ..	32,912,119	19,720,549	Nelson City .. ..	1,912,940	851,579
Newmarket .. ..	736,435	878,475	Picton .. ..	304,279	154,846
Onehunga .. ..	1,186,545	513,185	Blenheim .. ..	1,412,269	592,019
Takapuna .. ..	1,696,764	1,028,974	Motueka .. ..	318,440	156,859
Northcote .. ..	350,918	185,658	Westport .. ..	736,201	358,484
Mount Albert .. ..	2,812,765	1,184,325	Greymouth .. ..	848,785	268,107
Avondale .. ..	665,170	375,835	Branner .. ..	74,966	15,386
Mount Eden .. ..	2,621,745	1,033,745	Kumara .. ..	31,442	6,145
Otahuhu .. ..	513,570	275,905	Hokitika .. ..	263,072	77,631
Pukekohe .. ..	813,612	485,362	Ross .. ..	24,948	7,299
Hamilton .. ..	4,299,816	2,340,716	Runanga .. ..	56,760	18,884
Cambridge .. ..	719,633	353,123	Rangiora .. ..	522,550	183,515
Ngaruawahia .. ..	191,188	94,103	Kaipoi .. ..	191,243	58,753
Te Awamutu .. ..	610,440	342,580	<b>CHRISTCHURCH CITY—</b>		
Thames .. ..	898,889	331,531	St. Albans Portion	3,534,650	1,290,770
Tauranga .. ..	322,350	143,566	North Richmond ..	360,850	116,900
Paeora .. ..	390,555	192,729	Richmond .. ..	264,915	97,140
Waiki .. ..	309,700	41,635	North-east .. ..	832,857	378,915
Morrinsville .. ..	563,275	293,315	North-west .. ..	2,373,555	1,286,465
Te Aroha .. ..	349,455	160,620	South-east .. ..	1,992,870	980,423
Rotorua .. ..	785,247	460,489	South-west .. ..	4,677,525	2,779,343
Whakatane .. ..	473,392	236,258	Sydenham .. ..	2,321,665	827,645
Opotiki .. ..	363,223	184,934	Opawa .. ..	216,530	99,030
Taumarunui .. ..	414,637	201,204	St. Martin's .. ..	117,330	56,525
Te Kuiti .. ..	561,587	332,200	Beckenham .. ..	253,875	78,750
Gisborne .. ..	4,915,940	2,285,920	Fisherton .. ..		
Waioa .. ..	678,600	364,720	Linwood .. ..	1,668,870	582,510
Napier .. ..	3,580,823	1,677,391	Avonside .. ..	176,145	70,245
Hastings .. ..	2,834,000	1,522,633	Spreydon .. ..	910,680	334,620
Dannevirke .. ..	1,248,012	502,200	Woolston .. ..	698,486	269,291
Woodville .. ..	169,853	90,768	Total of City .. ..	20,420,603	9,243,572
Waipawa .. ..	266,989	141,632	New Brighton .. ..	582,566	276,911
Waipukurau .. ..	347,881	160,209	Sumner .. ..	711,365	321,845
New Plymouth .. ..	3,631,852	1,719,820	Lyttelton .. ..	988,107	272,707
Hawera .. ..	1,595,123	744,847	Akaroa .. ..	165,143	74,541
Patea .. ..	154,460	57,491	Riccarton .. ..	627,156	198,050
Wairua .. ..	252,258	84,516	Ashburton .. ..	703,221	274,394
Inglewood .. ..	215,137	88,222	Timaru .. ..	3,552,280	1,578,750
Stratford .. ..	960,411	457,864	Geraldine .. ..	171,795	55,170
Eltham .. ..	452,020	193,828	Temuka .. ..	370,145	130,980
Wanganui .. ..	5,448,848	2,875,299	Waimate .. ..	443,878	129,540
Marton .. ..	675,737	224,534	Oamaru .. ..	1,433,755	505,030
Ruaiti .. ..	256,958	118,953	Hampden .. ..	30,921	9,647
Ohakune .. ..	140,275	37,928	Naseby .. ..	20,868	2,588
Taihape .. ..	623,270	330,502	Palmerston .. ..	94,789	24,356
Fellding .. ..	1,037,902	443,302	Waikouaiti .. ..	105,667	39,843
Palmerston North .. ..	5,549,081	2,423,267	Port Chalmers .. ..	372,621	120,852
Foxton .. ..	288,284	115,725	West Harbour .. ..	225,022	73,807
<b>WELLINGTON CITY—</b>			<b>DUNEDIN CITY—</b>		
City Portion	23,322,429	13,690,416	Valley Portion	820,916	284,609
Wadestown .. ..	580,149	234,243	Maori Hill .. ..	755,960	239,990
Northland .. ..	675,932	222,257	Roslyn .. ..	1,424,805	475,770
Melrose .. ..			Mornington .. ..	902,055	258,505
Kilbirnie .. ..	3,433,428	976,290	Leith .. ..	3,913,404	1,814,441
Island Bay .. ..	1,073,922	348,377	Central .. ..	4,723,195	2,192,645
Ohio .. ..	1,955,180	564,486	Caversham and South	2,086,785	660,960
Onslow .. ..	776,604	291,205	Dunedin Portion		
Karori .. ..	633,914	296,156	Anderson's Bay Portion	592,080	211,955
Miramar .. ..	1,383,062	510,714	Total of City .. ..	15,219,150	6,138,875
Total of City .. ..	33,834,620	17,134,144			

TABLE SHOWING GROSS CAPITAL AND UNIMPROVED VALUES OF EACH BOROUGH IN NEW ZEALAND—continued.

Borough.	Capital Value (Land and Improvements).	Unimproved Value of Land (Included in previous Column).	Borough.	Capital Value (Land and Improvements).	Unimproved Value of Land (Included in previous Column).
	£	£		£	£
St. Kilda .. ..	1,072,550	311,900	Alexandra .. ..	96,053	15,070
Green Island ..	395,935	85,305	Arrowtown .. ..	21,519	3,375
Mosgiel .. .. .	272,840	95,680	Queenstown .. .	65,596	14,565
Roxburgh .. ..	42,760	5,969	Oore .. .. .	930,830	328,286
Lawrence .. ..	111,339	29,764	Mataura .. .. .	206,722	74,848
Tapanni .. .. .	42,805	9,075	Winton .. .. .	115,842	39,365
Milton .. .. .	203,793	55,946	Invercargill .. .	4,095,504	1,740,106
Kaikoura .. .. .	301,730	111,137	South Invercargill	306,931	138,221
Kaitangata .. .	112,521	31,538	Riverton .. .. .	146,938	48,540
Cromwell .. ..	81,904	16,212	Bluff .. .. .	307,322	103,100

## TOWN DISTRICTS.

TABLE SHOWING GROSS CAPITAL AND UNIMPROVED VALUES OF EACH TOWN DISTRICT (OUTSIDE THE JURISDICTION OF ANY COUNTY) IN NEW ZEALAND.

Town District.	Capital Value (Land and Improvements).	Unimproved Value of Land (Included in previous Column).	Town District.	Capital Value (Land and Improvements).	Unimproved Value of Land (Included in previous Column).
	£	£		£	£
Hikurangi .. ..	90,825	31,020	Waverley .. .. .	101,710	41,932
Warkworth .. ..	98,330	29,150	Gonville .. .. .	887,165	294,373
Helensville .. .	208,825	82,375	Castlecliff .. .	401,053	199,230
New Lynn .. .. .	331,875	153,945	Rangataua .. ..	34,362	10,238
Glen Eden .. ..	112,415	62,475	Mangaweka .. ..	57,894	22,295
Ellerslie .. .. .	333,355	147,965	Hunterville .. .	96,045	37,325
Waluku .. .. .	240,265	126,280	Bull's .. .. .	59,128	24,449
Papatoetoe .. .	437,435	234,040	Manunui .. .. .	71,048	25,748
Manurewa .. ..	283,865	157,155	Martinborough ..	179,747	53,710
Papakura .. .. .	260,450	138,140	Johnsonville ..	206,354	101,012
Tuakau .. .. .	145,095	79,045	Upper Hutt .. .	275,049	129,633
Huntly .. .. .	229,925	96,225	Tahunanui .. ..	115,996	46,900
Te Puke .. .. .	273,775	145,502	Tinwald .. .. .	133,640	74,665
Matamata .. ..	450,325	256,750	Pleasant Point ..	105,905	51,570
Mangapapa .. .	435,006	179,420	Nightcaps .. ..	66,765	15,895
Taradale .. .. .	228,099	134,941	Otautau .. .. .	132,498	50,197
Havelock North ..	298,765	137,051	Lumsden .. .. .	53,961	15,203
Mania .. .. .	115,290	44,324	Wyndham .. .. .	123,679	50,395

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NEW ZEALAND.

# TAXATION.

REPORT OF THE COMMITTEE APPOINTED TO INQUIRE INTO THE TAXATION OF THE  
DOMINION OF NEW ZEALAND.

*Laid on the Table of the House of Representatives by Leave.*

The Right Hon. W. F. Massey, P.C., Prime Minister of New Zealand, Wellington.

SIR,—

Wellington, New Zealand, 30th June, 1922.

We, the members of the Committee on Taxation, appointed by you to inquire into the taxation of the Dominion of New Zealand, have the honour to report as follows:—

2. The Committee was appointed from names submitted by various sections of the community, as set out hereunder:—

Representing Chambers of Commerce: Edward Anderson, Auckland; Peter Barr, Dunedin; Walter Gow, Dunedin; W. D. Hunt, Wellington; George Shirtcliffe, Wellington.

Representing Farmers' Unions: John Bitchener, M.P., Oamaru; Ewen A. Campbell, Wanganui; A. Leigh Hunt, Wellington.

Representing Sheepowners' Federation: William Barton, Featherston; Bernard Tripp, Timaru.

Representing New Zealand Society of Accountants: Ernest W. Hunt, Wellington.

Representing Labour Society: T. Shailer Weston, Wellington.

Representing Industrial Association and manufacturing interests: C. J. Ward, Wellington.

3. The sittings were commenced in Wellington at 10 a.m. on Monday, the 8th May, 1922, when you were good enough to meet the Committee and address it as to its duties and functions.

4. On your suggestion the election of a Chairman was left to the Committee, and Mr. W. D. Hunt, of Wellington, was appointed to the position.

5. As no order of reference was provided, the Committee prepared a short statement of the work which it was considered necessary to cover, and the following statement of duties was subsequently submitted to you and met with your approval:—

“ That the functions of the Committee are to inquire into—

“ (1.) The taxation of the Dominion of New Zealand in all its aspects;

“ (2.) The effect of existing burdens of taxation upon the general prosperity of the Dominion, and the directions of change, if any, that are necessary or desirable in the interests of the country.

“ (3.) For the purposes of the above inquiry the Committee will require information from Government Departments as to the revenue and expenditure for each year since 1913, and also the system of taxation in force in other English-speaking countries. The Committee will hear considered evidence and suggestions from representatives of the producing, industrial, and labour organizations, and other classes of taxpayers; such evidence and suggestions, as far as possible, to be submitted by typewritten statements in triplicate.”

6. The first sitting-day was spent in preparing a list of certain information which it was considered would be required, and this information the Commissioner for Inland Revenue promised to have prepared. It was also arranged that advertisements should be inserted in the newspapers of the four main centres—Wellington, Auckland, Christchurch, and Dunedin—inviting considered evidence on taxation questions.

In order to provide an opportunity for the preparation of the information requested, and to give those who might desire to tender evidence the necessary time to prepare it, the Committee adjourned until Tuesday, the 23rd May, 1922, at 10 a.m.

1-- B. 5.

7. The Committee resumed on the 23rd May, and was occupied continuously in taking evidence and examining returns until Saturday, the 3rd June. The following week—from Monday, the 5th June, until Saturday, the 10th June—was spent in discussing all the questions requiring to be dealt with, and resolutions were subsequently adopted covering the various matters considered.

8. A sub-committee, consisting of the Chairman (Mr. W. D. Hunt), and Messrs. Ernest W. Hunt, George Shirtcliffe, and T. Shailer Weston, was appointed to prepare a draft report for submission to the full Committee at a meeting to be held on Tuesday, the 11th June. The final sittings of the Committee lasted from the 27th to the 30th June, when the report was completed.

9. While evidence was being taken and discussed, the Commissioner for Inland Revenue, Mr. D. G. Clark, was in attendance, and gave, or obtained from his own and other Government Departments, information as desired from time to time. Colonel G. F. C. Campbell, Controller and Auditor-General, and Colonel J. J. Esson, Secretary to the Treasury, also provided valuable and necessary information. The Committee here desires to express its thanks to Mr. D. G. Clark for the very able and valuable help and information he cheerfully provided throughout the whole of the inquiry. Without his assistance and co-operation, and the data which he placed at its disposal, the Committee would have found its task much more difficult. The Committee also desires to express its very high appreciation of the evident grasp that Mr. Clark has of the mass of detail relating to his Department's affairs.

10. The Committee also wishes to express its thanks to Mr. W. H. Phillips, an officer of the Inland Revenue Department, who acted as secretary throughout the inquiry, and whose knowledge of the taxation system of the Dominion proved most valuable.

11. During the course of the inquiry thirty-one witnesses appeared before the Committee. Documents and statements prepared by thirty organizations, representing various sections of the community, were examined and considered, as were also seventy-one letters and statements sent by individuals, firms, and companies. In addition, the Committee had placed before it a large number of specially prepared Government returns, and consideration was also given to numerous printed reports of the different Government Departments.

12. The mass of information which was placed before the Committee was supplemented by the personal experience of its individual members during the various discussions and in the preparation of the report.

13. As the result of the deliberations and inquiries of the Committee, the following conclusions were unanimously arrived at:—

- (a.) That the limits of taxation that this country can bear have been reached—indeed, exceeded—and that there is now practically no reserve of taxable capacity.
- (b.) That the higher graduated rate of income-tax has reached such a point that it is drying up the sources of revenue, and, if continued, must result in a reduction of revenue from these sources, must stop progress and enterprise, and impede production and industry.
- (c.) That the income-tax on large companies is the highest in any of the British dominions—considerably higher than in Great Britain, and very much higher than in any other section of the British Empire.
- (d.) That land-tax—particularly in the higher graduated rates—is very seriously affecting production and development.
- (e.) That the rate of taxation on smaller incomes is lower, and the exemptions on these smaller incomes higher, than in any other part of the British dominions.
- (f.) That economies in public expenditure are the principal means by which relief from the present excessive taxation can be afforded.

#### GOVERNMENT EXPENDITURE.

14. An inquiry into the Government expenditure was not included in this Committee's order of reference. In any case, the time available was not sufficient to undertake such a task. The Committee desires, however, to record these general observations:—

#### *Bases of Taxable National Income.*

15. This Dominion is now, and is likely for some time to continue, chiefly a pastoral and agricultural community, and practically all our exports consist of the products of the land. It is with these products that we have to pay the interest and sinking fund upon the whole of our foreign debt, and also for the whole of our imports. Our pastoral and agricultural products are the coin with which we pay our way. In considering the affairs and prosperity of this country, the relative values of these products must be continually borne in mind, and the whole community must in the end adjust itself to these values. Our income from pastoral and agricultural products must necessarily be this country's guide when considering its expenditure, both public and private, and this must continue until we are in a position to develop an export trade in either manufactured goods or in services.

16. The values of our pastoral and agricultural products are fixed by export values, which are world values. The average f.o.b. value of our products to-day is not above the average of 1914. Owing to the higher costs from farm to f.o.b., the net average price that the farmer receives for his products is below the 1914 average. The purchasing-power of farm-products in goods and services is probably as low to-day, if not lower, than for the last forty years, and as a result very little new country is being broken in, and a large proportion of our imported properties are not being maintained and are going back in producing-value, all of which points to a falling-off in production.

17. The published export figures do not disclose the true position. In the 1920-21 season, owing to the shortage of ships and the shipping strike, there was a hold-up in the export of meat and dairy-produce, and, in the same year, owing to the collapse of the wool-market, the wool-sales were

postponed and wool also was held up. During the year ended 31st March, 1922, all previous year's balances were cleaned up, and the shipping of the 1921-22 production was fairly well up-to-date. The safer figures to go on are the actual production in each year. The latest figures for the present season indicate that our production of butter will be much ahead of that of last year, and of cheese a little more. Meat will be about the same, and there will be a falling-off in wool.

In considering these figures it must be borne in mind that the season just closed has been one of the best growing seasons experienced throughout New Zealand for some years past, and it is unlikely that next season will equal it. One of the best barometers of production by farmers is the importation of fertilizers, which for the last year shows a distinct falling-off.

18. The British Board of Trade prepares index numbers in which the average values of Britain's imports and exports are expressed in percentages of 1913 values, the index figure for which year is taken as 100. They are of such interest that we give them here:—

<i>Average Values as Percentages of 1913.</i>					Total Imports.	Exports (United Kingdom Goods).
1920—First quarter	..	..	..	..	284	326
Second quarter	..	..	..	..	285	358
Third quarter	..	..	..	..	289	376
Fourth quarter	..	..	..	..	283	373
1921—First quarter	..	..	..	..	220	334
Second quarter	..	..	..	..	192	283
Third quarter	..	..	..	..	182	241
Fourth quarter	..	..	..	..	170	226
1922—First quarter	..	..	..	..	149	218

These figures show that, relatively, Great Britain is still receiving much higher prices for her exports than she is paying for her imports. During the first quarter of the current year the margin has widened further in Britain's favour, the difference being 69 points against 56 points for the last three months of 1921. The relative values of her imports and exports are really more favourable to Great Britain than the figures given would indicate. These values are taken at British ports. Britain, however, brings in imports and sends away exports in her own ships, and freights are much higher than before the war.

In New Zealand the position is the reverse. We export what Great Britain imports, and import what Great Britain exports. While the average value in New Zealand of our exports is no higher than pre-war values, the average cost of our imports delivered in this country is very much higher. The outstanding feature of our present trade position is the small purchasing-power of our products in the goods and services received from other countries. It is the purchasing-power of our products that governs our whole financial situation.

#### *Expenditure and Loans.*

19. The following statement shows the increase in interest, sinking funds, war and other pensions, and ordinary expenditure, between 1914 and 1922:—

	£	1922. £	£	1914. £
Total expenditure .. .. .	..	28,466,838	..	11,825,863
<i>Less—</i>				
Interest and sinking funds .. ..	8,442,278	..	2,887,981	
War pensions .. .. .	1,722,596	..	..	
Old-age, widows', and miners' pensions ..	957,729	..	443,352	
		11,122,603		3,331,333
Ordinary expenditure .. .. .	..	£17,344,235		£8,494,530

*Increase in ordinary expenditure, £8,849,705 = 104 per cent.*

The following statement shows the increased borrowing since the 31st March, 1914:—

#### *Public Debt apart from Sinking Fund.*

	£
1914 .. .. .	99,730,437
1919 .. .. .	176,076,260
1920 .. .. .	201,170,755
1921 .. .. .	206,324,319
1922 .. .. .	216,827,319

In addition to this local bodies are borrowing heavily, largely outside the Dominion, and are adding at a very rapid rate to the annual foreign payments that the Dominion has to meet.

The Committee emphasizes that borrowing, if continued at the above rate, will add, in four and a half years of peace, as much to our annual bill for interest and sinking fund as the whole amount payable in pre-war days. It would seem desirable, therefore, that until the quantity of the Dominion's exports is largely increased no money should be borrowed either by the Government or local bodies unless the expenditure of such money will certainly be reproductive.

*Railways.*

20. In the last pre-war year—that is, the year ending the 31st March, 1914—the expenditure on railways was £3,004,181, the gross revenue £4,191,617, and the net revenue left £1,187,436. For the year ending 31st March, 1922, the expenditure was £6,473,233, the gross revenue £6,683,986, the net revenue being £210,753. This £210,753 is the only amount available to meet the interest upon the capital of over £41,000,000 invested in railways. The deficiency has to be made up by the taxpayer out of the Consolidated Fund.

*Increase in General Administration Expenses.*

21. The increase herein, as already shown, is from £8,494,530 in 1914 to £17,344,235 in 1922, an increase of approximately 104 per cent. The Committee recognizes that the Government has already done a great deal in the way of effecting economies in public expenditure. Indeed, they have done more in this direction than many people, who do not realize the true facts, think necessary. The Committee desires to emphasize that when the country's position is considered in the light of its productive income and the war burdens that it has to carry, more drastic economy than that already announced must be effected. It must be generally recognized that this is not a time for increasing, but rather for decreasing, public services. Taxation at the present level will cripple industry and production, and delay the country's recovery. It cannot be reduced unless strict economy in all public matters, and a reduction of public services not absolutely essential, is rigidly enforced.

22. The Committee ventures to suggest that a sound basis to adopt in connection with the annual Budget would be the "taxable capacity of the country" estimated from year to year according to the general conditions prevailing, thus reversing what appears to be the present method, of first determining the expenditure and then endeavouring to raise the necessary taxation, irrespective of the ability or otherwise of the country to respond.

*Income-tax.*

23. Of the various taxes imposed in this Dominion, income-tax has since pre-war days been increased to a much greater extent than any other tax. The following table is a comparison between the years ending 31st March, 1914, and 31st March, 1922:—

Tax.	31st March, 1914.		31st March, 1922.		Increase.	Increase per Cent.
	Amount.	Percentage to Total.	Amount.	Percentage to Total.		
	£		£		£	
Income .. .. .	554,271	9.37	5,998,885	36.63	5,444,614	982
Land .. .. .	767,451	12.97	1,635,808	9.99	868,357	113
Customs and excise .. .. .	3,553,785	60.05	5,550,557	33.89	1,996,772	56
Death duties .. .. .	613,751	10.37	1,514,844	9.25	901,093	147
Other taxes .. .. .	428,776	7.24	1,675,560	10.24	1,246,784	290

For the year ended 31st March, 1921, the income-tax collected amounted to £8,248,945, which was an increase of 1,388 per cent. over 1914. The reduction in 1922 was caused by reduced income, notwithstanding an increase in the rate of tax.

24. The huge increase which has taken place in the taxation of incomes in this country since the commencement of the war made the income-tax one of the most important subjects of this inquiry.

25. In considering the question of income-tax, the Committee had to keep in mind the vast change that has taken place in the tax since the commencement of the war. Previously income-tax was a comparatively small portion of one's expenditure. The changes in the tax brought about by the war have been mainly in two directions—(a) the enormous increase that has taken place in this country and in all other parts of the British dominions, as well as in most countries of the world; and (b) the introduction of the graduated system, which increases the rate of tax with the income.

26. The graduated or progressive system of income-tax is now almost universal, but only since the war has it been extensively put into force.

27. The world's experience of very heavy and steeply graduated income-tax, which most countries are now called upon to bear, is so short as to make the drawing-up of definite conclusions very difficult. The writers of only a few years ago had no experience of conditions such as we are now passing through, and the conclusions they may have come to in connection with the very much smaller proportionate income-tax of their day cannot be taken to definitely apply to income-tax such as that with which we are now dealing.

28. Notwithstanding the change in the application of income-tax, Adam Smith's four maxims may still be accepted as a sound foundation. These are:—

- (1.) "The subjects of every State ought to contribute towards the support of the Government as nearly as possible in proportion to their respective abilities—that is, in proportion to the revenue which they respectively enjoy under the protection of the State.
- (2.) "The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person.
- (3.) "Every tax ought to be so levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it.
- (4.) "Every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the Public Treasury of the State."



29. While these rules still cannot be disputed, they are hardly sufficient to cover all the problems involved in dealing with the very heavy graduated system of taxation which now obtains. Inequalities and anomalies that were not seriously felt when the taxation was smaller and proportional become very serious matters when it is heavy and steeply graded.

30. Other important aspects of income-tax must now be considered. These are—

(a.) *Incidence.*—The tax must as far as possible be put where it will stay.

(b.) *Payment.*—The tax takes such a large proportion of income that if payment is long postponed with a fluctuating income it may become due at a time when losses are being experienced and payment therefore is difficult. It is important, therefore, that payment of tax should follow as closely as possible the earning of the income.

(c.) *Graduation.*—In a steeply graduated tax the percentage of income taken changes so greatly as the income increases that a fluctuating income, unless carefully watched pays a much higher rate of tax than a steady income of the same average amount.

(d.) *Losses.*—The percentage of income taken by taxation is now so great that it is absolutely necessary that years of loss should be a set-off against years of profit. All losses incurred during any year should be a set-off against profits made in other directions during the same year.

31. It is very difficult to make a comparison of the exact rates of income-tax on individual incomes in Australia and New Zealand, because the exemptions vary so much in the two countries. Estimates made by the Committee show, however, that the differences are of no material importance. The lower incomes in New Zealand pay less than in most of the Australian States, and very much less than in England, but when £10,000 a year is reached the tax in New Zealand is the highest in the Empire.

32. The difference in methods of dealing with profits of companies in New Zealand and the Commonwealth of Australia makes it impossible to tabulate a comparative statement. While there is little difference in the rates charged against individual incomes in the two countries, the very heavy rate on companies in New Zealand makes the amount of income-tax per head of the population very much higher than in Australia. For the year ended 31st March, 1922, of the total amount of income-tax obtained in New Zealand, 69·8 per cent.—or, say, seven-tenths of the total—came from companies, and three-tenths from individuals.

33. In Australia the State charge the companies direct, but the tax is comparatively small, ranging from 1s. in the pound in the case of Victoria to a maximum of 3s. in the pound in the case of Queensland, this latter amount being paid only where the company's operations have proved very profitable. Shareholders in the Australian States do not pay State income-tax on their dividends. The Commonwealth Government charges companies 2s. 8d. in the pound on their undivided profits, but nothing on the amount they pay out as dividends. Shareholders pay on these dividends the graduated rate that applies to their total income. The recent Royal Commission on Taxation in Australia has recommended that the Commonwealth Commissioner of Taxes should be the only authority to collect income-tax in Australia, the land-tax going to the States. If this recommendation is put into effect it will end direct taxation on companies in Australia, except on their undivided profits.

34. In England there is a corporation-tax of 1s. in the pound, which must not exceed 2s. in the pound on the undivided profits. In most cases, therefore, the tax is something less than 1s. in the pound. In addition to this, companies pay 6s. in the pound income-tax as agents for their shareholders, who adjust direct with the Income-tax Department, and obtain rebates where the graduated rate on their incomes is below the 6s. rate. The recent British Budget proposed a reduction to 5s.

35. Unlike England and Australia, companies in New Zealand are taxed as a distinct entity, and the highest graduated tax is charged on all incomes of £10,000 a year or over, the result being that any company in a large way of business will almost certainly be called upon to pay tax at the maximum rate of 8s. 9½d. in the pound.

36. The foregoing sets out the unanimous opinions of the Committee on the question of income-tax generally, but with regard to company taxation the Committee failed to agree, the following resolution being passed by a majority of seven to three, two members being absent and one not voting :—

This Committee, after hearing and receiving evidence from numerous sources, has arrived at the conclusion that income-tax should be paid by the individual ultimate recipient. The Committee realizes, however, that at the present time this may not be practicable or expedient, owing to the necessity under such a scheme of increasing rates to a limit above the taxable capacity of the individual with a moderate income.

#### *Company Taxation.*

37. It is now proposed in regard to company taxation to set out the views of the Committee—first of the majority, and then of the minority—the names of the members adhering to each view being given.

38. The *majority report* on this question is as follows :—

(a.) New Zealand is the only British country which adopts the system of collecting graduated tax from a company as if it were an individual. With the maximum rate of 8s. 9½d. in the pound it means that companies are paying away almost half of their profits in income-tax. The Committee received a very great deal of evidence as to the effect of company taxation in this Dominion, and the whole of this evidence condemned the method, and many examples of its ill effects were given. Although evidence was invited from all taxpayers through the medium of the public Press, none was offered in favour of the present system or against the individual system.

(b.) The principle of graduated income-tax is that the individual with a larger income can spare a larger proportion of each pound for taxation purposes than can the individual with the smaller

income. It is submitted that if this principle is right it should apply to all concerned. It clearly does apply under the English system of income-tax, and, with the exception of the comparatively small company-tax in the Australian States, it also applies to the Australian system. In companies in this Dominion, however, all shareholders, large and small, are taxed alike, and the small investor bears the same rate of tax on his dividend of £10 as the large investor on his dividend of £1,000. There appears to be an impression that large companies are owned by wealthy men, but this is not the case. Large companies in New Zealand and Australia are mainly supported by the savings of people who are either comparatively poor or of very moderate means, and wealthy men appear largely to seek other forms of investment.

(c.) The Commissioner for Inland Revenue, in his evidence before the Committee, stated that, of the total capital invested in company shares of all kinds in New Zealand, one-half was owned by people whose incomes were so small that, even with the dividends on their shares added, they would be free from income-tax on account of being below the exemption rate. Of the remaining half, a considerable portion was owned by people of comparatively small means, and it would take three-sevenths of this remaining half to bring the incomes of those who receive the dividends up to the maximum exemption. Only four-sevenths of this remainder would be taxable, and the great bulk of this at a comparatively low graduated rate.

(d.) The evidence of the Commissioner for Inland Revenue was borne out by the evidence of the Commonwealth Commissioner of Taxation given to the recent Royal Commission in Australia. The Australian Commission considered a proposal that instead of charging companies 2s. 8d. in the pound on their undivided profits only, and charging shareholders income-tax on their dividends, the companies should be charged a flat rate of 2s. 8d. in the pound on all their profits and let the shareholder have their dividends tax-free. The Federal Commissioner stated that this would result in yielding an additional revenue estimated at £1,197,036, and probably save his Department £100,000 per annum in costs of collection; but the Commissioner went on to say,—

“There are slightly over 200,000 shareholders in companies who do not at present pay Commonwealth income-tax, because their total income is less than the amount of the general exemption applicable to their cases. Under this scheme, however, these persons would suffer either—(1) Reduction of their dividends by deduction by the company of the company's tax applicable to the dividend (even though the company may not be officially regarded as paying tax as agent for the shareholders); (2) reduction in the amount of profits available for distribution by the company; or (3) reduction in the amount available to reserves, and therefore reduction in the value of the shareholders' interest in the company.

“The number of shareholders who are taxable at less than 2s. 8d. in the pound is approximately 25,364. These persons would suffer in similar manner but to less extent than the present non-taxable shareholders. Their rate of tax on other income would be reduced, but their indirect tax on dividends would be increased.

“The number of shareholders who are taxable at more than 2s. 8d. in the pound is actually 2,636. These persons would be benefited by reduction in their rate of tax payable on their income other than dividends, and by their indirect tax on dividends being reduced to the company's flat rate.

“The revenue would therefore increase at the expense of approximately 225,364 persons, and would confer a distinct benefit, by reduction of tax, on 2,636 persons. There would be a considerable reduction in working-costs to the Department. It is extremely difficult to form an accurate idea of the probable reduction in costs, but it should amount to about £100,000 per annum. This gain to the Commonwealth would, however, be achieved at the expense of shareholders in companies who individually would have been non-taxable, or whose rate of tax would be less than the company's rate.”

Both the New Zealand and Australian figures emphasize the fact that, generally speaking, the capital of companies is provided by the savings invested by people of very moderate means. In this connection, the members of the Australian Royal Commission, although in agreement upon very few matters, were quite unanimous in turning down the proposal to tax companies at a flat rate of 2s. 8d. in the pound, the following being an extract from the Australian report on this matter:—

“There is no need to traverse the arguments advanced in support of the method under discussion, beyond saying that its comparative simplicity and greater productiveness are purchased at the cost of so great a degree of inequity that we have no hesitation in unanimously deciding that it is a method that cannot be recommended for inclusion in a system of taxation which it is intended should rest upon ‘a sound and equitable basis.’”

(e.) On the recent returns submitted to the Committee approximately 57 per cent. of the total taxable incomes of New Zealand were from individuals, and 43 per cent. from companies. This 43 per cent., however, would not be taxable to the same extent but for the fact that the profits of shareholders are aggregated for taxation purposes. If the incomes had been treated individually only two-sevenths would have been taxable: that is, under an individual system the taxable income derived from companies would be comparable with the taxable incomes derived from other sources as two-sevenths of 43, or 12, would be to 57; yet under the New Zealand system of taxation the 12 pay 70 per cent. of the income-tax and the 57 pay 30 per cent. In other words, every pound of income drawn from companies that would be taxable in the hands of the shareholder pays as much tax as £11 of income drawn from other sources—a position which is clearly inequitable.

(f.) Although no evidence was offered to this effect, statements have been made that shareholders in companies in New Zealand would object to the tax being put on dividends instead of being paid by the company. The figures set out above prove that any such objection would be erroneous. It must be obvious that if companies do not pay income-tax upon that portion of their profits which they distribute as dividends, they will either have more to distribute to shareholders or more to add to reserves.

(g.) It is submitted that for the effective carrying-on of trade and industry upon a large scale on modern lines, mobilization of capital in joint-stock companies is essential. Countries which have developed this method to the fullest extent are in the lead so far as wealth, power, general comfort, and prosperity are concerned. Trade and industry have grown beyond the ability of individual capitalists to deal with efficiently. The extent to which this development has taken place in New Zealand is shown by a return submitted by the Commissioner for Inland Revenue, which states that 94 per cent. of the capital employed in trade and industry is in joint-stock company form, and only 6 per cent. in private hands. Further development and progress must depend largely upon the extension of the joint-stock method. Whatever is done to discourage such enterprise will retard progress, and, if carried to an extreme, will make it quite impossible for the Dominion to expand as it ought. The motive power which promotes the establishment of any industrial undertaking, or of any company having such objects in view, is the prospect of profit. Necessary capital will never be forthcoming unless the prospect of adequate profit is fairly secure. Such profit must be large enough to assure reasonable return upon the investment, and at the same time to provide such sufficient reserve as will assure investors that the business is being conducted on safe lines. The creation of reserves is essential to the successful carrying-on of any business undertaking. It is the means whereby companies can maintain and extend their business, and to create a condition which prevents the building-up of this precautionary standby must have a very bad effect upon their successful operation and progress. Under the existing basis of taxation the building-up of reserves is almost impossible, and the result is that companies are unable to extend operations, and development is prevented. Reserves are an essential factor in successful company organization, and should be reasonably encouraged wherever possible. If any company, existent or prospective, cannot do this after paying all charges, including taxes, then it is inevitable that it must either restrict its business or cease operations.

(h.) The rate of profit obtained by a company is largely fixed by competition, and if this competition comes only from other companies similarly situated, then, all being on the same level for taxation, they will pass the tax on to their customers. Where, on the other hand, companies are doing a class of business which comes into competition with other organizations such as private firms or individuals who pay very much lower taxes, then unless such companies are very much more efficient in their organization the tax cannot be passed on. A striking example of this is in the case of companies formed by financed farmers. The present company taxation is so high that the tax cannot be passed on because the borrower could not possibly pay it, the result being that if this tax is continued, such companies must cease to lend to farmers, and either find some more profitable form of investment or discontinue business.

(i.) If the present specially heavy tax is continued on investors in companies, the result will be that these investors must get a return from their company investments at least equal to that which they could get in other directions, otherwise they will not invest, and will attempt to withdraw that which they have invested. If, however, a general graduated tax were placed on the incomes of all individuals, no matter from what source derived, it would tend to stay where it was put, for the reason that no change of investment would enable its avoidance. It is clear, however, that one country cannot tax investors for a lengthy period at a higher rate than that charged by another country within easy reach and equally desirable to live in or invest in.

(j.) We are convinced that the taxation of joint-stock companies at the present graduated system and at high rates will seriously affect this form of enterprise. The tax is at a penal rate, far beyond any other in the British Empire. Companies are faced with the alternative of passing the tax on to their customers or ceasing business. In either event it is a loss to the community. From the point of view of the community as a whole, the question to consider is one of service. The community requires a form of organization that will give it the best form of service at the lowest possible cost. There are certain activities which require large capital in order to give efficient service, whilst there are others in which better service can be given by small concerns. If, however, an investor has to pay a high graduated tax if he puts his capital into a large concern, and can escape it by putting it into a small concern, then clearly the former will not get his capital unless it can show him that it is in a position to pass the tax on to its customers. This in turn means a handicap to the customer that may in the end be a greater evil than the handicap to the investor.

(k.) Under the New Zealand system of taxation, individuals with large incomes can, and do, escape the graduated tax applicable to such incomes. On income received from money lent at interest, or used in an individual trade or business, or in farming, or on income earned by personal exertion, the spread between the small and the wealthy man is the full extent of the graduated tax, which in this country at present is 8s. 9½d. in the pound. This is not, however, the position with respect to other classes of income. On income derived from shares in companies, or from Government war bonds, or on income derived from tax-paid company debentures that have been largely issued recently by co-operative companies and others, there is no spread at all, the small and the wealthy being all on the same footing. On income derived from local-body debentures the spread in tax is only 2s. 6d. in the pound, and on income derived from ordinary company debentures 3s. in the pound. It is as well to examine the results this system brings about. Take the case of a wealthy man whose taxable income is £10,000 a year. He pays £4,400 a year income-tax, but decides that he must avoid this, and accordingly calls in half his investments and buys tax-free war bonds. At the present market price these bonds will return him over 5 per cent. net, clear of tax; but in addition to that he has changed his taxable income from £10,000 a year to £5,000 a year, and his taxation-rate from 8s. 9½d. in the pound to 5s. 9½d. in the pound, so that his change of investment not only brings him over 5 per cent. on the best security the country has to offer, but saves him £750 tax on his remaining £5,000 of income, which is equal to another ½ per cent. interest on his war bonds, making his net return on these equal to 5½ per cent. To take another instance: Assuming the same man changes half his investment (a) to shares in companies that he finds are so situated that they can pass their

tax on to their customers; (b) to company debentures on which the companies have undertaken to pay tax; or (c) to preference shares in companies: in all these cases the saving of tax on his first £5,000 of income which comes about through making the change of investment adds  $\frac{3}{4}$  per cent. to the income he gets from the new investment. The same effect, but in a lesser degree, takes place if the same man can change half his investments to local-body debentures carrying 2s. 6d. tax to company debentures carrying 3s. tax, or to shares in small companies carrying a moderate rate of tax. The result is that men of large means are gradually transferring their capital to those investments where there is little or no spread between the small and the wealthy. Under a strictly individual system of income-tax this could not take place.

(l.) Let us illustrate the effect of the present system of taxation:—

In the case of freezing companies it is quite clear that the whole of the taxation must of necessity be passed on, and will ultimately reach the producer. Generally speaking, the freezing industry can only be carried on by companies bearing the maximum amount of taxation, and this is reflected to the full extent in the freezing-charges. To a very great extent, also, expenses incurred by these freezing companies—such, for instance, as the cost of coal, and shipping charges (also affected by the present system of taxation)—adds to the burden which the producer finally pays.

The evidence of gas companies affords an example which indicates how wages and the cost of living are increased by income-tax. These companies in evidence stated that, in costing their gas, income-tax is a regular item in the cost-sheets, and is worked out at so-much per thousand cubic feet of gas. Coal, which is also an important factor in their costing, and which is affected in the same manner, also increases the price of the gas to the consumer, as also do the charges of the shipping companies for the carriage of the coal. It will thus be seen that in the case of these companies the whole of the taxation is passed on to the consumer and materially increases the cost of living. If the position is examined it will be observed that in the end this high rate of taxation on certain classes of companies must finally affect the cost of living.

Ample evidence was submitted by companies on which farmers depend very largely for finance and various other services. The amount owing to stock and station (including farmers' co-operative) companies has been estimated at approximately £25,000,000; but, unlike freezing companies, these concerns cannot pass on the whole of the taxation. The effect on the producer, however, is much the same. With income-tax standing at 8s. 9 $\frac{3}{4}$ d. in the pound, it means that in order to get the pre-war net rate of interest these companies would have to charge from 11 per cent. to 12 per cent. for loans—rates which farmers cannot possibly pay. Consequently no farmer can get a new advance from any such concern at the present time. The companies as they collect the advances must therefore utilize the money for other purposes, and the farmer has to do without the finance.

Other lending institutions—such, for instance, as fire and life insurance and general investment concerns—have in the past advanced very largely on mortgage investment, but they are now driven out of this particular business by the very heavy taxation on the interest they would receive. To get a new rate of 6 per cent. on mortgages they would have to charge 10 $\frac{3}{4}$  per cent., a rate which clearly could not be paid. The effect is that finance is only being carried on by the aid of the Mortgages Extension Act—undoubtedly a most unsatisfactory position. If taxation were placed upon the individual instead of the company a large amount of money would again become available for investment on mortgages at reasonable rates of interest, and do much to hasten the repeal of the Mortgages Extension Act.

(m.) If production and industry cannot be supported on the joint-stock principle, there is no other system to take its place with anything like the same efficiency where the mobilization of capital in large blocks is required. There are very few individuals in this country wealthy enough to take up very large undertakings on their own resources, and under present conditions no wealthy individual would borrow for such a purpose, for the reason that the high graduated income-tax would prevent him from accumulating funds to reduce his liabilities. Further, the heavy death duties that a large estate has now to pay make it altogether too risky for a wealthy individual to carry heavy liabilities during his lifetime, as such duties in themselves form a sufficient liability. A large estate with heavy liabilities having death duties added might easily be forced into bankruptcy.

(n.) The same difficulty stands in the way of private firms operating in a large way. The complications caused by the withdrawal of capital through the death of a partner and by death duties have always to be borne in mind, and these prevent operations on a large scale.

(o.) Manufacture for export—such, for instance, as the manufacture of wool into tops, and other desirable industries which might easily be undertaken with advantage to the country cannot be undertaken where heavy taxation is placed on companies. Such companies could not compete in the markets of the world against competing companies organized in other countries where the individual system of taxation is operative.

(p.) The injustice of levying an income-tax of 8s. 9 $\frac{3}{4}$ d. in the pound on a company with a large capital, when such company may be earning a very small dividend, was frequently referred to in the course of the inquiry. It was pointed out that it was anomalous that a company with a capital of, say, £200,000, earning £10,000 a year—*i.e.*, 5 per cent. on its capital—should be taxed at the same rate as a company with a capital of £50,000 earning £10,000 a year—a profit equal to 20 per cent. on its capital. No practicable suggestion has been made whereby this injustice can be removed under the system which taxes companies as one unit, nor is it apparent how it is possible under the present system to overcome the anomaly which renders it impracticable for large companies, owing to the high rate of income-tax, to lend money on mortgage, except at a rate of interest the borrower cannot afford to pay.

(q.) The present system of taxing companies, which is peculiar to New Zealand, has been in operation for many years. In pre-war days income-tax was at the low rate of 1s. 4d. in the pound, and was proportional and not graduated. The charge was then carried without difficulty. When the war came the graduated system was adopted, and companies continued to be taxed as one

entity. It was then, however, looked upon as a war measure only. War-time taxation cannot be continued in peace-time without destruction of industry, ultimately drying up the sources of revenue.

(r.) As a majority of the Committee we are of opinion that the country should adopt the individual system of taxation, taxing companies on their undivided profits only. It is recognized that such a change, if made at once, would occasion a considerable loss of revenue, or would increase rates to a limit beyond the taxable capacity of individuals having a moderate income. Nevertheless we strongly recommend that the change should be contemplated, and that the finances of the country should, from now onward, be planned so as to make possible the introduction of this very necessary reform at the earliest date practicable. The recommendation does not in any way affect our strong opinion that it is absolutely necessary, in the interests of production and for the benefit of the Dominion generally, to immediately reduce the present graduated rate of income-tax to a maximum rate of 5s. in the pound.

NOTE.—The members adhering to the foregoing views are—Edward Anderson, Peter Barr, John Bitchener, Ewen A. Campbell, Walter Gow, E. W. Hunt, W. D. Hunt. A. Leigh Hunt, however, expresses partial dissent (see pages 14, 16, and 17).

39. *Minority Report on Company Taxation.*—Reasons against the alteration of the incidence of income-tax from companies to individuals:—

(a.) No evidence was heard from shareholders in companies or private traders, both of whose interests would be affected by the change. We must therefore assume that they do not desire any alteration in the present system.

(b.) Companies have the following advantages:—

- (1.) Shareholders' liability is limited.
- (2.) The transfer of shareholders' interests is greatly facilitated as compared with liquidation of partnership or individual businesses.
- (3.) Companies can finance by giving security over floating assets in a way that private traders cannot do.
- (4.) Companies do not have to make provision for death and succession duties.
- (5.) Aggregation of capital enormously increases the power of companies to trade in a large way.
- (6.) The continuity of existence of an incorporated body such as a company enables it to take fuller advantage of the natural growth and expansion of the Dominion than an individual. This enables a company to withstand more easily the effect of an excessive income-tax upon the capital value of its shares.

(c.) It is a fallacy to argue that the individual shareholder is at present taxed at the maximum rate on the profit that he makes. It is not his capital but the aggregation of capital that earns the profit and is so taxed.

(d.) Individual shareholders as such take no part in the profit-earning of a company, but generally invest their savings in such an enterprise in order to secure a tax-free investment, the small shareholders getting the benefit of the larger contributions of capital in combination with their own.

(e.) In view of the foregoing advantages possessed by companies and their shareholders, and the fact that companies are profit-earning units, it is reasonable and fair to other traders that the unit that makes the profit should pay the tax. We believe the soundest principle to follow in New Zealand is to tax the unit which actually earns the profit.

(f.) The transference of the tax from companies to shareholders would operate to the unfair advantage of companies as against private traders in competition with them, and would encourage the growth of powerful companies and combines or trusts to the disadvantage of the general public.

(g.) Even if shareholders received higher rates of dividend or the value of their shares were increased (which is by no means certain) they would have to pay in other ways in order to make up the revenue shortage: *e.g.*, the Commissioner of Taxes gave evidence that the proposed change in the incidence of company taxation would mean that the rate of income-tax on all taxable incomes of individuals between £300 and £2,000 would have to be at least doubled.

(h.) Business during the last thirty years has been based upon the present system of taxing companies instead of individuals, and the proposed change in its nature would lead to many injustices: *e.g.*, holders of preference shares would pay income-tax instead of receiving their dividends tax-free.

(i.) Payment of income-tax by companies ensures ease, economy, and certainty of collection. The opportunity for evasion is limited.

(j.) A heavy income-tax is really equivalent to a levy upon capital. The present income-tax, now that the era of abnormal prices is over, must result in a diminution of the value of the capital employed in every branch of trade and industry, just as the increase in the rate of land-tax affects the value of land. The capital in all trades and manufactures will be ultimately affected, although no doubt the capital employed in some will be affected less than in others, owing to differences of potentiality and latent powers of expansion and the varying nature of individual management. This depreciation of capital values has to be faced by all, whether individual traders or companies.

(k.) The rate of interest prevailing in every country depends upon the amount of capital available therein for investment as compared with the strength of the demand for it. The average rate of interest required for capital in each branch of trade or industry tends to be the same after allowing for an additional percentage to cover the differences in the risk involved in each trade or industry. Whether or not income-tax is paid by the companies or by the individual shareholders, the capital value of the shares of such companies will be determined by these two principles.

(l.) The present problem is not so much the incidence as the weight of the tax, caused by its steep graduation, which we agree should stop at not exceeding 5s. in the pound. It is our opinion that under present conditions this is not relatively an overwhelming tax for companies to pay in

return for the many advantages that they possess, and we believe that they could stand up against it and continue to carry on their important functions with advantage to their shareholders and the community. On the other hand, we are at one with the majority in thinking that most companies cannot continue to exist and return reasonable dividends to shareholders under a maximum tax of 8s. 9½d. in the pound.

NOTE.—The members adhering to the foregoing views are — William Barton, George Shirtcliffe, Bernard Tripp, C. J. Ward, and T. S. Weston.

40. The Committee has unanimously agreed that, in the interests of the prosperity of the Dominion, encouragement of its industry and production, and to prevent unemployment, it is essential that the present maximum rate of income-tax should be reduced to 5s. in the pound. The reasons for this recommendation can be briefly summarized as under :—

(a.) New Zealand is a young country, and has hence not yet accumulated sufficiently large stores of private wealth to enable it to finance public municipal and private undertakings. In this respect the Dominion is behind the States of Victoria and New South Wales.

(b.) An immediate reduction in the rate of income-tax would quickly bring about an all-round reduction in charges, and consequently a reduction in the cost of living, and an improved feeling generally.

(c.) Enterprise would be stimulated, and concerns which are now restricting their activities owing to heavy taxation would be encouraged to go on. The present high limit of 8s. 9½d. in the pound stifles enterprise, and investors subject to such a high rate will not embark on new undertakings or the extension of old ones with the prospect of halving all profits with the Government, and, in the event of failure, accepting liability for the whole of the losses.

(d.) The scale of graduation rises too steeply in New Zealand. Few private incomes exceed £10,000, and the graduated rate reaches up practically to the limit of such incomes. In the United States the graduation is much more gradual. The present heavy graduated tax was imposed as a necessity due to the war, and with the promise that the burden would be lightened at the very earliest moment.

(e.) The present high rate largely prevents the influx of capital from outside.

(f.) The immediate loss of revenue from the reduction of the rate to 5s. in the pound is estimated by the Commissioner for Inland Revenue at approximately £1,000,000. The Committee, from its knowledge of the position of the Dominion, considers that the effect of an immediate reduction of the maximum graduated rate would within a comparatively short period bring in more revenue than the amount likely to be received by the retention of the present rate.

The following resolution was passed unanimously :—

That the Committee is strongly of the opinion that under the present excessive burden of taxation the progress of the country and a return to normal conditions are being retarded, and many business undertakings necessary to the welfare of the country are being seriously handicapped. The Committee is, therefore, further of opinion that the scale of taxation should be immediately revised to provide for a maximum rate not exceeding 5s. in the pound, and that any deficiency in income from that source should be provided by Government economies in administration. If the reduction indicated is made, the improved feeling that it will bring about will so stimulate production and industry that the loss of income will quickly be made up.

The Committee on this question reiterates that the rate of taxation on smaller incomes is lower, and the exemptions on these smaller incomes higher, than in any other part of the Empire.

#### *Reducing the Exemption.*

41. The question of reducing the exemption rate below £300 was fully considered by the Committee, but the expressed opinion of the Commissioner for Inland Revenue was to the effect that the cost of handling the largely increased number of returns would come to considerably more than the income-tax to be collected from new taxpayers. It was obvious, therefore, that it would be useless to lower the exemption rate, and after very careful consideration the Committee decided not to recommend that the present exemption of £300 should be reduced.

NOTE.—From this section of the report A. Leigh Hunt expressed dissent (see pages 14 and 16).

#### *Carrying Forward of Losses.*

42. The Committee received a considerable amount of evidence on the question of the carrying forward of losses, or of allowing years in which losses are made to be set off against years in which profits are made. In England traders are allowed to average results for a period of years, but the Committee considers that the method most suitable for New Zealand conditions would be to permit losses to be carried forward to the next year's account. The following resolution was unanimously carried :—

That provision for years of loss should be made by permitting losses to be carried forward for not more than three years unless previously extinguished, and that a start should be made with the income-tax returns that are now coming in and on which income-tax will have to be paid in February, 1923.

#### *Deduction of Losses from Profits.*

43. Evidence was received on the question of taxpayers being allowed to set off losses made in certain directions against profits made in other directions in the same year and by the same individual. As an example of this, under the law as at present existing, losses made in business or in farming are not allowed to be set off against salaries or interest, or other profits. The Committee is of opinion

that this is inequitable, and that each individual should only be asked to pay a tax on his net income. It is therefore recommended that, in arriving at net income, losses in one undertaking should be as a set-off against profits made in another direction. The following resolution was unanimously passed:—

Losses made in one or more directions should in all cases be allowed as deductions from profits made in other directions.

#### LAND-TAX.

44. (a.) Land-tax in New Zealand is charged on the unimproved value of land. The rate is 1d. in the pound on taxable balances of £1,000 and under, increasing at the rate of 1/20000d. (·00005) until £138,000 is reached, when the maximum rate is 7½d. in the pound. These rates are subject to a super-tax of 33½d. Land-tax must be considered with income-tax. In New Zealand in arriving at a landowner's taxable income the Department deducts 5 per cent. on the unimproved value of the land on which land-tax is paid.

(b.) Land-tax differs from income-tax in that it is in the nature of a rent charge, payable from year to year, irrespective of any profits accruing from its occupation.

(c.) The right to occupy land in New Zealand is deemed by the State to be a privilege for which the occupier should pay, and such payment becomes a first charge upon the land, and precedes all other debts and liabilities.

(d.) In Appendix A appears a table comparing the land-tax in New Zealand with the combined State and Commonwealth land-taxes, on land of a similar unimproved value in the various Australian States. This table, however, is misleading, as the unimproved values upon which tax is paid are on a much lower basis in Australia than in New Zealand. The Australian Year-book shows that the total amount of land-tax collected in Australia, in State and Commonwealth combined, during 1920 amounted to 11s. 8d. per head of the population, compared with £1 5s. 9d. per head in New Zealand. It gives, too, the total unimproved value of land in Australia, including Tasmania, in 1918 as £200,041,457, whereas the unimproved value in New Zealand was £260,921,812.

(e.) The allowance for improvements in New Zealand is not nearly sufficient. It is a comparatively simple matter to assess the total capital value of land, but the unimproved value is always fixed much too high. It is safe to say that in very few cases in New Zealand could our improved country lands be brought from their absolutely unimproved state to their present improved condition for very much more than the amount allowed for improvement by the Valuation Department. The Committee considers that some means must be devised which would result in making a much greater allowance for improvements.

45. It should be mentioned here that in discussing land-tax the Committee is going into a question which affects the towns almost equally with the country. The general impression, particularly amongst country people, is that land-tax is largely a country matter, and that towns are not so much interested; but this is not the case. Approximately seven-sixteenths of the total land-tax collected in New Zealand comes from towns, and nine-sixteenths from the country.

46. On account of land-tax having to be paid when there are no profits, much of the evidence received was in the direction of substituting income-tax for land-tax. A series of tables has been prepared, and are set out in Appendix B, which shows the advantages and disadvantages of land and income-tax, as against income-tax alone at present graduated rates, both on properties of various sizes and on profits of various amounts. This table also shows the crushing effect of the combined graduated land and income tax upon large landowners. The tables are designed from the point of view of the owners of country lands and not town lands. In arriving at the total amount of capital used it has been assumed that under the present system of land-valuation the unimproved value of the land is 60 per cent. of the total investment, and that the other 40 per cent. consists of stock, plant, and land improvements. Some highly improved farms would have a larger percentage in stock, plant, and improvements, and a smaller percentage of the total capital for unimproved land; other very lightly improved properties would have a larger percentage of the total capital in unimproved land-values, and a smaller percentage in stock, plant, and improvements; but on the average it is thought that on the present system of land-valuation the assumption will not be far out. Properties are taken at an unimproved value ranging from £2,400 up to £210,000, and the total capital value ranges from £4,000 up to £350,000. The profits assumed are 2½ per cent., 5 per cent., 7½ per cent., 12½ per cent., 15 per cent., and 20 per cent. These percentages are after deducting all expenses, excepting only land and income tax. The table indicates that it is now practically impossible under present graduated systems of taxation to carry on farming and pastoral operations in a large way in this country.

47. From the evidence submitted to it the Committee was much impressed by the fact that the burden of land-tax, added to the increased heavy charges that the farmers now have to pay, is being felt severely by them, and will probably lead to a reduction in output. A decrease in production would be a serious matter for New Zealand, especially with the large increase which is taking place in our annual bill for interest and sinking funds on foreign debt, and which has to be paid in farm-produce. It is clearly essential that production should increase and not decrease.

48. For the reason stated, the Committee is strongly of opinion that an immediate reduction in the land-tax is necessary, and recommends that this should take the form of the removal of the super land-tax of 33½ per cent. This would mean a loss of £375,000 of land-tax revenue. The following resolution was passed unanimously:—

That this Committee recommends that the super-tax on land which was levied as a war measure be abolished as from the 1st April, 1922.

49. Consideration was given to the fact that a number of landowners have during the past season been obliged to pay their land-tax, or a portion of it, out of capital. There are undoubtedly many cases of hardship in this respect. The Commonwealth of Australia, and some of the States, make

special provision for rebate of the land-tax in certain cases of hardship. The Committee considers that where a landowner can prove conclusively to the Commissioner for Inland Revenue that, without deducting interest on borrowed money, he has no profits on which to pay land-tax, and this notwithstanding the fact that he has worked his property in a proper and workmanlike manner, the Commissioner for Inland Revenue should have power to remit that portion of the land-tax which is really being paid out of capital. The following resolution was carried unanimously :—

That the Commissioner for Inland Revenue be given discretion, by legislation next session, to remit the whole or part of land-tax levied upon an occupier in respect of rural lands which, though worked in a proper and workmanlike manner, have not produced sufficient, after deducting expenses of working (including local rates, but not including interest on mortgage of land or stock, or interest upon the value of such land and stock if unmortgaged), to pay such tax in whole or part.

50. From the evidence put before it the Committee has come to the conclusion that the graduated land-tax, which was originally imposed from the point of view of bursting up large landed estates, is now no longer required, and that it now has the effect of preventing the development of much of our land. A great deal of our hill country in New Zealand cannot produce more by close settlement; in fact, it often produced less in this way, at increased cost to the country for roading, &c. A great deal of this hill country can be more economically broken in and developed in large blocks. It is lands that can be cultivated, or that are suitable for dairying, that produce more when closely settled. Purely pastoral hill sheep-country will often give better results in fairly large blocks. The Committee is therefore of opinion that the present graduated system of land-tax should ultimately be abolished in favour of a flat rate, with a reduction on the smaller holdings, together with safeguards to ensure that the land is properly worked and not merely held for speculation. The graduated income-tax provides a sufficient surcharge on the larger holder. The following resolution was passed unanimously :—

That the Committee is of opinion that the graduated land-tax as at present imposed is not in the best interests of the country, inasmuch as it tends to restrict production and enterprise, and that a flat rate should be substituted.

51. It was pointed out that, under the law as it stands, holders of small and moderately sized blocks of land subject to mortgage are escaping both land and income tax by reason of the deductions granted. They are allowed to deduct the amount of a mortgage from the value of their unimproved land for taxation purposes, and thus escape land-tax; and for income-tax purposes they are allowed a 5-per-cent. deduction on the whole of the unimproved value of the land without deducting mortgage. They are also allowed to deduct interest on mortgage. It is obvious that there is one deduction too many, and it was unanimously resolved—

That the allowance of 5 per cent. upon the unimproved value of land allowed in computing taxable incomes be limited to the amount of the unimproved value upon which land-tax is paid.

52. Local bodies owning endowment and other lands pay no land-tax, and this appears wrong in principle. If these lands escape, it means that higher rates have to be paid on other lands to bring in the necessary revenue. There appears to be no reason why local bodies, when they lease these lands and obtain revenue from them, should not pay land-tax in the same manner as private owners. It was unanimously resolved—

That all lands owned by local bodies and leased for revenue purposes to persons, firms, or companies should be subject to land-tax on the same basis as privately owned lands.

53. The question of land-tax levied on Native lands was brought before the Committee. Large blocks of Native lands held in trust for a large number of Natives, and leased by the trustees to Europeans, are taxed on the graduated scale as if they belonged to one owner. The result in many cases is that a very large proportion of the rent, in some cases almost the whole of it, goes in land-tax, and there is often little, and sometimes nothing, left for the Natives. We have not had time to go closely into this matter, and have no recommendation to make beyond this :—

That from the statements made to the Committee it appears as if an injustice has been inflicted on the Natives, and it is recommended that it should be inquired into.

#### DOUBLE TAXATION.

54. The question of dual taxation on British companies operating in New Zealand was considered. New Zealand is, and will be for many years to come, in the development stage, and the Committee thinks it most desirable that outside capital, and particularly British capital, should be attracted and not discouraged. The Committee was informed that a satisfactory arrangement had been arrived at between the British and Australian authorities with regard to the taxation of British capital invested in Australia. The Committee has been unable to learn exactly what this arrangement is, but feels satisfied that it is not in the interest of New Zealand to permit conditions for the investment of British capital in New Zealand to be less favourable than in Australia. The following resolution was carried unanimously :—

That the question of dual taxation be further considered with the British authorities, and arrangements made that will result in British capital invested in New Zealand being placed in a position at least as favourable as in Australia, provided such arrangement does not put British investors on a better footing than New Zealand investors.

#### TAX ON DEBENTURES.

55. The question of taxation on the interest received from investments in debentures of public bodies and companies was fully considered by the Committee. At the present time public-body debentures issued in New Zealand pay a tax of 2s. 6d. in the pound, which is met by the debenture-



holders, who have the right to claim on the Department for a refund where their taxable incomes are below the 2s. 6d. rate. The effect of this is that all public-body debentures issued in New Zealand bear a maximum graduated rate of 2s. 6d. instead of 8s. 9½d. in the pound. Similarly, the tax on debentures in public companies is the maximum rate of 3s. in the pound on the same basis. The Committee believes that one object of the differentiation was to encourage the lending of money to public bodies, but does not feel that this is a sufficiently strong reason for treating the resulting income differently from that received from other sources, thereby creating an anomaly, and, consequently, an injustice. Take as an example money lent to farmers to assist production, the interest on which may be taxed at a maximum graduated rate of 8s. 9½d. in the pound. This, in effect, adds to the cost of all money borrowed by farmers, and makes it extremely difficult for them to secure the accommodation they require. The Committee therefore unanimously resolved—

That interest received from investment in debentures of public bodies and companies should be taxed at the same rate as that from other sources, and the separate assessment under subsection (3) of section 112 of the Land and Income Tax Act, 1916, should be abolished.

#### TAXATION ON GOVERNMENT AND LOCAL-BODY TRADING CONCERNS.

56. The Committee has carefully considered the question of charging income-tax to public bodies and Government trading concerns. Such concerns in general have either replaced or come into competition with privately owned undertakings which have to pay income-tax at the usual rates. Certain public utilities are provided in one town by companies which pay income-tax, and in another town by municipal enterprise which escapes tax, with the result that the town served by a company has to pay increased charges for the services rendered in order to cover the tax, and indirectly, therefore, bears part of the taxation which the other town escapes. It is the opinion of the Committee that, if Government or local-body trading is to operate, it should do so on even terms with private enterprise, and should accordingly bear the charges and taxes to which private undertakings are subject. Under no other conditions is such competition fair, or in the interests of the community. Publicly owned undertakings are carried on with borrowed money secured on the credit of the ratepayers, and therefore cannot be taxed on the same basis as companies. It would therefore be necessary, for taxation purposes, to assume an income based upon a fixed percentage of the total amount of capital employed, and this might be fixed at a lower rate when capital is borrowed within the Dominion than when borrowed from foreign lenders. The following resolution was unanimously carried :—

That income-tax, equivalent approximately to the average rate paid by companies, be paid by all public bodies and Government trading and publicly owned utility undertakings, and the tax arrived at by assuming income based on a fixed percentage of the total amount of capital employed.

Evidence was given to the effect that the State Fire Insurance Department was placed on a better footing as far as income-tax on overseas treaty reinsurances is concerned than is the case with private fire-insurance companies operating in the Dominion. The Committee considered that all should be on the same footing, and unanimously resolved—

That in the matter of treaty reinsurances the State Fire Department should be placed on the same basis as regards taxation as private insurance companies.

#### PROPRIETARY LIFE-INSURANCE COMPANIES.

57. The question of the taxation of proprietary life-insurance companies was considered. The profits of these companies retained by the proprietors cannot be looked upon in the same light as the surpluses of mutual life-assurance associations, the whole of which are divisible amongst their policyholders, and which receive special consideration. The following resolution was carried unanimously :—

That the income of proprietary life-insurance companies should be treated, in assessing tax in the same manner as that of ordinary trading companies.

#### BORING OPERATIONS BY COAL COMPANIES.

58. Evidence was put before the Committee on the question of boring operations by coal-mining companies. Money spent in this direction is now treated as capital expenditure, and cannot be deducted as an expense for income-tax purposes. It was pointed out that there is a considerable difference between boring operations to test a new coalfield and boring operations that are continually required to locate the continuity of a coal-seam already being worked, and that this latter class of boring should be treated as working expenditure. This appeared reasonable, and the following resolution was passed unanimously :—

That boring operations in order to prove the position and continuity of a coal-seam already being worked should be treated as working expenditure.

#### WASTING ASSETS.

59. Representatives of the coal-mining industry claimed that they should be allowed a certain allowance for working out a wasting asset. The Committee considered this claim to be a reasonable one, and passed the following resolution unanimously :—

That a similar allowance be made to coal-mine owners for the exhaustion of coal as is now allowed to owners of areas of milling-bush for the exhaustion of timber.

#### DEPRECIATION OF GOODWILL ON LEASEHOLD.

60. Consideration was given to the question of allowances for income-tax purposes of the amount paid for the goodwill of a leasehold which must necessarily vanish during the currency of the lease.

The Committee considered also this a legitimate deduction from income, and the following resolution was carried unanimously :—

That in the opinion of the Committee the amount paid for the goodwill of a lease should be admitted as a deduction from income, spread equally over the period of the lease.

#### EARNED AND UNEARNED INCOME.

61. The differentiation which at present exists, and the manner of its application, is found to be causing considerable dissatisfaction, and strong representations were made by many who are concerned as recipients of military and civil pensions to the effect that such pensions should not be classed as unearned income. It was also urged that income derived from the investment of the savings of a life of strenuous endeavour are equally entitled to be termed "earned income." It has been strongly contended that there is a real difference in "taxable ability" between income derived from personal effort and that from the investment of capital, however acquired. In any case, admitting this to be so, it is extremely difficult to decide under which heading pensions should stand.

The Australian Royal Commission on Taxation (with one dissentient) decided in favour of the principle of differentiation, as also did the British Royal Commission of 1920, in both cases fixing a maximum beyond which it should not apply. It was, however, urged that arguments which fairly apply in older countries, where there is an accumulation of inherited wealth, cannot be held to apply with the same force in a young country, such as New Zealand, where there is comparatively little inherited wealth, but where incomes are either being earned or have resulted from the personal effort and savings of those who enjoy them.

After giving full weight to all these considerations, and recognizing the extreme difficulty of discriminating between the two classes, the Committee adopted the following resolution :—

That, owing to the difficulty of classing earned and unearned income, the distinction should cease.

NOTE.—On final consideration of this subject, Messrs. E. W. Hunt, A. Leigh Hunt, and T. S. Weston dissented from the resolution.

#### SALES AND TURNOVER TAXES.

62. A considerable amount of evidence was received in connection with the taxes which are in operation in Canada and other countries, generally known as "sales and turnover taxes." A great deal of the evidence went to show that these taxes are being operated in other countries with more or less success, but the Committee concluded that the information available in New Zealand was not sufficient to enable it to arrive at a definite judgment as to the advisability or otherwise of adopting either. The Committee, however, strongly recommends that inquiries be made as to the working of these taxes, and that all possible information should be obtained with regard to them, with a view to ascertaining whether it is worth while bringing either of them into operation, wholly or partially, in this country. The Committee is further strongly of opinion that, even if either tax were adopted, it should not be looked upon as a source of additional revenue, but should be used to relieve existing taxation. It is felt that the country requires less, and not more, taxation to enable it to progress as it should, and that additional taxes, no matter in what form, unless accompanied by reduction to at least an equal extent in other directions, would only add to the already heavy load, more especially if they involve additional cost of collection. It is suggested that the only object of exploring new avenues of taxation should be to ascertain whether their adoption would result in the better and more equitable distribution of the taxation load at present borne by the country.

#### GENERAL.

63. Representations were made by individuals and others regarding the incidence of taxation on particular interests, regarding which the Committee has no recommendation to make.

The Committee is so strongly of opinion that the reductions in taxation which it has recommended are necessary in order to restore confidence, stimulate production and industry, and promote employment, that it considers that if all efforts to reduce public expenditure and restore the profit-earning capacity of the railways, aided by the small additional taxation suggested, fail to meet the reduction in the revenue of approximately £1,375,000 which it is estimated our recommendations, if adopted, will bring about, it would be better for the Government to face a deficiency in its accounts for even two years, rather than to continue existing land and income taxes on their present scale. The following resolution on this question was carried unanimously :—

That in the opinion of the Committee it would be preferable for the Government, after every effort has been made to reduce expenditure, to face a moderate deficiency for even two years than to continue the existing land and income taxes without giving effect to the recommendations for reduction already made.

64. The present rates of taxation are a tax on industry and production, both of which are essential to the progress and development of the Dominion. To continue these excessive rates will tend to lessen production and consequently the volume of taxation. On the other hand, the Committee is strongly of opinion that a reduction in taxation will attract outside capital to the Dominion, and, by the general increase in the prosperity of the Dominion and its people, will quickly make up for any revenue lost by the reduction in the rate.

65. The Committee wishes to emphasize in the most forcible manner possible that legislation which tends to restrict the earning-powers of the individual must retard the wealth and progress of the Dominion as a whole. In this connection the following views which were recently expressed by Mr. F. Appleton, the Secretary of the British Federation of Trade-unions, may be quoted :—

"The most unhappy of prevailing assumptions is that taxing capital relieves labour. To the extent that the Government needlessly takes capital by way of taxes, it is responsible for unemploy-

ment. Income-tax is said to be the most equitable of all taxes, because it places the burden where the money is. Up to a point when the tax absorbs too large a proportion of the income, the incentive to effort is reduced, and men fail to maintain their maximums. That point has been reached to-day. Thousands of capable men are disheartened, and they are resenting the attempt to place too large a proportion of their earnings at the disposal of bureaucracy. This is bad for everybody, but particularly is it bad for the thousands of unemployed. They, together with those who claim to represent them, should insist upon the tax being reduced, and upon the money remaining where it can be used to promote the good of industry."

#### RECAPITULATION.

66. The Committee arrived at unanimous decisions on all matters except (a) taxation of companies, (b) earned and unearned income, and (c) reduction of exemption on income-tax.

In the case of (a), "company taxation," the majority favour the taxation of shareholders in companies on their dividends and taxing companies on their undivided profits only, the change to be made at the earliest date that the finances of the country will permit. The minority favour taxation of the companies direct.

In regard to (b), "earned and unearned income," the majority favoured the abandonment of the present distinction, reverting to the old system. The minority favour the present system.

In regard to (c), "reduction of exemption on income-tax," the majority favour the present exemption of £300. The minority, consisting of one member, favours the exemption on unmarried persons being reduced to £200.

67. A recapitulation of the unanimous decisions and recommendations by the whole Committee is set out hereunder—

- (a.) That, as a first step to reduce taxation, it is imperative that further substantial economies in administration should take place, and that the public expenditure of the Dominion should be still further reduced.
- (b.) That, in order to stimulate production and industry and lessen unemployment, the scale of income taxation should be immediately revised to provide for a maximum rate not exceeding 5s. in the pound.
- (c.) That a system permitting the carrying forward of losses should be adopted.
- (d.) That losses made in one or more directions should be allowed as a deduction from profits made in other directions.
- (e.) That the question of double taxation be discussed with the British authorities.
- (f.) That interest from company and public-body debentures should be taxed at the same rate as income from other sources.
- (g.) That all Government and public-body trading undertakings should be subject to land and income taxes, and that the State Fire Department should be taxed on the same basis as private insurance companies in respect to overseas treaty reinsurances.
- (h.) That proprietary life-insurance companies should be taxed on the same basis as ordinary trading companies.
- (i.) That certain boring operations of coal companies should be treated as working expenditure.
- (j.) That coal-mine owners should be treated on the same basis as sawmillers with regard to allowances for wasting assets.
- (k.) That the amount paid for the goodwill of a lease should be apportioned over the term of the lease, and admitted as a deduction from income.
- (l.) That careful inquiry should be made as to the working of the sales and turnover taxes in other countries, with a view to ascertaining whether it is desirable to adopt either of them in this Dominion, but only as a relief to present taxation.
- (m.) That the super-tax on land, which was levied as a war measure, should be abolished as from the 1st April, 1922.
- (n.) That discretion be given to the Commissioner for Inland Revenue to remit the whole or part of the land-tax of an occupier of rural land which, though worked in a proper and workmanlike manner, have not produced sufficient to pay such tax in whole or in part.
- (o.) That the allowance of 5 per cent. upon unimproved value of land be limited to the amount of unimproved value upon which land-tax is paid.
- (p.) That all lands owned by local bodies and leased for revenue purposes shall be subject to land-tax on the same basis as privately owned lands.
- (q.) That, in order to stimulate production and industry, land-tax should be levied at a flat instead of a graduated rate, with deductions on the smaller holdings.

In conclusion, we, the members of the Committee, desire to assure you that we have fully realized the difficulty of the problem set before us, and we recognize that in the final settlement of the question you have no easy task. We hope that the result of our inquiry as presented in this report may prove useful, and that the Government may see its way to legislate in the directions suggested.

We have, &c.,

W. D. HUNT (Chairman).	A. LEIGH HUNT.
E. ANDERSON.	ERNEST W. HUNT.
PETER BARR.	G. SHIRTCLIFFE.
WILLIAM BARTON.	BERNARD TRIPP.
JOHN BITCHENER.	CHARLES J. WARD.
E. F. CAMPBELL.	T. SHAUER WESTON.
WALTER GOW.	

## RESERVATION.

## REDUCTION OF INCOME-TAX EXEMPTION.

As I find myself unable to subscribe to the section of the general report dealing with the above subject, I submit the following statement and recommendation :—

In New Zealand the exemption (£300) allowed on income before taxable income is reached is higher than in Great Britain or in other parts of the British Dominions, as will be seen by the following: Britain, £150; Canada and New South Wales, £250; Queensland, £200; Western Australia, £156 for married persons and £100 for single persons; Victoria and South Australia, £150; Tasmania, £156 for married persons and £125 for single persons.

There appears no reason whatever why this Dominion should adopt a higher exemption than obtains in the countries cited. I am not, however, prepared to recommend its reduction to married men, believing as I do that the burden on the family man is quite sufficiently heavy at the present time. I am, however, strongly of the opinion that the exemption should be lowered to £200 to unmarried persons, and it should be applicable to persons of either sex. I fail to see why persons having no family burdens, who are in receipt of an income of £200 or over, should not contribute their quota to the general expenses of the country. This view was supported by evidence of a number of witnesses before the Committee, and, in fact, the only argument that has been put forth against it is the cost of collection. I fail to see why the cost of collection should be greater in New Zealand than in any of the countries above mentioned. I further contend that in this Dominion the cost should be very much lower than in a densely populated country like Great Britain.

It is, in my opinion, reasonable to assume that the conditions prevailing in the Australian States are very similar to those in this country, and, further, that the policy of a much lower exemption adopted in Australia is sufficient ground for believing that the cost of collection is not excessive. In the case of Western Australia it is found that it pays the State to collect income-tax on an amount as low as even £100. I do not, however, suggest so low a limit.

If legislation provides a sufficiently heavy penalty for the failure to submit income-tax returns, then the cost of collection will be minimized, and should be no greater per taxpayer than it is at the present time. Moreover, the present system could be extended whereby every employer would be required to send in a return to the Taxation Department setting forth the salaries and wages of *all* employees.

It is impossible to secure any actual data on which to base an opinion as to the amount of revenue which would be derived from this source, but I contend that it may be reasonably assumed that the amount would be considerable, and would go towards relieving the undue burdens of other classes of taxpayers. I therefore recommend—

That the income-tax exemption to unmarried persons be fixed at £200.

A. LEIGH HUNT.

## RESERVATION.

## TAXATION OF COMPANIES.

I find myself unable to fully subscribe to the section, or to concur in the recommendation, of the majority report dealing with the above subject, and I consequently submit the following statement and recommendation :—

*Present System of Graduated Taxation.*—The present system of taxation of companies is both unscientific and unjust, the application of the tax graduated on the aggregate amount of profit being wrong in principle and unfair in practice. For instance, a shareholder with a small holding whose total income is less than the exemption (£300) pays through the company at the maximum rate of 8s. 9½d. in the pound equally with the large shareholder whose aggregate income would entail his paying the maximum rate. This results from the operation of the present system of graduation, by which a company is taxed on the aggregate amount of profit it makes, irrespective of the relation the profit bears to the amount of capital employed: that is to say, a company employing a large amount of capital and earning only a small percentage of profit has to pay the maximum tax (8s. 9½d. in the pound) because the amount of profit it makes exceeds a certain sum, whereas a group of companies making the same aggregate amount of profit would pay a much lower rate of tax, though their respective percentages of profit on capital employed are much greater. Large companies are commonly composed of a large number of holders of small interests, whereas the holdings in small companies are usually much greater. To levy a tax according to the height or weight of the taxpayer, or to revert to the old English tax based on the number of windows in the taxpayer's dwelling, would be as reasonable as to perpetuate this method of graduated tax on companies.

*Equitable System of Graduation.*—The only equitable system of graduated taxation applicable to companies is a tax based on the relative proportion of profit to the shareholders' capital employed in the business: that is to say, a company earning 20 per cent. on its capital should bear a greater burden of taxation than a company earning only, say, 5 per cent., irrespective of the amount of the aggregate profit in each case. The fairness of this method of company-taxation was generally recognized, but evidence of the practicability of its application given before the Committee disclosed apparently insuperable difficulties. An alternative method which is equitable and readily practicable must therefore be found.

*Transferring Company Tax to Individual Shareholder.*—To entirely absolve companies from taxation would give them an undue advantage over the private trader with whom they are in competition, and who has to pay graduated tax on his trading profits. Consequently, the company being a separate trading entity, should be taxed, if only as agent for its shareholders, but companies should be uniformly taxed. I am therefore unable to recommend the transference of the entire tax to the individual.

*Proposed Solution.*—To arrive at a method of taxing companies which will avoid the existing discrimination between large and small companies already indicated, I suggest the adoption of a flat rate of tax on all the profits of companies, whether distributed or not. While this fairly adjusts the tax as between large and small companies, it does not, *per se*, adjust the rights of individual shareholders. To achieve this I recommend a modification of the British system (which may be safely followed) whereby the individual shareholder, after receipt of his dividend, may claim an adjustment of the difference between the tax already paid by the company as his agent and the graduated rate which he is entitled personally to pay.

*Advantages of Proposed Method.*—The advantages of this system are: (a) Graduation now unfairly applied to the aggregate profits of companies (irrespective of percentage of profit to capital) is abolished; (b) the tax is levied on an equal basis on all the profits of all companies; (c) the company is recognized as a trading entity which should pay tax as such, or as agent for its shareholders; (d) the collection of tax from companies, in first instance, enables prompt collection to be made at the source and reduces evasion to a minimum; (e) the provision for adjustments with shareholders ensures that the tax ultimately paid by the individual will be on a just basis, which should be the aim of any system of taxation; (f) the adoption of this system is *immediately practicable*, because it does not involve any revolutionary change in the present method of collection; (g) it fully ensures the provision of whatever revenue is levied through this channel, and eliminates the uncertainty which would inevitably attach to a reversion to direct taxation; (h) any loss of revenue that may be occasioned by the adjustments with shareholders could rightly be equalized by a variation of the graduated tax on individuals.

It has been argued that the work of making adjustments with individual shareholders will entail an expense incommensurate with the benefit to taxpayers, but this is a nebulous bogey, and should not be allowed to interfere with the equitable incidence of the tax. There would necessarily be a minimum amount of rebate fixed, as it would be absurd to make refunds which would be of no benefit to the individual taxpayer, and the retention of these fractions would easily counterbalance the book-keeping expense connected with the adjustments generally. From the fact that such adjustments are part of the established British system it is reasonable to conclude that they involve no undue expense, and that the principle is quite practicable and subject to no serious disadvantage.

*Urgency of Change.*—The present system of graduated company taxation being unjust, it should be immediately abolished, its retention being intolerable. The alternative system here recommended makes it easily practicable for the change-over to be enacted during the present session of Parliament I therefore recommend:—

- (1.) That the income-tax on companies be levied on the basis of a flat rate on the profits (whether distributed or not).
- (2.) That provision be made for adjustment between the rates of tax payable by individual shareholders and that paid by the company.

A. LEIGH HUNT.

#### APPENDIX A.

##### LAND-TAX OF AUSTRALIAN STATES AND COMMONWEALTH COMBINED.

Taxable Amount.	New Zealand.	Victoria and Commonwealth combined.	New South Wales and Commonwealth combined.	South Australia and Commonwealth combined.	West Australia and Commonwealth combined.	Queensland and Commonwealth combined.
£	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
1,000	5 11 1	7 7 0	9 8 8	7 7 0	10 1 2	12 11 1
2,000	11 13 4	15 4 8	19 8 8	15 4 8	20 13 0	27 14 8
3,000	18 6 8	23 13 0	29 18 0	23 13 0	31 15 6	67 18 0
5,000	33 6 8	42 1 8	52 10 0	42 1 7	55 12 7	135 16 7
10,000	80 11 1	97 10 0	118 6 7	118 6 8	124 11 7	305 16 7
20,000	216 13 4	248 6 7	289 19 11	248 6 7	302 9 11	706 13 3
50,000	958 6 8	1,020 16 7	1,124 19 11	1,114 11 7	1,156 4 11	2,364 19 11
75,000	1,958 6 8	2,031 5 0	2,187 10 0	2,177 1 8	2,234 7 6	4,375 0 0
100,000	3,305 11 1	3,208 6 8	3,416 13 4	3,406 5 0	3,479 3 4	6,333 6 8
150,000	6,541 13 4	5,562 10 0	5,875 0 0	5,864 11 8	5,968 15 0	10,250 0 0
200,000	8,722 2 9	7,916 13 4	8,333 6 8	8,323 11 4	8,458 6 8	14,166 13 4

APPENDIX B.

COMPARATIVE STATEMENT OF LAND-TAX AND INCOME-TAX ASSUMING UNIMPROVED VALUE OF LAND IS 60 PER CENT. OF TOTAL CAPITAL [IN LAND, IMPROVEMENTS, STOCK, AND PLANT, AND ASSUMING AN EARNING OF 2½ PER CENT. ON TOTAL CAPITAL EMPLOYED BEFORE DEDUCTION OF LAND AND INCOME TAX.

Un-improved Value (60 per Cent.).	Stock, Implements, and Improvements (40 per Cent.).	Total Capital employed in Property and Stock.	Net Income on Capital employed before Taxes deducted.	Exemption.	5 per Cent. on Unimproved Value allowed as Deduction from Assessable Income.	Taxable Income.	Income-tax.		Land-tax on Unimproved Value.	Total Tax.	Percentage Net Income to Capital after Taxes deducted.	Without Land-tax.				Excess of Land and Income Tax over Income-tax only.	Excess of Income-tax only over Land and Income Tax.
							£	s. d.				£	s. d.	£	£		
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.	
£ 2,400	£ 1,600	£ 4,000	£ 100	£ 300	£ 120	£ ..	£ ..	£ s. d.	£ s. d.	2.14	£ 100	£ 300	£ ..	£ s. d.	£ s. d.	£ s. d.	
4,500	3,000	7,500	187½	300	225	..	..	29 7 7	29 7 7	2.11	187½	300	..	..	29 7 7	..	
6,000	4,000	10,000	250	300	300	..	..	41 13 4	41 13 4	2.08	250	300	..	..	41 13 4	..	
7,500	5,000	12,500	312½	300	375	..	..	55 4 3	55 4 3	2.05	312½	300	12½	0 15 0	54 9 3	..	
9,000	6,000	15,000	375	300	450	..	..	70 0 0	70 0 0	2.03	375	300	75	4 10 0	65 10 0	..	
12,000	8,000	20,000	500	300	600	..	..	103 6 8	103 6 8	1.98	500	300	200	12 0 0	91 6 8	..	
18,000	12,000	30,000	750	150	900	..	..	185 0 0	185 0 0	1.88	750	150	600	42 0 0	143 0 0	..	
24,000	16,000	40,000	1,000	..	1,200	..	..	286 13 4	286 13 4	1.78	1,000	..	1,000	90 0 0	196 13 4	..	
30,000	20,000	50,000	1,250	..	1,500	..	..	408 6 8	408 6 8	1.68	1,250	..	1,250	128 2 6	280 4 2	..	
42,000	28,000	70,000	1,750	..	2,100	..	..	711 13 4	711 13 4	1.48	1,750	..	1,750	223 2 6	488 10 10	..	
57,000	38,000	95,000	2,375	..	2,850	..	..	1,203 6 8	1,203 6 8	1.23	2,375	..	2,375	377 0 7	826 6 1	..	
72,000	48,000	120,000	3,000	..	3,600	..	..	1,820 0 0	1,820 0 0	0.98	3,000	..	3,000	570 0 0	1,250 0 0	..	
90,000	60,000	150,000	3,750	..	4,500	..	..	2,725 0 0	2,725 0 0	0.68	3,750	..	3,750	853 2 6	1,871 17 6	..	
120,000	80,000	200,000	5,000	..	6,000	..	..	4,633 6 8	4,633 6 8	0.18	5,000	..	5,000	1,450 0 0	3,183 6 8	..	
150,000	100,000	250,000	6,250	..	7,500	..	..	6,541 13 4	6,541 13 4	..	6,250	..	6,250	2,164 1 2	4,377 12 2	..	
180,000	120,000	300,000	7,500	..	9,000	..	..	7,850 0 0	7,850 0 0	..	7,500	..	7,500	2,831 5 0	5,018 15 0	..	
210,000	140,000	350,000	8,750	..	10,500	..	..	9,158 6 8	9,158 6 8	..	8,750	..	8,750	3,576 11 2	5,581 15 6	..	

COMPARATIVE STATEMENT AS ABOVE ASSUMING AN EARNING OF 5 PER CENT. ON TOTAL CAPITAL EMPLOYED BEFORE DEDUCTION OF LAND AND INCOME TAX.

2,400	1,600	4,000	200	300	120	..	..	14 5 4	14 5 4	4.64	200	300	..	..	14 5 4	..
4,500	3,000	7,500	375	300	225	..	..	29 7 7	29 7 7	4.60	375	300	75	4 10 0	24 17 7	..
6,000	4,000	10,000	500	300	300	..	..	41 13 4	41 13 4	4.58	500	300	200	12 0 0	29 13 4	..
7,500	5,000	12,500	625	275	375	..	..	55 4 3	55 4 3	4.56	625	275	350	21 0 0	34 4 3	..
9,000	6,000	15,000	750	150	450	150	9 0 0	70 0 0	79 0 0	4.47	750	150	600	42 0 0	37 0 0	..
12,000	8,000	20,000	1,000	..	600	400	24 0 0	103 6 8	127 6 8	4.36	1,000	..	1,000	90 0 0	37 6 8	..
18,000	12,000	30,000	1,500	..	900	600	42 0 0	185 0 0	227 0 0	4.24	1,500	..	1,500	172 10 0	54 10 0	..
24,000	16,000	40,000	2,000	..	1,200	800	64 0 0	286 13 4	350 13 4	4.12	2,000	..	2,000	280 0 0	70 13 4	..
30,000	20,000	50,000	2,500	..	1,500	1,000	90 0 0	408 6 8	498 6 8	4.00	2,500	..	2,500	412 10 0	85 16 8	..
42,000	28,000	70,000	3,500	..	2,100	1,400	154 0 0	711 13 4	865 13 4	3.76	3,500	..	3,500	752 10 0	113 3 4	..
57,000	38,000	95,000	4,750	..	2,850	1,900	256 10 0	1,203 6 8	1,459 16 8	3.46	4,750	..	4,750	1,318 2 6	141 14 2	..
72,000	48,000	120,000	6,000	..	3,600	2,400	384 0 0	1,820 0 0	2,204 0 0	3.16	6,000	..	6,000	2,040 0 0	164 0 0	..
90,000	60,000	150,000	7,500	..	4,500	3,000	570 0 0	2,725 0 0	3,295 0 0	2.80	7,500	..	7,500	2,831 5 0	463 15 0	..
120,000	80,000	200,000	10,000	..	6,000	4,000	960 0 0	4,633 6 8	5,593 6 8	2.20	10,000	..	10,000	4,400 0 0	1,193 6 8	..
150,000	100,000	250,000	12,500	..	7,500	5,000	1,450 0 0	6,541 13 4	7,991 13 4	1.80	12,500	..	12,500	5,500 0 0	2,491 13 4	..
180,000	120,000	300,000	15,000	..	9,000	6,000	2,040 0 0	7,850 0 0	9,890 0 0	1.70	15,000	..	15,000	6,600 0 0	3,290 0 0	..
210,000	140,000	350,000	17,500	..	10,500	7,000	2,555 0 0	9,158 6 8	11,713 6 8	1.65	17,500	..	17,500	7,700 0 0	4,013 6 8	..

B-5.

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COMPARATIVE STATEMENT OF LAND-TAX AND INCOME-TAX ASSUMING UNIMPROVED VALUE OF LAND IS 60 PER CENT. OF TOTAL CAPITAL IN LAND, IMPROVEMENTS, STOCK, AND PLANT, AND ASSUMING AN EARNING OF 7½ PER CENT. ON TOTAL CAPITAL EMPLOYED BEFORE DEDUCTION OF LAND AND INCOME TAX.

A—B. S.	Un-improved Value (60 per Cent.).	Stock, Implements, and Improvements (40 per Cent.).	Total Capital employed in Property and Stock.	Net Income on Capital employed before Taxes deducted.	Exemption.	5 per Cent. on Unimproved Value allowed as Deduction from Assessable Income.	Taxable Income.	Income-tax.	Land-tax on Unimproved Value.	Total Tax.	Percentage Net Income to Capital after Taxes deducted.	Without Land-tax.				Excess of Land and Income Tax over Income-tax only.	Excess of Income-tax only over Land and Income Tax.
												Net Income (as before) before Taxes deducted.	Exemption.	Taxable Income.	Income-tax.		
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.	
£ 2,400	£ 1,600	£ 4,000	£ 300	£ 300	£ 120	£ ..	£ s. d.	£ s. d.	£ s. d.	7.14	£ 300	£ 300	£ ..	£ s. d.	£ s. d.	£ s. d.	
4,500	3,000	7,500	562½	300	225	37	2 4 5	29 7 7	31 12 0	7.07	562½	300	262	15 14 5	15 17 7	..	
6,000	4,000	10,000	750	150	300	300	18 0 0	41 13 4	59 13 4	6.90	750	150	600	42 0 0	17 13 4	..	
7,500	5,000	12,500	937½	..	375	562	38 5 5	55 4 3	93 9 8	6.75	937½	..	937	81 7 6	12 2 2	..	
9,000	6,000	15,000	1,125	..	450	675	49 15 7	70 0 0	119 15 7	6.70	1,125	..	1,125	108 5 7	11 10 0	..	
12,000	8,000	20,000	1,500	..	600	900	76 10 0	103 6 8	179 16 8	6.60	1,500	..	1,500	172 10 0	7 6 8	..	
18,000	12,000	30,000	2,250	..	900	1,350	145 2 6	185 0 0	330 2 6	6.40	2,250	..	2,250	343 2 6	..	13 0 0	
24,000	16,000	40,000	3,000	..	1,200	1,800	234 0 0	286 13 4	520 13 4	6.20	3,000	..	3,000	570 0 0	..	49 6 8	
30,000	20,000	50,000	3,750	..	1,500	2,250	343 2 6	408 6 8	751 9 2	6.00	3,750	..	3,750	853 2 6	..	101 13 4	
42,000	28,000	70,000	5,250	..	2,100	3,150	622 2 6	711 13 4	1,333 15 10	5.59	5,250	..	5,250	1,588 2 6	..	254 6 8	
57,000	38,000	95,000	7,125	..	2,850	4,275	1,084 15 7	1,203 6 8	2,288 2 3	5.09	7,125	..	7,125	2,622 17 10	..	334 15 7	
72,000	48,000	120,000	9,000	..	3,600	5,400	1,674 0 0	1,820 0 0	3,494 0 0	4.59	9,000	..	9,000	3,735 0 0	..	241 0 0	
90,000	60,000	150,000	11,250	..	4,500	6,750	2,421 11 2	2,725 0 0	5,146 11 2	4.06	11,250	..	11,250	4,950 0 0	196 11 2	..	
120,000	80,000	200,000	15,000	..	6,000	9,000	3,735 0 0	4,633 6 8	8,368 6 8	3.31	15,000	..	15,000	6,600 0 0	1,768 6 8	..	
150,000	100,000	250,000	18,750	..	7,500	11,250	4,950 0 0	6,541 13 4	11,491 13 4	2.90	18,750	..	18,750	8,250 0 0	3,241 13 4	..	
180,000	120,000	300,000	22,500	..	9,000	13,500	5,940 0 0	7,850 0 0	13,790 0 0	2.90	22,500	..	22,500	9,900 0 0	3,890 0 0	..	
210,000	140,000	350,000	26,250	..	10,500	15,750	6,930 0 0	9,158 6 8	16,088 6 8	2.90	26,250	..	26,250	11,550 0 0	4,538 6 8	..	

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COMPARATIVE STATEMENT AS ABOVE ASSUMING AN EARNING OF 10 PER CENT. ON TOTAL CAPITAL EMPLOYED BEFORE DEDUCTION OF LAND AND INCOME TAX.

2,400	1,600	4,000	400	300	120	..	..	14 5 4	14 5 4	9.64	400	300	100	6 0 0	8 5 4	..
4,500	3,000	7,500	750	150	225	375	22 12 0	29 7 7	51 19 7	9.30	750	150	600	42 0 0	9 19 7	..
6,000	4,000	10,000	1,000	..	300	700	52 10 0	41 13 4	94 3 4	9.05	1,000	..	1,000	90 0 0	4 3 4	..
7,500	5,000	12,500	1,250	..	375	875	73 5 7	55 4 3	128 9 10	8.97	1,250	..	1,250	128 2 6	0 7 4	..
9,000	6,000	15,000	1,500	..	450	1,050	97 2 6	70 0 0	167 2 6	8.88	1,500	..	1,500	172 10 0	..	5 7 6
12,000	8,000	20,000	2,000	..	600	1,400	154 0 0	103 6 8	257 6 8	8.71	2,000	..	2,000	280 0 0	..	22 13 4
18,000	12,000	30,000	3,000	..	900	2,100	304 10 0	185 0 0	489 10 0	8.36	3,000	..	3,000	570 0 0	..	80 10 0
24,000	16,000	40,000	4,000	..	1,200	2,800	504 0 0	286 13 4	790 13 4	8.02	4,000	..	4,000	960 0 0	..	169 6 8
30,000	20,000	50,000	5,000	..	1,500	3,500	752 10 0	408 6 8	1,160 16 8	7.68	5,000	..	5,000	1,450 0 0	..	289 3 4
42,000	28,000	70,000	7,000	..	2,100	4,900	1,396 10 0	711 13 4	2,108 3 4	6.98	7,000	..	7,000	2,555 0 0	..	446 16 8
57,000	38,000	95,000	9,500	..	2,850	6,650	2,369 1 2	1,203 6 8	3,572 7 10	6.24	9,500	..	9,500	4,061 5 0	..	488 17 2
72,000	48,000	120,000	12,000	..	3,600	8,400	3,360 0 0	1,820 0 0	5,180 0 0	5.68	12,000	..	12,000	5,280 0 0	..	100 0 0
90,000	60,000	150,000	15,000	..	4,500	10,500	4,620 0 0	2,725 0 0	7,345 0 0	5.10	15,000	..	15,000	6,600 0 0	745 0 0	..
120,000	80,000	200,000	20,000	..	6,000	14,000	6,160 0 0	4,633 6 8	10,793 6 8	4.60	20,000	..	20,000	8,800 0 0	1,993 6 8	..
150,000	100,000	250,000	25,000	..	7,500	17,500	7,700 0 0	6,541 13 4	14,241 13 4	4.30	25,000	..	25,000	11,000 0 0	3,241 13 4	..
180,000	120,000	300,000	30,000	..	9,000	21,000	9,240 0 0	7,850 0 0	17,090 0 0	4.30	30,000	..	30,000	13,200 0 0	3,890 0 0	..
210,000	140,000	350,000	35,000	..	10,500	24,500	10,780 0 0	9,158 6 8	19,938 6 8	4.30	35,000	..	35,000	15,400 0 0	4,538 6 8	..

B.—5.

COMPARATIVE STATEMENT OF LAND-TAX AND INCOME-TAX ASSUMING UNIMPROVED VALUE OF LAND IS 60 PER CENT. OF TOTAL CAPITAL IN LAND, IMPROVEMENTS, STOCK, AND PLANT, AND ASSUMING AN EARNING OF 12½ PER CENT. ON TOTAL CAPITAL EMPLOYED BEFORE DEDUCTION OF LAND AND INCOME TAX.

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	Without Land-tax.				16.	17.
											12.	13.	14.	15.		
Un-improved Value (60 per Cent.).	Stock, Improvements, and Improvements (40 per Cent.).	Total Capital employed in Property and Stock.	Net Income on Capital before Taxes deducted.	Exemption.	5 per Cent. on Un-improved Value allowed as Deduction from Assessable Income.	Taxable Income.	Income-tax.	Land-tax on Unimproved Value.	Total Tax.	Percentage Net Income to Capital after Taxes deducted.	Net Income (as before) before Taxes deducted.	Exemption.	Taxable Income.	Income-tax.	Excess of Land and Income Tax over Income-tax only.	Excess of Income-tax only over Land and Income Tax.
£	£	£	£	£	£	£	£ s. d.	£ s. d.	£ s. d.		£	£	£	£ s. d.	£ s. d.	£ s. d.
2,400	1,600	4,000	500	300	120	80	4 16 0	14 5 4	19 1 4	12-02	500	300	200	12 0 0	7 1 4	..
4,500	3,000	7,500	937½	..	225	712	53 16 6	29 7 7	83 4 1	11-39	937½	..	937½	81 7 6	1 16 7	..
6,000	4,000	10,000	1,250	..	300	950	83 2 6	41 13 4	124 15 10	11-25	1,250	..	1,250	128 2 6	..	3 6 8
7,500	5,000	12,500	1,562½	..	375	1,187	117 18 6	55 4 3	173 2 9	11-11	1,562½	..	1,562½	184 5 6	..	11 2 9
9,000	6,000	15,000	1,875	..	450	1,425	158 10 7	70 0 0	228 10 7	10-98	1,875	..	1,875	250 15 7	..	22 5 0
12,000	8,000	20,000	2,500	..	600	1,900	256 10 0	103 6 8	359 16 8	10-70	2,500	..	2,500	412 10 0	..	52 13 4
18,000	12,000	30,000	3,750	..	900	2,850	520 2 6	185 0 0	705 2 6	10-15	3,750	..	3,750	853 2 6	..	148 0 0
24,000	16,000	40,000	5,000	..	1,200	3,800	874 0 0	286 13 4	1,160 13 4	9-60	5,000	..	5,000	1,450 0 0	..	289 6 8
30,000	20,000	50,000	6,250	..	1,500	4,750	1,318 2 6	408 6 8	1,726 9 2	9-04	6,250	..	6,250	2,164 1 2	..	437 12 0
42,000	28,000	70,000	8,750	..	2,100	6,650	2,369 1 2	711 13 4	3,080 14 6	8-10	8,750	..	8,750	3,576 11 2	..	495 16 8
57,000	38,000	95,000	11,875	..	2,850	9,025	3,751 0 4	1,203 6 8	4,954 7 0	7-28	11,875	..	11,875	5,225 0 0	..	270 13 0
72,000	48,000	120,000	15,000	..	3,600	11,400	5,016 0 0	1,820 0 0	6,836 0 0	6-80	15,000	..	15,000	6,600 0 0	236 0 0	..
90,000	60,000	150,000	18,750	..	4,500	14,250	6,270 0 0	2,725 0 0	8,995 0 0	6-50	18,750	..	18,750	8,250 0 0	745 0 0	..
120,000	80,000	200,000	25,000	..	6,000	19,000	8,360 0 0	4,633 6 8	12,993 6 8	6-00	25,000	..	25,000	11,000 0 0	1,993 6 8	..
150,000	100,000	250,000	31,250	..	7,500	23,750	10,450 0 0	6,541 13 4	16,991 13 4	5-70	31,250	..	31,250	13,750 0 0	3,241 13 4	..
180,000	120,000	300,000	37,500	..	9,000	28,500	12,540 0 0	7,850 0 0	20,390 0 0	5-70	37,500	..	37,500	16,500 0 0	3,890 0 0	..
210,000	140,000	350,000	43,750	..	10,500	33,250	14,630 0 0	9,158 6 8	23,788 6 8	5-70	43,750	..	43,750	19,250 0 0	4,538 6 8	..

COMPARATIVE STATEMENT AS ABOVE ASSUMING AN EARNING OF 15 PER CENT. ON TOTAL CAPITAL EMPLOYED BEFORE DEDUCTION OF LAND AND INCOME TAX.

2,400	1,600	4,000	600	300	120	180	10 16 0	14 5 4	25 1 4	14-37	600	300	300	18 0 0	7 1 4	..
4,500	3,000	7,500	1,125	..	225	900	76 10 0	29 7 7	105 17 7	13-59	1,125	..	1,125	108 5 7	..	2 8 0
6,000	4,000	10,000	1,500	..	300	1,200	120 0 0	41 13 4	161 13 4	13-38	1,500	..	1,500	172 10 0	..	10 16 8
7,500	5,000	12,500	1,875	..	375	1,500	172 10 0	55 4 3	227 14 3	13-18	1,875	..	1,875	250 15 7	..	23 1 4
9,000	6,000	15,000	2,250	..	450	1,800	234 0 0	70 0 0	304 0 0	12-97	2,250	..	2,250	343 2 6	..	39 2 6
12,000	8,000	20,000	3,000	..	600	2,400	384 0 0	103 6 8	487 6 8	12-56	3,000	..	3,000	570 0 0	..	82 13 4
18,000	12,000	30,000	4,500	..	900	3,600	792 0 0	185 0 0	977 0 0	11-74	4,500	..	4,500	1,192 10 0	..	215 10 0
24,000	16,000	40,000	6,000	..	1,200	4,800	1,344 0 0	286 13 4	1,630 13 4	10-92	6,000	..	6,000	2,040 0 0	..	409 6 8
30,000	20,000	50,000	7,500	..	1,500	6,000	2,040 0 0	408 6 8	2,448 6 8	10-10	7,500	..	7,500	2,831 5 0	..	382 18 4
42,000	28,000	70,000	10,500	..	2,100	8,400	3,360 0 0	711 13 4	4,071 13 4	9-18	10,500	..	10,500	4,620 0 0	..	548 6 8
57,000	38,000	95,000	14,250	..	2,850	11,400	5,016 0 0	1,203 6 8	6,219 6 8	8-45	14,250	..	14,250	6,270 0 0	..	50 13 4
72,000	48,000	120,000	18,000	..	3,600	14,400	6,336 0 0	1,820 0 0	8,156 0 0	8-20	18,000	..	18,000	7,920 0 0	236 0 0	..
90,000	60,000	150,000	22,500	..	4,500	18,000	7,920 0 0	2,725 0 0	10,645 0 0	7-90	22,500	..	22,500	9,900 0 0	745 0 0	..
120,000	80,000	200,000	30,000	..	6,000	24,000	10,560 0 0	4,633 6 8	15,193 6 8	7-40	30,000	..	30,000	13,200 0 0	1,993 6 8	..
150,000	100,000	250,000	37,500	..	7,500	30,000	13,200 0 0	6,541 13 4	19,741 13 4	7-10	37,500	..	37,500	16,500 0 0	3,241 13 4	..
180,000	120,000	300,000	45,000	..	9,000	36,000	15,840 0 0	7,850 0 0	23,690 0 0	7-10	45,000	..	45,000	19,800 0 0	3,890 0 0	..
210,000	140,000	350,000	52,500	..	10,500	42,000	18,480 0 0	9,158 6 8	27,638 6 8	7-10	52,500	..	52,500	23,100 0 0	4,538 6 8	..



COMPARATIVE STATEMENT OF LAND-TAX AND INCOME-TAX ASSUMING UNIMPROVED VALUE OF LAND IS 60 PER CENT. OF TOTAL CAPITAL IN LAND, IMPROVEMENTS, STOCK, AND PLANT, AND ASSUMING AN EARNING OF 20 PER CENT. ON TOTAL CAPITAL EMPLOYED BEFORE DEDUCTION OF LAND AND INCOME TAX.

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	Without Land-tax.				16.	17.
											12.	13.	14.	15.		
Un-improved Value (60 per Cent.).	Stock, Implement, and Improvements (40 per Cent.).	Total Capital employed in Property and Stock.	Net Income on Capital employed before Taxes deducted.	Exemption.	5 per Cent. on Un-improved Value allowed as Deduction from Assessable Income.	Taxable Income.	Income-tax.	Land-tax on Unimproved Value.	Total Tax.	Percentage Net Income to Capital after Taxes deducted.	Net Income (as before) before Taxes deducted.	Exemption.	Taxable Income.	Income-tax.	Excess of Land and Income Tax over Income-tax only.	Excess of Income-tax only over Land and Income Tax.
£ 2,400	£ 1,600	£ 4,000	£ 800	£ 100	£ 120	£ 580	£ 40 0 5	£ 14 5 4	£ 54 5 9	18·64	£ 800	£ 100	£ 700	£ 52 10 0	£ 1 15 9	£ s. d.
4,500	3,000	7,500	1,500	..	225	1,275	132 5 7	29 7 7	161 13 2	17·84	1,500	..	1,500	172 10 0	..	10 16 10
6,000	4,000	10,000	2,000	..	300	1,700	212 10 0	41 13 4	254 3 4	17·45	2,000	..	2,000	280 0 0	..	25 16 8
7,500	5,000	12,500	2,500	..	375	2,125	310 15 7	55 4 3	365 19 10	17·07	2,500	..	2,500	412 10 0	..	46 10 2
9,000	6,000	15,000	3,000	..	450	2,550	427 2 6	70 0 0	497 2 6	16·68	3,000	..	3,000	570 0 0	..	72 17 6
12,000	8,000	20,000	4,000	..	600	3,400	714 0 0	103 6 8	817 6 8	15·91	4,000	..	4,000	960 0 0	..	142 13 4
18,000	12,000	30,000	6,000	..	900	5,100	1,504 10 0	185 0 0	1,689 10 0	14·37	6,000	..	6,000	2,040 0 0	..	350 10 0
24,000	16,000	40,000	8,000	..	1,200	6,800	2,448 0 0	286 13 4	2,734 13 4	13·17	8,000	..	8,000	3,120 0 0	..	385 6 8
30,000	20,000	50,000	10,000	..	1,500	8,500	3,421 5 0	408 6 8	3,829 11 8	12·34	10,000	..	10,000	4,400 0 0	..	570 8 4
42,000	28,000	70,000	14,000	..	2,100	11,900	5,236 0 0	711 13 4	5,947 13 4	11·50	14,000	..	14,000	6,160 0 0	..	212 6 8
57,000	38,000	95,000	19,000	..	2,850	16,150	7,106 0 0	1,203 6 8	8,309 6 8	11·25	19,000	..	19,000	8,360 0 0	..	50 13 4
72,000	48,000	120,000	24,000	..	3,600	20,400	8,976 0 0	1,820 0 0	10,796 0 0	11·00	24,000	..	24,000	10,560 0 0	£ 236 0 0	..
90,000	60,000	150,000	30,000	..	4,500	25,500	11,220 0 0	2,725 0 0	13,945 0 0	10·70	30,000	..	30,000	13,200 0 0	£ 745 0 0	..
120,000	80,000	200,000	40,000	..	6,000	34,000	14,960 0 0	4,633 6 8	19,593 6 8	10·20	40,000	..	40,000	17,600 0 0	£ 1,993 6 8	..
150,000	100,000	250,000	50,000	..	7,500	42,500	18,700 0 0	6,541 13 4	25,241 13 4	9·90	50,000	..	50,000	22,000 0 0	£ 3,241 13 4	..
180,000	120,000	300,000	60,000	..	9,000	51,000	22,440 0 0	7,850 0 0	30,290 0 0	9·90	60,000	..	60,000	26,400 0 0	£ 3,890 0 0	..
210,000	140,000	350,000	70,000	..	10,500	59,500	26,180 0 0	9,158 6 8	35,338 6 8	9·90	70,000	..	70,000	30,800 0 0	£ 4,538 6 8	..

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1924.  
NEW ZEALAND.

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# LAND AND INCOME TAXATION

(REPORT OF THE ROYAL COMMISSION APPOINTED TO INQUIRE INTO THE SUBJECT OF) IN NEW ZEALAND.

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*Presented to both Houses of the General Assembly by Command of His Excellency.*

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## COMMISSION

TO INQUIRE INTO AND REPORT UPON LAND AND INCOME TAX.

JELlicoe, Governor-General.

To all to whom these presents shall come, and to the Honourable WILLIAM ALEXANDER SIM, a Judge of the Supreme Court of New Zealand; JAMES BEGG, Esquire, of Dunedin, Retired Farmer; WILLIAM DUFFUS HUNT, Esquire, of Wellington, Company-director; GEORGE SHIRTCLIFFE, Esquire, of Wellington, Company-director; and THOMAS SHAILER WESTON, Esquire, of Wellington, Barrister and Solicitor: Greeting.

WHEREAS it is expedient that inquiry should be made into the present system of land and income taxation in New Zealand in all its aspects, including the scope, rates, and incidence of the several taxes; allowances and reliefs; assessment, appeal, and collection; and prevention of evasion; and that a Commission of Inquiry should report what alterations of the law are necessary or desirable, and what effect any such alterations would have on rates of tax if it were necessary to maintain the total yield of land-tax and of income-tax respectively:

Now, therefore, I, John Rushworth, Viscount Jellicoe, Governor-General of the Dominion of New Zealand, in exercise of the powers conferred by the Commissions of Inquiry Act, 1908, and all other powers and authorities whatsoever enabling me in this behalf, and acting by and with the advice and consent of the Executive Council of the said Dominion, do hereby constitute and appoint you, the said

WILLIAM ALEXANDER SIM,  
JAMES BEGG,  
WILLIAM DUFFUS HUNT,  
GEORGE SHIRTCLIFFE, and  
THOMAS SHAILER WESTON

to be a Commission to investigate and report upon all the aforesaid matters.

And, with the like advice and consent, I do further appoint you, the said

WILLIAM ALEXANDER SIM,

to be Chairman of the said Commission.

And, for the better enabling you, the said Commission, to carry these presents into effect, you are hereby authorized and empowered to make and conduct any

inquiry under these presents at such times and places in the said Dominion as you deem expedient, with power to adjourn from time to time and place to place as you think fit, and call before you and to examine, on oath or otherwise as may be allowed by law, such person or persons as you think capable of affording you information as to the matters aforesaid; and you are also hereby empowered to call for and examine all such books, papers, plans, documents, or records as you deem likely to afford you any information on the subject-matter of the inquiry hereby directed to be made, and to inquire of and concerning the premises by all lawful means whatsoever.

And, using all diligence, you are required to report to me, under your hands and seals, not later than the thirty-first day of May, one thousand nine hundred and twenty-four, the result of your investigations, with any recommendations you think fit to make in respect of the aforesaid matters.

And you are hereby strictly charged and directed that you shall not at any time publish or otherwise disclose, save to me in pursuance of these presents, or by my direction, the contents or purport of any report so made or to be made by you.

And it is hereby declared that these presents shall continue in full force and virtue although the inquiry is not regularly continued from time to time or from place to place by adjournment.

And, lastly, it is hereby declared that these presents are issued under and subject to the provisions of the Commissions of Inquiry Act, 1908.

Given under the hand of His Excellency the Governor-General of the Dominion of New Zealand, and issued under the Seal of that Dominion, this first day of April, one thousand nine hundred and twenty-four.

W. F. MASSEY,  
Minister of Finance.

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## REPORT.

To His Excellency the Governor-General of the Dominion of New Zealand.

MAY IT PLEASE YOUR EXCELLENCY,—

We, the Commissioners appointed by Your Excellency to investigate and to report on “the present system of land and income taxation in New Zealand in all its aspects, including the scope, rates, and incidence of the several taxes; allowances, and reliefs; assessment, appeal, and collection; and prevention of evasion; and to report what alterations of the law are necessary or desirable, and what effect such alterations would have on rates of tax if it were necessary to maintain the total yield of land and income tax respectively,” have the honour to report as follows:—

1. We commenced our sittings in Wellington on Monday, the 14th April, 1924, and heard evidence there for two days. We then adjourned until Tuesday, the 29th April, when we resumed our sittings in Dunedin. We continued in Dunedin until Friday, the 2nd May, when we went to Christchurch. We sat in Christchurch until Tuesday, the 6th May, when we left for Auckland, reaching there on the morning of Thursday, the 8th May. We remained in Auckland until Monday, the 12th May, when we left again for Wellington, reaching Wellington on Tuesday, the 13th May. We resumed our sittings again in Wellington on Wednesday, the 14th May, and continued our work there until the present time. We caused notice of these sittings in the four centres to be advertised in the local newspapers, and we invited considered evidence and suggestions from representatives of the producing, industrial, and labour organizations, and other classes of taxpayers.

2. During the course of our inquiry fifty-two witnesses appeared before us, most of whom handed in prepared statements, on which they were examined, and a number of statements and letters were also sent in by other persons who did not appear before us. In addition to this we were supplied by the Land and Income Tax Department with a large number of specially prepared returns.

3. During the whole of our sittings the Commissioner of Taxes, Mr. D. G. Clark, was in attendance and provided us with valuable and necessary information. We wish to express our thanks to Mr. Clark for the able assistance that he has given us, and for the cheerful manner in which he provided us, as far as possible, with all the information we required during the course of our work.

4. The mass of information placed before us was supplemented by our own personal experience and knowledge of the subject.

#### INCOME-TAX.

5. In connection with the income-tax the principal question before us was as to the imposition of the graduated income-tax on companies in the same way as if they were individuals. A large number of witnesses expressed their opinion on the subject. The majority of them condemned the present system of taxing companies as unjust and as having the effect of preventing the embarkation of large amounts of capital in new commercial undertakings. On the other hand, a number of witnesses favoured the maintenance of the present system. It seems unnecessary for us to enter into any elaborate discussion of the matter here. The arguments against the present system are set forth in the evidence of the witnesses who condemned that system, and also in the report of the majority of the Taxation Committee of 1922. The arguments in favour of the present system are set forth in the minority report of the same Committee. We have considered the matter carefully, and the conclusion we have come to is that the ideal graduated income-tax is a tax upon the income from all sources of each individual, and we recommend that the fiscal policy of the Dominion should be shaped so as to secure the abolition, as soon as reasonably practicable, of the present system of company taxation. We think it desirable to add that the present system of income taxation served a useful purpose during the war and immediate post-war period, under the conditions then prevailing, fulfilling, in addition to its natural function, the part of the English excess-profits tax, and enabling an astounding amount of revenue to be raised with a minimum of inconvenience to individuals and the general public. With a return to more normal conditions of trade and industry the inequalities of the present system become apparent, and it is advisable to change over as soon as practicable to the more ideally correct system.

#### LAND-TAX.

6. We received a great deal of evidence for and against land-tax. The weight of evidence was against both land-tax and graduated land-tax, and in favour of abandoning both and substituting the graduated income-tax.

#### CONCLUSIONS.

7. The following are the conclusions at which we have arrived in connection with the questions raised before us:—

(a.) Land and income tax must be considered together, as they dovetail into each other.

(b.) The graduated system of income-tax is sound in principle and necessary in practice.

(c.) In order to put the graduated principle properly into practice it is necessary that every individual's income from all sources (income from tax-free war loans excepted) should be brought together in one amount, so that the graduated rate of tax that applies to the whole income may be fixed. The graduated system of income-tax makes it necessary that no form of income should escape from it; otherwise injustices as between one taxpayer and another and indefensible results generally are bound to creep in. Individuals with large incomes can now escape

paying the graduated tax that otherwise would apply to their total income by investing in several sources that are each taxed separately.

(d.) The present system of graduating the income of each company as a separate income, and charging tax accordingly, is not in accordance with the true principle of a graduated income-tax.

(e.) It is wrong in principle to vary the rate of taxation according to the source from which it is derived. All sources should pay at the same rate. Graduation or differentiation in the rate of tax should be according to the size of an individual's income, and not according to the source from which it is derived. The only exception should be income from tax-free war loans, in connection with which the State has made a definite contract.

(f.) Many of the witnesses before us dealt with the question of whether or not the income-tax imposed on companies is passed on to the consumer. The question is a difficult one, and it is impossible to arrive at a definite conclusion on the subject. It is, we think, true that the incidence of the present company tax varies from industry to industry, and it is safe at least to say that the view held by many witnesses that the tax is in every case passed on to the consumer is not justified.

(g.) Before a change can be made from the present form of taxation of companies it will be necessary to have data as to the full income of each individual, in order that a close estimate can be made of the probable yield of any suggested scale of individual taxation. These data are not at present available.

(h.) Income-tax on the smaller individual incomes in New Zealand is on a low scale as compared with the rates in Great Britain and Australia. It is only about 35 per cent. of the British rate, and about 55 per cent. of the Australian rate.

(i.) Appendix A shows that of the total individual assessable income of New Zealand less than 11 per cent. is held in incomes of over £2,000 a year, and less than 1½ per cent. in incomes of over £10,000 a year. Any system of income-tax will have to obtain the bulk of its return where the assessable income is—that is, from the incomes under £2,000 a year. The individual assessable income above mentioned does not include dividends from companies. The inclusion of these dividends would probably make some alterations in the proportions given above.

(j.) There is a point beyond which income-tax upon individual incomes cannot be pushed without reducing its productiveness through capital leaving the country. A rate inducing an inflow of capital would produce a larger revenue to the State than otherwise would be obtained.

(k.) The graduated system of income-tax makes it necessary to aggregate income derived from land with other income for taxation purposes. Exemptions consequent upon land-tax stand in the way of this. For this and other reasons land-tax, including graduated land-tax, should as soon as possible be abolished.

(l.) The graduated land-tax was originally designed to break up large estates. There is no evidence to show that it is required any longer for this purpose, and there was much evidence showing that it is now preventing the development of large areas of land requiring a considerable amount of capital expenditure to break in. The graduated land-tax applied to business premises is a serious handicap to trade and industrial enterprise, and serves no good purpose.

(m.) Income from tax-free war loans can neither be charged income-tax nor be added to other income for the purpose of fixing the graduated rate on this other income, as this would be breaking the contract entered into by the State when the loans were issued.

(n.) There is no undertaking on behalf of the State not to vary the rate of taxation on debentures, or any other form of income except income from tax-free war loans. The State is thus free to tax all other income from year to year at the same rate or at various rates as it pleases.

(o.) Alterations in the form of income-tax on the lines of our conclusions will make it necessary to provide special machinery for taxing interests held in New Zealand by residents overseas, either as shareholders in companies or as debenture-holders. Companies in which these overseas interests are held fall into two classes—(i) those having their headquarters in New Zealand, and (ii) those having their headquarters outside New Zealand. Each will have to be dealt with separately.

(p.) We can find no reason why tenants of pastoral lands should not pay income-tax. They paid in pre-war days. They pay little or no land-tax.

(q.) The changes in land and income tax we think necessary will take some time to bring about. It may not be found possible to make the whole of the change in one step, or in the immediate future.

(r.) The changes indicated in land and income tax would mean that land held in an idle and unproductive state would pay neither land nor income tax. This would have to be provided for.

(s.) The question of double taxation of oversea investors requires further consideration.

(t.) The base on which income-tax revenue is raised should be made as broad as possible in order to lighten the weight of the tax. Every decision to free from tax, or tax lightly, some source of income carries with it a decision to tax some other source at a higher rate than would otherwise be necessary.

(u.) We can see no adequate reason why State and public-body trading and public utility concerns should not be taxed as well as private enterprise. This would broaden the base of the tax. Special provisions for taxing this source of revenue would be necessary.

(v.) Tax-paid company debentures are not on the same footing as regards taxation as tax-deducted debentures.

(w.) Land-tax presses heavily on land used for growing timber.

(x.) Death duties are equivalent to an addition to income-tax, and it is to be observed that these are much heavier on moderate fortunes in New Zealand than on similar fortunes in Great Britain. These duties act also as a check on the aggregation of land.

(y.) The foregoing conclusions have dealt with the incidence of taxation, but we wish to record our view that the weight of taxation is most important, and that it is essential in the interests of the future prosperity of the Dominion that the weight of taxation should be reduced as rapidly as possible.

#### RECOMMENDATIONS.

8. The following are the recommendations we make in connection with the foregoing conclusions:—

(a.) That legislation be passed instructing and empowering the Commissioner of Taxes, when obtaining future income-tax returns, to compel the individual to include in his return the whole of his income from all sources, specifying the amount from each source separately.

(b.) When the data asked for under (a) is obtained and compiled (which will be towards the end of 1925), the question whether or not a complete change can be made from the present system of taxing companies direct as individuals to the system of taxing every individual upon his total income from all sources (excepting only tax-free war loans) should be carefully considered. If a complete change is found difficult or impracticable, then a beginning should be made by taxing individuals in respect of the dividends received by them from companies, and supplementing the revenue obtained in this way by a moderate flat rate on all the profits of companies.

(c.) That the maximum rate of the graduated tax should first be fixed at a level that will not cause an outflow of capital from New Zealand. It would be advantageous to fix a rate which would cause an inflow of capital. This rate must be adjusted from year to year according to financial requirements and circumstances both within and without New Zealand.

(d.) Having fixed the maximum rate, the graduation downwards should be on a scale that will enable the required sum to be raised, such graduation to be made in such a way as not to be oppressive on the taxpayer of small means.

(e.) The rate upon undivided profits of companies should be approximately half the maximum rate.

(f.) If it is impossible without undue hardship to obtain the necessary revenue from the sources already mentioned, then the revenue from these sources should be supplemented by a moderate flat tax on companies, assessed upon their total

profits. This supplementary tax should be in addition to the tax on their undivided profits.

(g.) Companies registered outside New Zealand should be taxed on their total incomes derived from New Zealand at the rate at which companies registered in New Zealand are assessed on their undivided profits, and should also be liable in respect of such incomes for any flat-rate company tax.

(h.) Oversea shareholders and debenture-holders in companies registered in New Zealand should have their tax stopped at the source at the maximum rate. The companies interested should be deemed agents for their oversea shareholders and debenture-holders, and should be responsible for the payment of the tax. Oversea shareholders and debenture-holders should have the right to apply for and obtain a rebate of the difference between the maximum rate charged and the rate that would apply to the whole of their income derived from New Zealand. No exemption should be allowed to oversea investors in New Zealand.

(i.) The incomes of pastoral tenants should be made subject to tax, and this should be done *immediately*, so that the incomes for the year ending 31st March, 1924, will not be allowed to escape taxation.

(j.) That the present graduated land-tax should be abolished, and income-tax should be paid in respect of income from land as part of the taxpayer's income.

(k.) That any loss of revenue brought about by the adoption of the last recommendation should be made up by a flat rate of land-tax on all unimproved land-values over £2,000, with a rate below £2,000 of two-thirds of the rate above £2,000. Present £500 and mortgage exemptions should be continued. It is thought that  $\frac{1}{2}$ d. in the pound up to £2,000, and  $\frac{3}{4}$ d. in the pound beyond that amount, will produce the sum at present required. In assessing income-tax no exemption should be allowed in respect of this land-tax.

(l.) The flat-rate tax on companies referred to in paragraph (f), and the flat-rate land-tax referred to in paragraph (k), should both be regarded as temporary taxes, to be reduced and ultimately abolished as soon as the national finances permit.

(m.) In the meantime, and until the individual system of income-tax has been brought into operation, the incomes of individuals from all sources (except tax-free war loans) should be aggregated in order to fix the rate that should apply to that portion of the taxpayer's income that is taxable in his own hands. In fixing the amount of his tax the amount of tax paid at the source in connection with his other investments should be taken into account, but no rebates should be made if the total amount paid, after charging the amount taxable in the taxpayers' own hands at the rate that would apply to that amount only, comes to more than the amount that the tax would have been if the whole income had been taxed in the hands of the taxpayer.

(n.) That when these land-tax recommendations are put into effect the Commissioner of Taxes should be empowered to assess a net income at 5 per cent. on the capital value of any land that he considers to be either lying idle or not being utilized so as to produce a reasonable income.

(o.) That the question of double taxation be further considered, and arrangements made that will result in British capital invested in New Zealand being placed in a position at least as favourable as in Australia, provided such an arrangement does not put British investors in New Zealand on a better footing than New Zealand investors.

(p.) That in any event the favoured position of public-body and company debentures, as far as income-tax is concerned, should be abolished *immediately*.

(q.) That if the graduated land-tax is not abolished, relief should be given in connection with the present graduated land-tax payable on business premises.

(r.) That State and public-body trading and public-utility concerns should be charged income and land tax to the same extent as private enterprises, and that, for the purposes of taxation, their borrowed capital should be treated in the same way as borrowed capital in private enterprise is treated.

(s.) That tax-paid company debentures should be put on the same footing as tax-deducted company debentures.

(*l.*) That relief from land-tax be given to land devoted to plantations of timber-trees and areas not exceeding 25 acres of native bush.

(*u.*) That a more reasonable allowance for depreciation of tramways, workers' cottages, and other wasting assets be allowed in the case of sawmilling and mining ventures.

#### TABLES.

9. The following tables are appended to this report :—

Appendix A is a table of incomes and income-tax for the year 1922-23.

Appendix B is a table showing the rates payable for income-tax under the Annual Taxing Act of 1923 in respect of the specified incomes.

Appendix C shows the percentage of income-tax paid by the different classes of personal income.

Appendix D contains a comparison of the income-tax payable in New Zealand, Australia, and Great Britain.

Appendix E is a comparative statement in connection with the incidence of land and income tax.

We have the honour to be

Your Excellency's most obedient servants,

W. A. SIM (Chairman).

JAMES BEGG.

W. D. HUNT.

G. SHIRTCLIFFE.

T. SHAILER WESTON.

Dated at Wellington, this thirtieth day of May, one thousand nine hundred and twenty-four.



APPENDIX A.

INCOMES AND INCOME-TAX.—CLASSES BY AMOUNTS, 1922-23.

TABLE SHOWING, IN RESPECT OF RETURNS SUPPLIED TO THE COMMISSIONER OF TAXES FOR THE FINANCIAL YEAR 1922-23, STATISTICS OF INCOMES, EXEMPTIONS, AND INCOME-TAX, CLASSIFIED BY CLASSES AND AMOUNTS OF INCOME.

Amount.	Number of Returns.	Number of Taxpayers.	Earned Income.	Assessable Income.	Taxable Balance.	Exemptions.					Rate on Tax on Balance of Assessable Income after Deduction of 5 per Cent. Unimproved Land Value already taxed in another Direction.		
						5 per Cent. of Unimproved Value.	Under Section 81.	Life Insurance Premiums, &c.	Children, &c.	Tax assessed.	Year 1922-23.	What it would have been on 1923-24 Rates	
CLASS I.—PERSONS, FIRMS, ETC.													
			£	£	£	£	£	£	£	£	s. d.	s. d.	s. d.
Under £300 ..	36,730	1,299	5,640,023	6,900,031	125,369	333,953	6,387,152	3,605	49,952	7,531	1 11	0 0·28	0 0·22
£300-£399 ..	23,023	9,288	6,879,017	7,804,404	355,989	220,878	6,572,781	106,861	547,895	17,614	17 11	0 0·56	0 0·45
£400-£499 ..	10,786	7,707	4,016,119	4,723,406	754,575	189,948	3,131,131	104,737	543,015	36,197	2 0	0 1·92	0 1·54
£500-£599 ..	5,909	5,150	2,505,776	3,170,522	881,704	150,210	1,722,965	83,204	332,439	42,075	0 5	0 3·34	0 2·67
£600-£699 ..	4,105	3,889	2,096,882	2,673,465	1,198,926	126,776	1,086,689	59,656	201,418	58,585	5 0	0 5·52	0 4·42
£700-£799 ..	2,218	2,123	1,196,037	1,645,712	1,007,848	111,264	358,690	44,455	123,455	52,508	2 10	0 8·21	0 6·57
£800-£899 ..	1,369	1,312	817,443	1,166,853	868,270	96,010	93,061	32,158	77,354	50,363	2 7	0 11·29	0 9·03
£900-£999 ..	915	884	606,309	865,649	683,593	79,857	27,825	22,647	51,727	43,014	12 9	1 1·14	0 10·51
£1,000-£1,999 ..	2,869	2,785	2,882,553	4,483,770	3,658,065	417,810	120,151	106,714	181,030	286,350	8 7	1 4·90	1 1·52
£2,000-£2,999 ..	705	695	993,010	1,703,290	1,395,969	199,897	44,917	27,643	34,864	158,728	0 1	2 1·34	1 8·27
£3,000-£3,999 ..	220	219	410,695	762,021	649,915	67,162	22,172	10,427	12,345	94,526	5 3	2 8·65	2 2·12
£4,000-£4,999 ..	99	97	220,021	452,371	381,365	52,130	10,525	3,917	4,434	67,100	8 3	3 4·23	2 8·18
£5,000-£5,999 ..	49	48	119,561	272,281	222,490	43,252	3,456	1,208	1,875	49,629	15 5	4 4·01	3 5·61
£6,000-£6,999 ..	24	24	67,849	154,574	146,993	4,551	..	1,830	1,200	36,826	5 1	4 10·91	3 11·13
£7,000-£7,999 ..	11	11	29,856	82,511	71,869	3,631	6,307	154	550	16,551	15 11	4 2·36	3 4·29
£8,000-£8,999 ..	9	9	20,325	77,756	62,247	13,150	1,623	436	300	13,709	4 4	4 2·93	3 4·74
£9,000-£9,999 ..	7	7	19,909	66,891	56,979	9,231	..	381	300	15,633	18 0	5 5·08	4 4·06
£10,000-£19,999 ..	22	22	75,001	289,258	228,815	40,168	17,164	2,511	600	50,959	12 6	4 1·10	3 3·28
£20,000 and over ..	5	5	51,819	228,102	227,532	458	..	112	..	45,970	7 8	4 0·47	3 2·78
Totals, Class I ..	89,075	35,574	28,648,205	37,522,867	12,978,513	2,160,336	19,606,609	612,656	2,164,753	1,143,875	6 6	0 7·76	0 6·21

CLASS II.—COMPANIES.

Under £300 ..	621	603	..	79,173	72,609	6,564	..	..	..	3,695	15 3	1 0·22	0 9·78
£300-£399 ..	137	132	..	47,349	43,522	3,827	..	..	..	2,234	15 2	1 0·32	0 9·86
£400-£499 ..	108	106	..	47,489	42,684	4,805	..	..	..	2,215	16 7	1 0·46	0 9·97
£500-£599 ..	84	83	..	45,565	43,156	2,409	..	..	..	2,353	19 8	1 1·09	0 10·47
£600-£699 ..	101	101	..	63,983	61,870	2,113	..	..	..	3,641	1 5	1 2·12	0 11·30
£700-£799 ..	68	67	..	50,790	47,315	3,475	..	..	..	3,235	18 5	1 4·41	1 1·13
£800-£899 ..	72	71	..	61,078	57,666	3,412	..	..	..	3,971	16 10	1 4·53	1 1·22
£900-£999 ..	52	52	..	49,459	43,513	5,946	..	..	..	3,576	7 3	1 7·73	1 3·78

2-B. 6.

£1,000-£1,999 ..	317	314	..	452,983	419,321	33,662	..	..	..	39,946 6 6	1 10-86	1 6-29
£2,000-£2,999 ..	182	182	..	448,618	419,964	28,654	..	..	..	56,185 10 6	2 8-19	2 1-75
£3,000-£3,999 ..	106	106	..	368,298	335,679	32,719	..	..	..	59,277 5 1	3 6-40	2 9-92
£4,000-£4,999 ..	54	54	..	238,531	217,939	20,592	..	..	..	45,402 18 2	4 2	3 4
£5,000-£5,999 ..	39	37	..	211,943	185,819	26,124	..	..	..	45,934 18 2	4 11-33	3 11-46
£6,000-£6,999 ..	36	36	..	231,940	219,893	12,047	..	..	..	60,623 8 0	5 6-17	4 4-94
£7,000-£7,999 ..	18	17	..	134,146	118,165	15,981	..	..	..	36,332 6 11	6 1-79	4 11-03
£8,000-£8,999 ..	18	18	..	152,721	146,931	5,790	..	..	..	47,415 9 10	6 5-45	5 1-96
£9,000-£9,999 ..	13	13	..	122,856	118,397	4,459	..	..	..	41,317 12 1	6 11-75	5 7
£10,000-£19,999 ..	67	67	..	943,854	902,493	41,361	..	..	..	323,411 12 2	7 2	5 8-80
£20,000-£29,999 ..	26	26	..	595,370	577,309	18,061	..	..	..	207,674 11 9	7 2-34	5 9-07
£30,000-£39,999 ..	11	11	..	377,395	366,079	11,316	..	..	..	134,228 4 8	7 4	5 10-40
£40,000-£49,999 ..	9	9	..	399,475	394,961	4,514	..	..	..	136,145 10 8	6 10-73	5 6-18
£50,000 and over ..	25	25	..	3,236,799	3,191,812	44,987	..	..	..	1,147,907 4 0	7 2-31	5 9-05
Totals, Class II	2,164	2,130	..	8,359,815	8,026,997	332,818	..	..	..	2,406,728 9 1	5 11-96	4 9-57

## CLASS IV.—NON-RESIDENT TRADERS.

Under £300 ..	664	664	9,416	60,803	55,713	..	5,090	..	..	2,836 5 5	0 11-10	0 8-95
£300-£399 ..	44	44	2,157	15,291	14,509	..	722	..	..	892 6 3	1 2-01	0 11-21
£400-£499 ..	18	18	450	7,819	7,507	..	312	..	..	388 12 9	0 11-93	0 9-54
£500-£599 ..	19	19	506	10,242	10,242	..	..	..	..	594 12 4	1 1-93	0 11-14
£600-£699 ..	13	13	..	8,349	8,349	..	..	..	..	531 14 11	1 3-29	1 0-23
£700-£799 ..	8	8	724	5,976	5,901	..	75	..	..	430 11 9	1 5-31	1 1-85
£800-£899 ..	12	12	..	10,089	10,089	..	..	..	..	674 5 8	1 4-04	1 0-83
£900-£999 ..	8	8	..	7,506	7,506	..	..	..	..	529 1 5	1 4-92	1 1-54
£1,000-£1,999 ..	44	44	6,440	59,690	59,482	..	208	..	..	5,402 3 0	1 9-72	1 5-38
£2,000-£2,999 ..	15	15	..	35,837	35,837	..	..	..	..	4,896 17 9	2 8-80	2 2-24
£3,000-£3,999 ..	9	9	..	30,740	30,740	..	..	..	..	4,936 14 0	3 2-54	2 6-83
£4,000-£5,999 ..	6	6	..	33,127	33,127	..	..	..	..	8,430 11 5	5 1-08	4 0-86
£6,000 and over ..	7	7	..	185,790	185,790	..	..	..	..	58,455 4 6	6 3-51	5 0-41
Totals, Class IV	867	867	19,693	471,259	464,852	..	6,407	..	..	88,999 1 2	3 9-32	3 0-26
Grand totals ..	92,106	38,571	28,667,698	46,353,941	21,470,362	2,493,154	19,613,016	612,656	2,164,753	3,639,602 16 9	..	..

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B.—6.

## APPENDIX B.

TABLE SHOWING THE RATES PAYABLE FOR INCOME-TAX UNDER THE ANNUAL TAXING ACT OF 1923  
IN RESPECT OF THE SPECIFIED INCOMES.

Amount of Income.	Rate of Tax on a TAXABLE INCOME of Amount stated in First Column.	Average Rate of Tax per £1 of TOTAL INCOME actually paid by Individuals on Amount in First Column, after making Allowances for all Non- taxable Exemptions.	Amount of Income.	Rate of Tax on a TAXABLE INCOME of Amount stated in First Column.	Average Rate of Tax per £1 on TOTAL INCOME actually paid by Individuals on Amount in First Column, after making Allowances for all Non- taxable Exemptions.
£	s. d.	s. d.	£	s. d.	s. d.
400	0 9-6	0 1	5,400	4 1-6	3 4-66
500	0 10-4	0 2-1	5,500	4 2-4	3 5-61
600	0 11-2	0 3-55	5,600	4 3-2	3 6-16
700	1 0	0 5-5	5,700	4 4	3 6-71
800	1 0-8	0 7-8	5,800	4 4-8	3 7-26
900	1 1-6	0 9-77	5,900	4 5-6	3 7-81
1,000	1 2-4	0 10-4	6,000	4 6-4	3 8-37
1,100	1 3-2	0 11-03	6,100	4 6-8	3 8-92
1,200	1 4	0 11-66	6,200	4 7-2	3 9-47
1,300	1 4-8	1 0-29	6,300	4 7-6	3 10-02
1,400	1 5-6	1 0-9	6,400	4 8	3 10-57
1,500	1 6-4	1 1-52	6,500	4 8-4	3 11-13
1,600	1 7-2	1 2-2	6,600	4 8-8	3 10-45
1,700	1 8	1 2-88	6,700	4 9-2	3 9-79
1,800	1 8-8	1 3-56	6,800	4 9-6	3 9-09
1,900	1 9-6	1 4-23	6,900	4 10	3 8-40
2,000	1 10-4	1 4-9	7,000	4 10-4	3 7-71
2,100	1 11-2	1 5-57	7,100	4 10-8	3 7-03
2,200	2 0	1 6-24	7,200	4 11-2	3 6-34
2,300	2 0-4	1 6-91	7,300	4 11-6	3 5-66
2,400	2 1-6	1 7-58	7,400	5 0	3 4-98
2,500	2 2-4	1 8-27	7,500	5 0-4	3 4-29
2,600	2 3-2	1 8-86	7,600	5 0-8	3 4-34
2,700	2 4	1 9-45	7,700	5 1-2	3 4-38
2,800	2 4-8	1 10-04	7,800	5 1-6	3 4-43
2,900	2 5-6	1 10-63	7,900	5 2	3 4-48
3,000	2 6-4	1 11-2	8,000	5 2-4	3 4-52
3,100	2 7-2	1 11-78	8,100	5 2-8	3 4-56
3,200	2 8	2 0-36	8,200	5 3-2	3 4-60
3,300	2 8-8	2 0-94	8,300	5 3-6	3 4-64
3,400	2 9-6	2 1-52	8,400	5 4	3 4-68
3,500	2 10-4	2 2-12	8,500	5 4-4	3 4-74
3,600	2 11-2	2 2-73	8,600	5 4-8	3 5-87
3,700	3 0	2 3-34	8,700	5 5-2	3 7
3,800	3 0-8	2 3-94	8,800	5 5-6	3 8-14
3,900	3 1-6	2 4-54	8,900	5 6	3 9-27
4,000	3 2-4	2 5-15	9,000	5 6-4	3 10-4
4,100	3 3-2	2 5-76	9,100	5 6-8	3 11-53
4,200	3 4	2 6-36	9,200	5 7-2	4 0-66
4,300	3 4-8	2 6-96	9,300	5 7-6	4 1-79
4,400	3 5-6	2 7-57	9,400	5 8	4 2-93
4,500	3 6-4	2 8-18	9,500	5 8-4	4 4-06
4,600	3 7-2	2 9-12	9,600	5 8-8	4 5-19
4,700	3 8	2 10-07	9,700	5 9-2	4 6-32
4,800	3 8-8	2 11-01	9,800	5 9-6	4 7-45
4,900	3 9-6	2 11-95	9,900	5 10	4 8-58
5,000	3 10-4	3 0-9	10,000	5 10-4	4 9-71
5,100	3 11-2	3 1-84	10-20,000	5 10-4	3 3-28
5,200	4 0	3 2-78	20,000 and over	5 10-4	3 2-78
5,300	4 0-8	3 3-72			

The average rate of tax in the pound of income shown as actually paid by individuals in the above table has, in the higher incomes, been lowered through investments in debentures carrying low maximum taxes.

## APPENDIX C.

TABLE SHOWING THE PERCENTAGE OF INCOME-TAX PAID BY DIFFERENT CLASSES OF PERSONAL INCOMES.

Incomes.					Percentage of Total Assessable Income.	Percentage of Tax paid.
Under £300	..	..	..	..	18.39	0.66
£300- £399	..	..	..	..	20.80	1.54
400- 499	..	..	..	..	12.59	3.16
500- 599	..	..	..	..	8.45	3.68
600- 699	..	..	..	..	7.12	5.12
700- 799	..	..	..	..	4.39	4.59
800- 899	..	..	..	..	3.11	4.40
900- 999	..	..	..	..	2.30	3.76
1,000- 1,999	..	..	..	..	11.95	25.03
2,000- 2,999	..	..	..	..	4.45	13.88
3,000- 3,999	..	..	..	..	2.03	8.26
4,000- 4,999	..	..	..	..	1.21	5.87
5,000- 5,999	..	..	..	..	0.72	4.34
6,000- 6,999	..	..	..	..	0.41	3.22
7,000- 7,999	..	..	..	..	0.22	1.45
8,000- 8,999	..	..	..	..	0.21	1.20
9,000- 9,999	..	..	..	..	0.18	1.37
10,000-19,999	..	..	..	..	0.77	4.45
20,000 and over	..	..	..	..	0.61	4.02
					100.00	100.00

## APPENDIX D.

COMPARISON BETWEEN INCOME-TAX PAYABLE IN NEW ZEALAND, AUSTRALIA, AND GREAT BRITAIN ON SELECTED INCOMES UP TO £1,000.

Income.	Taxpayer Married, with Children.	New Zealand.	Australian Commonwealth, including				Great Britain.
			New South Wales.	Victoria.	Queensland.	South Australia.	
400	None	£ s. d. 3 12 0	£ s. d. 14 6 7	£ s. d. 9 19 1	£ s. d. 13 16 10	£ s. d. 12 0 9	£ s. d. 15 3 9
400	2	Nil	5 9 6	5 7 0	7 7 8	7 11 2	8 2 0
400	3	Nil	1 7 10	3 7 10	4 15 0	5 13 3	5 1 3
600	None	10 16 0	34 19 2	27 9 2	36 17 6	26 16 8	45 11 3
600	2	7 4 0	24 0 3	20 13 7	27 12 9	21 6 1	31 7 9
600	3	5 8 0	19 0 11	17 11 9	23 7 9	18 16 9	25 6 3
800	None	31 10 0	59 13 2	45 5 8	67 4 6	46 6 6	86 1 3
800	2	25 4 0	48 10 4	38 10 4	56 12 10	40 16 2	71 17 9
800	3	22 5 7	43 4 7	35 6 3	52 2 5	38 4 7	65 16 3
1,000	None	54 0 0	83 15 11	61 18 5	103 3 5	65 17 7	126 11 3
1,000	2	45 17 8	71 9 9	55 8 11	92 8 10	59 8 1	112 7 9
1,000	3	42 1 7	65 10 3	52 7 9	86 9 5	56 6 11	106 6 3

## APPENDIX B.

TABLE SHOWING THE RATES PAYABLE FOR INCOME-TAX UNDER THE ANNUAL TAXING ACT OF 1923  
IN RESPECT OF THE SPECIFIED INCOMES.

Amount of Income.	Rate of Tax on a TAXABLE INCOME of Amount stated in First Column.	Average Rate of Tax per £1 of TOTAL INCOME actually paid by Individuals on Amount in First Column, after making Allowances for all Non- taxable Exemptions.	Amount of Income.	Rate of Tax on a TAXABLE INCOME of Amount stated in First Column.	Average Rate of Tax per £1 on TOTAL INCOME actually paid by Individuals on Amount in First Column, after making Allowances for all Non- taxable Exemptions.
£	s. d.	s. d.	£	s. d.	s. d.
400	0 9-6	0 1	5,400	4 1-6	3 4-66
500	0 10-4	0 2-1	5,500	4 2-4	3 5-61
600	0 11-2	0 3-55	5,600	4 3-2	3 6-16
700	1 0	0 5-5	5,700	4 4	3 6-71
800	1 0-8	0 7-8	5,800	4 4-8	3 7-26
900	1 1-6	0 9-77	5,900	4 5-6	3 7-81
1,000	1 2-4	0 10-4	6,000	4 6-4	3 8-37
1,100	1 3-2	0 11-03	6,100	4 6-8	3 8-92
1,200	1 4	0 11-66	6,200	4 7-2	3 9-47
1,300	1 4-8	1 0-29	6,300	4 7-6	3 10-02
1,400	1 5-6	1 0-9	6,400	4 8	3 10-57
1,500	1 6-4	1 1-52	6,500	4 8-4	3 11-13
1,600	1 7-2	1 2-2	6,600	4 8-8	3 10-45
1,700	1 8	1 2-88	6,700	4 9-2	3 9-79
1,800	1 8-8	1 3-56	6,800	4 9-6	3 9-09
1,900	1 9-6	1 4-23	6,900	4 10	3 8-40
2,000	1 10-4	1 4-9	7,000	4 10-4	3 7-71
2,100	1 11-2	1 5-57	7,100	4 10-8	3 7-03
2,200	2 0	1 6-24	7,200	4 11-2	3 6-34
2,300	2 0-4	1 6-91	7,300	4 11-6	3 5-66
2,400	2 1-6	1 7-58	7,400	5 0	3 4-98
2,500	2 2-4	1 8-27	7,500	5 0-4	3 4-29
2,600	2 3-2	1 8-86	7,600	5 0-8	3 4-34
2,700	2 4	1 9-45	7,700	5 1-2	3 4-38
2,800	2 4-8	1 10-04	7,800	5 1-6	3 4-43
2,900	2 5-6	1 10-63	7,900	5 2	3 4-48
3,000	2 6-4	1 11-2	8,000	5 2-4	3 4-52
3,100	2 7-2	1 11-78	8,100	5 2-8	3 4-56
3,200	2 8	2 0-36	8,200	5 3-2	3 4-60
3,300	2 8-8	2 0-94	8,300	5 3-6	3 4-64
3,400	2 9-6	2 1-52	8,400	5 4	3 4-68
3,500	2 10-4	2 2-12	8,500	5 4-4	3 4-74
3,600	2 11-2	2 2-73	8,600	5 4-8	3 5-87
3,700	3 0	2 3-34	8,700	5 5-2	3 7
3,800	3 0-8	2 3-94	8,800	5 5-6	3 8-14
3,900	3 1-6	2 4-54	8,900	5 6	3 9-27
4,000	3 2-4	2 5-15	9,000	5 6-4	3 10-4
4,100	3 3-2	2 5-76	9,100	5 6-8	3 11-53
4,200	3 4	2 6-36	9,200	5 7-2	4 0-66
4,300	3 4-8	2 6-96	9,300	5 7-6	4 1-79
4,400	3 5-6	2 7-57	9,400	5 8	4 2-93
4,500	3 6-4	2 8-18	9,500	5 8-4	4 4-06
4,600	3 7-2	2 9-12	9,600	5 8-8	4 5-19
4,700	3 8	2 10-07	9,700	5 9-2	4 6-32
4,800	3 8-8	2 11-01	9,800	5 9-6	4 7-45
4,900	3 9-6	2 11-95	9,900	5 10	4 8-58
5,000	3 10-4	3 0-9	10,000	5 10-4	4 9-71
5,100	3 11-2	3 1-84	10-20,000	5 10-4	3 3-28
5,200	4 0	3 2-78	20,000 and over	5 10-4	3 2-78
5,300	4 0-8	3 3-72			

The average rate of tax in the pound of income shown as actually paid by individuals in the above table has, in the higher incomes, been lowered through investments in debentures carrying low maximum taxes.

## APPENDIX C.

TABLE SHOWING THE PERCENTAGE OF INCOME-TAX PAID BY DIFFERENT CLASSES OF PERSONAL INCOMES.

Incomes.						Percentage of Total Assessable Income.	Percentage of Tax paid.
Under £300	..	..	..	..	..	18.39	0.66
£300- £399	..	..	..	..	..	20.80	1.54
400- 499	..	..	..	..	..	12.59	3.16
500- 599	..	..	..	..	..	8.45	3.68
600- 699	..	..	..	..	..	7.12	5.12
700- 799	..	..	..	..	..	4.39	4.59
800- 899	..	..	..	..	..	3.11	4.40
900- 999	..	..	..	..	..	2.30	3.76
1,000- 1,999	..	..	..	..	..	11.95	25.03
2,000- 2,999	..	..	..	..	..	4.45	13.88
3,000- 3,999	..	..	..	..	..	2.03	8.26
4,000- 4,999	..	..	..	..	..	1.21	5.87
5,000- 5,999	..	..	..	..	..	0.72	4.34
6,000- 6,999	..	..	..	..	..	0.41	3.22
7,000- 7,999	..	..	..	..	..	0.22	1.45
8,000- 8,999	..	..	..	..	..	0.21	1.20
9,000- 9,999	..	..	..	..	..	0.18	1.37
10,000-19,999	..	..	..	..	..	0.77	4.45
20,000 and over	..	..	..	..	..	0.61	4.02
						100.00	100.00

## APPENDIX D.

COMPARISON BETWEEN INCOME-TAX PAYABLE IN NEW ZEALAND, AUSTRALIA, AND GREAT BRITAIN ON SELECTED INCOMES UP TO £1,000.

Income.	Taxpayer Married, with Children.	New Zealand.	Australian Commonwealth, including				Great Britain.
			New South Wales.	Victoria.	Queensland.	South Australia.	
400	None	£ s. d. 3 12 0	£ s. d. 14 6 7	£ s. d. 9 19 1	£ s. d. 13 16 10	£ s. d. 12 0 9	£ s. d. 15 3 9
400	2	Nil	5 9 6	5 7 0	7 7 8	7 11 2	8 2 0
400	3	Nil	1 7 10	3 7 10	4 15 0	5 13 3	5 1 3
600	None	10 16 0	34 19 2	27 9 2	36 17 6	26 16 8	45 11 3
600	2	7 4 0	24 0 3	20 13 7	27 12 9	21 6 1	31 7 9
600	3	5 8 0	19 0 11	17 11 9	23 7 9	18 16 9	25 6 3
800	None	31 10 0	59 13 2	45 5 8	67 4 6	46 6 6	86 1 3
800	2	25 4 0	48 10 4	38 10 4	56 12 10	40 16 2	71 17 9
800	3	22 5 7	43 4 7	35 6 3	52 2 5	38 4 7	65 16 3
1,000	None	54 0 0	83 15 11	61 18 5	103 3 5	65 17 7	126 11 3
1,000	2	45 17 8	71 9 9	55 8 11	92 8 10	59 8 1	112 7 9
1,000	3	42 1 7	65 10 3	52 7 9	86 9 5	56 6 11	106 6 3

APPENDIX E.

COMPARATIVE STATEMENT OF LAND-TAX ALONE AS AGAINST INCOME-TAX ALONE, AND LAND AND INCOME TAX COMBINED AGAINST INCOME-TAX ALONE, WITH NET YIELDS TO CAPITAL IN EACH CASE, ASSUMING AN EARNING OF 2½ PER CENT. ON CAPITAL BEFORE ANY TAXES ARE DEDUCTED.

1.	2.	3.	Income-tax with Exemption of 5 per Cent. on Unimproved Value.					10.	Income-tax without Exemption of 5 per Cent. on Unimproved Value.			15.	16.	17.	18.	19.	20.	21.		
			4.	5.	6.	7.	8.		9.	11.	12.								13.	14.
Un-improved Value (60 per Cent.).	Stock, Im-plements, and Im-provements (40 per Cent.).	Total Capital employed in Property and Stock.	Land-tax on Unimproved Value.	Net Income on Capital employed before Taxes deducted.	5 per Cent. on Unim-proved Value allowed as Deduction from Assessable Income.	Statutory Exem-ption.	Other Exem-ptions.	Taxable Income.	Income-tax.	Total Tax If Land-tax (Col. 4) and Income-tax (Col. 10) are both charged.	Exem-ption, as per Cols. 7 and 8.	Taxable Income.	Income-tax.	Percentage Net Income to Capital after Land-tax (Col. 4) deducted.	Percentage Net Income to Capital after Land and Income Taxes (Cols. 4 and 10) deducted.	Percentage Net Income to Capital after Income-tax (Col. 14) deducted.	Excess of Land and Income Tax over Income-tax only.	Excess of Income-tax only over Land and Income Tax.	Excess of Land-tax alone (Col. 4) over Income-tax alone (Col. 14).	Excess of Income-tax alone (Col. 14) over Land-tax alone (Col. 4).
£	£	£	£ s. d.	£	£	£	£	£	£ s. d.	£ s. d.	£	£	£ s. d.				£ s. d.	£ s. d.	£ s. d.	£ s. d.
2,400	1,600	4,000	10 14 0	100	120	300	105	..	..	10 14 0	405	..	..	2.23	2.23	2.50	10 14 0	..	10 14 0	..
4,500	3,000	7,500	22 0 8	187½	225	300	109	..	..	22 0 8	409	..	..	2.21	2.21	2.50	22 0 8	..	22 0 8	..
6,000	4,000	10,000	31 5 0	250	300	300	112½	..	..	31 5 0	412½	..	..	2.19	2.19	2.50	31 5 0	..	31 5 0	..
7,500	5,000	12,500	41 8 2	312½	375	300	115	..	..	41 8 2	415	..	..	2.17	2.17	2.50	41 8 2	..	41 8 2	..
9,000	6,000	15,000	52 10 0	375	450	300	118¾	..	..	52 10 0	418¾	..	..	2.15	2.15	2.50	52 10 0	..	52 10 0	..
12,000	8,000	20,000	77 10 0	500	600	300	125	..	..	77 10 0	425	..	..	2.11	2.11	2.48	74 10 0	..	74 10 0	..
18,000	12,000	30,000	138 15 0	750	900	150	137½	..	..	138 15 0	287½	75	3 0 0	2.04	2.04	2.43	119 6 4	..	119 6 4	..
24,000	16,000	40,000	215 0 0	1,000	1,200	..	150	..	..	215 0 0	150	850	46 15 0	1.96	1.96	2.38	168 5 0	..	168 5 0	..
30,000	20,000	50,000	306 5 0	1,250	1,500	..	225	..	..	306 5 0	225	1,025	62 7 1	1.89	1.89	2.37	243 17 11	..	243 17 11	..
42,000	28,000	70,000	533 15 0	1,750	2,100	..	275	..	..	533 15 0	275	1,475	111 17 1	1.74	1.74	2.34	421 17 11	..	421 17 11	..
57,000	38,000	95,000	902 10 0	2,375	2,850	..	300	..	..	902 10 0	300	2,075	198 17 1	1.55	1.55	2.29	703 12 11	..	703 12 11	..
72,000	48,000	120,000	1,365 0 0	3,000	3,600	..	300	..	..	1,365 0 0	300	2,700	315 0 0	1.36	1.36	2.24	1,050 0 0	..	1,050 0 0	..
90,000	60,000	150,000	2,043 15 0	3,750	4,500	..	300	..	..	2,043 15 0	300	3,450	488 15 0	1.14	1.14	2.17	1,555 0 0	..	1,555 0 0	..
120,000	80,000	200,000	3,475 0 0	5,000	6,000	..	300	..	..	3,475 0 0	300	4,700	861 13 4	0.76	0.76	2.07	2,613 6 8	..	2,613 6 8	..
150,000	100,000	250,000	4,906 5 0	6,250	7,500	..	300	..	..	4,906 5 0	300	5,950	1,338 15 0	0.54	0.54	1.96	3,567 10 0	..	3,567 10 0	..
180,000	120,000	300,000	5,887 10 0	7,500	9,000	..	300	..	..	5,887 10 0	300	7,200	1,776 0 0	0.54	0.54	1.91	4,111 10 0	..	4,111 10 0	..
210,000	140,000	350,000	6,869 15 0	8,750	10,500	..	300	..	..	6,868 15 0	300	8,450	2,260 7 6	0.54	0.54	1.85	4,608 7 6	..	4,608 7 6	..

COMPARATIVE STATEMENT AS ABOVE, ASSUMING AN EARNING OF 5 PER CENT. ON CAPITAL BEFORE ANY TAXES ARE DEDUCTED.

2,400	1,600	4,000	10 14 0	200	120	300	110	..	..	10 14 0	410	..	..	4.73	4.73	5.00	10 14 0	..	10 14 0	..
4,500	3,000	7,500	22 0 8	375	225	300	118¾	..	..	22 0 8	418¾	..	..	4.71	4.71	5.00	22 0 8	..	22 0 8	..
6,000	4,000	10,000	31 5 0	500	300	300	125	..	..	31 5 0	425	75	3 0 0	4.69	4.69	4.97	28 5 0	..	28 5 0	..
7,500	5,000	12,500	41 8 2	625	375	275	131	..	..	41 8 2	406	219	8 15 2	4.67	4.67	4.93	32 13 0	..	32 13 0	..
9,000	6,000	15,000	52 10 0	750	450	150	137½	12½	0 10 0	53 0 0	287½	462½	19 8 8	4.65	4.65	4.87	33 11 4	..	33 1 4	..
12,000	8,000	20,000	77 10 0	1,000	600	..	150	250	10 0 0	87 10 0	150	850	46 15 0	4.61	4.56	4.77	40 15 0	..	30 15 0	..
18,000	12,000	30,000	138 15 0	1,500	900	..	250	350	14 0 0	152 15 0	250	1,250	85 8 4	4.54	4.49	4.72	67 6 8	..	53 6 8	..
24,000	16,000	40,000	215 0 0	2,000	1,200	..	300	500	21 13 4	236 13 4	300	1,700	141 13 4	4.46	4.41	4.65	95 0 0	..	73 6 8	..
30,000	20,000	50,000	306 5 0	2,500	1,500	..	300	700	35 0 0	341 5 0	300	2,200	220 0 0	4.39	4.32	4.56	121 5 0	..	86 5 0	..
42,000	28,000	70,000	533 15 0	3,500	2,100	..	300	1,100	69 13 4	603 8 4	300	3,200	426 13 4	4.24	4.14	4.39	176 15 0	..	107 1 8	..
57,000	38,000	95,000	902 10 0	4,750	2,850	..	300	1,600	128 0 0	1,030 10 0	300	4,450	778 15 0	4.05	3.92	4.18	251 15 0	..	123 15 0	..
72,000	48,000	120,000	1,365 0 0	6,000	3,600	..	300	2,100	203 0 0	1,568 0 0	300	5,700	1,235 0 0	3.86	3.69	3.97	333 0 0	..	130 0 0	..
90,000	60,000	150,000	2,043 15 0	7,500	4,500	..	300	2,700	315 0 0	2,358 15 0	300	7,200	1,776 0 0	3.64	3.43	3.81	582 15 0	..	267 15 0	..
120,000	80,000	200,000	3,475 0 0	10,000	6,000	..	300	3,700	555 0 0	4,030 0 0	300	9,700	2,796 16 8	3.26	2.98	3.60	1,233 3 4	..	678 3 4	..
150,000	100,000	250,000	4,906 5 0	12,500	7,500	..	300	4,700	861 13 4	5,767 18 4	300	12,200	3,578 13 4	3.04	2.69	3.57	2,189 5 0	..	1,327 11 8	..
180,000	120,000	300,000	5,887 10 0	15,000	9,000	..	300	5,700	1,235 0 0	7,122 10 0	300	14,700	4,312 0 0	3.04	2.63	3.56	2,810 10 0	..	1,575 10 0	..
210,000	140,000	350,000	6,868 15 0	17,500	10,500	..	300	6,700	1,596 16 8	8,465 11 8	300	17,200	5,046 6 8	3.04	2.58	3.56	3,420 5 0	..	1,823 8 4	..

COMPARATIVE STATEMENT OF LAND-TAX ALONE AS AGAINST INCOME-TAX ALONE, AND LAND AND INCOME TAX COMBINED AGAINST INCOME-TAX ALONE, WITH NET YIELDS TO CAPITAL IN EACH CASE, ASSUMING AN EARNING OF 7½ PER CENT. ON CAPITAL BEFORE ANY TAXES ARE DEDUCTED.

£	£	£	£ s. d.	£	£	£	£	£	£ s. d.	£ s. d.	£	£	£ s. d.				£ s. d.	£ s. d.	£ s. d.	£ s. d.
2,400	1,600	4,000	10 14 0	300	120	300	115	..	..	10 14 0	415	..	..	7-23	7-23	7-50	10 14 0	..	10 14 0	..
4,500	3,000	7,500	22 0 8	562½	225	300	128	..	..	22 0 8	428	134½	5 7 7	7-21	7-21	7-43	16 13 1	..	16 13 1	..
6,000	4,000	10,000	31 5 0	750	300	150	137½	162½	6 10 0	37 15 0	287½	462½	19 8 8	7-19	7-12	7-31	18 6 4	..	11 16 4	..
7,500	5,000	12,500	41 8 2	937½	375	..	147	415½	16 16 2	58 4 4	147	790½	41 17 5	7-17	7-03	7-16	16 6 11	..	..	0 9 3
9,000	6,000	15,000	52 10 0	1,125	450	..	212½	462½	19 8 8	71 18 8	212½	912½	52 0 10	7-15	7-02	7-15	19 17 10	..	0 9 2	..
12,000	8,000	20,000	77 10 0	1,500	600	..	250	650	31 8 4	108 18 4	250	1,250	85 8 4	7-11	6-96	7-07	23 10 0	..	..	7 18 4
18,000	12,000	30,000	138 15 0	2,250	900	..	300	1,050	64 15 0	203 10 0	300	1,950	178 15 0	7-04	6-82	6-90	24 15 0	..	..	40 0 0
24,000	16,000	40,000	215 0 0	3,000	1,200	..	300	1,500	115 0 0	330 0 0	300	2,700	315 0 0	6-96	6-68	6-71	15 0 0	..	..	100 0 0
30,000	20,000	50,000	306 5 0	3,750	1,500	..	300	1,950	178 15 0	455 0 0	300	3,450	488 15 0	6-89	6-53	6-52	..	3 15 0	..	182 10 0
42,000	28,000	70,000	533 15 0	5,250	2,100	..	300	2,850	346 15 0	880 10 0	300	4,950	948 15 0	6-74	6-24	6-14	..	68 5 0	..	415 0 0
57,000	38,000	95,000	902 10 0	7,125	2,850	..	300	3,975	632 13 9	1,535 3 9	300	6,825	1,640 16 10	6-55	5-88	5-77	..	105 13 1	..	738 6 10
72,000	48,000	120,000	1,365 0 0	9,000	3,600	..	300	5,100	1,003 0 0	2,368 0 0	300	8,700	2,363 10 0	6-36	5-53	5-53	4 10 0	..	..	998 10 0
90,000	60,000	150,000	2,043 15 0	11,250	4,500	..	300	6,450	1,510 7 6	3,554 2 6	300	10,950	3,212 0 0	6-14	5-13	5-36	342 2 6	..	..	1,168 5 0
120,000	80,000	200,000	3,475 0 0	15,000	6,000	..	300	8,700	2,363 10 0	5,838 10 0	300	14,700	4,312 0 0	5-76	4-58	5-34	1,526 10 0	..	..	837 0 0
150,000	100,000	250,000	4,906 5 0	18,750	7,500	..	300	10,950	3,212 0 0	8,118 5 0	300	18,450	5,412 0 0	5-54	4-25	5-33	2,706 5 0	..	..	505 15 0
180,000	120,000	300,000	5,887 10 0	22,500	9,000	..	300	13,200	3,872 0 0	9,759 10 0	300	22,200	6,512 0 0	5-54	4-25	5-33	3,247 10 0	..	..	624 10 0
210,000	140,000	350,000	6,868 15 0	26,250	10,500	..	300	15,450	4,532 0 0	11,400 15 0	300	25,950	7,612 0 0	5-54	4-24	5-32	3,788 15 0	..	..	743 5 0

COMPARATIVE STATEMENT AS ABOVE, ASSUMING AN EARNING OF 10 PER CENT. ON CAPITAL BEFORE ANY TAXES ARE DEDUCTED.

2,400	1,600	4,000	10 14 0	400	120	300	120	..	..	10 14 0	420	..	..	9-73	9-73	10-00	10 14 0	..	10 14 0	..
4,500	3,000	7,500	22 0 8	750	225	150	137½	237½	9 10 0	31 10 8	287½	462½	19 9 2	9-71	9-58	9-74	12 1 6	..	2 11 6	..
6,000	4,000	10,000	31 5 0	1,000	300	..	150	550	24 15 0	56 0 0	150	850	46 15 0	9-69	9-44	9-53	9 5 0	..	..	15 10 0
7,500	5,000	12,500	41 8 2	1,250	375	..	225	650	31 8 4	72 16 6	225	1,025	62 7 1	9-67	9-42	9-50	10 9 5	..	..	20 18 11
9,000	6,000	15,000	52 10 0	1,500	450	..	250	800	42 13 4	95 3 4	250	1,250	85 8 4	9-65	9-37	9-43	9 15 0	..	..	32 18 4
12,000	8,000	20,000	77 10 0	2,000	600	..	300	1,100	69 13 4	147 3 4	300	1,700	141 13 4	9-61	9-26	9-29	5 10 0	..	..	64 3 4
18,000	12,000	30,000	138 15 0	3,000	900	..	300	1,800	156 0 0	294 15 0	300	2,700	315 0 0	9-54	9-02	8-95	..	20 5 0	..	176 5 0
24,000	16,000	40,000	215 0 0	4,000	1,200	..	300	2,500	275 0 0	490 0 0	300	3,700	555 0 0	9-46	8-78	8-61	..	65 0 0	..	340 0 0
30,000	20,000	50,000	306 5 0	5,000	1,500	..	300	3,200	426 13 4	732 18 4	300	4,700	861 13 4	9-39	8-53	8-28	..	128 15 0	..	555 8 4
42,000	28,000	70,000	533 15 0	7,000	2,100	..	300	4,600	828 0 0	1,361 15 0	300	6,700	1,596 16 8	9-24	8-05	7-72	..	235 1 8	..	1,063 1 8
57,000	38,000	95,000	902 10 0	9,500	2,850	..	300	6,350	1,476 7 6	2,378 17 6	300	9,200	2,576 0 0	9-05	7-50	7-29	..	197 2 6	..	1,673 10 0
72,000	48,000	120,000	1,365 0 0	12,000	3,600	..	300	8,100	2,119 10 0	3,484 10 0	300	11,700	3,432 0 0	8-86	7-10	7-14	52 10 0	..	..	2,067 0 0
90,000	60,000	150,000	2,043 15 0	15,000	4,500	..	300	10,200	2,992 0 0	5,035 15 0	300	14,700	4,312 0 0	8-64	6-64	7-12	723 15 0	..	..	2,268 5 0
120,000	80,000	200,000	3,475 0 0	20,000	6,000	..	300	13,700	4,018 13 4	7,493 13 4	300	19,700	5,778 13 4	8-26	6-25	7-11	1,715 0 0	..	..	2,303 13 4
150,000	100,000	250,000	4,906 5 0	25,000	7,500	..	300	17,200	5,045 6 8	9,951 11 8	300	24,700	7,245 6 8	8-04	6-02	7-10	2,706 5 0	..	..	2,339 1 8
180,000	120,000	300,000	5,887 10 0	30,000	9,000	..	300	20,700	6,072 0 0	11,959 10 0	300	29,700	8,712 0 0	8-04	6-01	7-09	3,247 10 0	..	..	2,824 10 0
210,000	140,000	350,000	6,868 15 0	35,000	10,500	..	300	24,200	7,098 13 4	13,967 8 4	300	34,700	10,178 13 4	8-04	6-01	7-09	3,788 15 0	..	..	3,300 18 4



APPENDIX E—continued.

COMPARATIVE STATEMENT OF LAND-TAX ALONE AS AGAINST INCOME-TAX ALONE, AND LAND AND INCOME TAX COMBINED AGAINST INCOME-TAX ALONE, WITH NET YIELDS TO CAPITAL IN EACH CASE, ASSUMING AN EARNING OF 12½ PER CENT. ON CAPITAL BEFORE ANY TAXES ARE DEDUCTED.

Un-improved Value (60 per Cent.).	Stock, Implements, and Improvements (40 per Cent.).	Total Capital employed in Property and Stock.	Land-tax on Unimproved Value.		Income-tax with Exemption of 5 per Cent. on Unimproved Value.					Income-tax.	Total Tax if Land-tax (Col. 4) and Income-tax (Col. 10) are both charged.			Income-tax without Exemption of 5 per Cent. on Unimproved Value.			Percentage Net Income to Capital after Land-tax (Col. 4) deducted.	Percentage Net Income to Capital after Land and Income Taxes (Cols. 4 and 10) deducted.	Percentage Net Income to Capital after Income-tax (Col. 14) deducted.	Excess of Land and Income Tax over Income-tax only.	Excess of Income-tax over Land and Income Tax.	Excess of Land-tax alone (Col. 4) over Income-tax alone (Col. 14).	Excess of Income-tax alone (Col. 14) over Land-tax alone (Col. 4).
					Net Income on Capital employed before Taxes deducted.	5 per Cent. on Unimproved Value allowed as Deduction from Assessable Income.	Statutory Exemption.	Other Exemptions.	Taxable Income.		Income-tax.	Exemption, as per Cols. 7 and 8.	Taxable Income.	Income-tax.	£	s.							
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.	18.	19.	20.	21.			
£ 2,400	£ 1,600	£ 4,000	£ 10 14 0	£ 500	£ 120	£ 300	£ 125	£ ..	£ 25 14 1	£ 10 14 0	£ 425	£ 75	£ 3 0 0	12-23	12-23	12-42	£ 7 14 0	£ ..	£ 7 14 0	£ ..			
4,500	3,000	7,500	22 0 8	937½	225	..	146½	565½	25 14 1	47 14 9	146½	790½	41 18 5	12-21	11-87	11-94	5 16 4	..	..	19 17 9			
6,000	4,000	10,000	31 5 0	1,250	300	..	225	725	36 7 1	68 2 1	225	1,025	62 7 1	12-19	11-82	11-88	5 15 0	..	..	31 2 1			
7,500	5,000	12,500	41 8 2	1,562½	375	..	256½	931½	53 14 10	95 3 0	256½	1,306½	91 14 2	12-17	11-74	11-77	3 8 10	..	..	50 6 0			
9,000	6,000	15,000	52 10 0	1,875	450	..	287½	1,137½	73 8 2	125 18 2	287½	1,587½	126 6 9	12-15	11-66	11-66	..	0 8 7	..	73 16 9			
12,000	8,000	20,000	77 10 0	2,500	600	..	300	1,600	128 0 0	205 10 0	300	2,200	220 0 0	12-11	11-47	11-40	..	14 10 0	..	142 10 0			
18,000	12,000	30,000	138 15 0	3,750	900	..	300	2,550	284 15 0	423 10 0	300	3,450	488 15 0	12-04	11-09	10-87	..	65 5 0	..	350 0 0			
24,000	16,000	40,000	215 0 0	5,000	1,200	..	300	3,500	501 13 4	716 13 4	300	4,700	861 13 4	11-96	10-71	10-35	..	145 0 0	..	646 13 4			
30,000	20,000	50,000	306 5 0	6,250	1,500	..	300	4,450	778 15 0	1,085 0 0	300	5,950	1,338 15 0	11-89	10-33	9-82	..	253 15 0	..	1,032 10 0			
42,000	28,000	70,000	533 15 0	8,750	2,100	..	300	6,350	1,476 7 6	2,010 2 6	300	8,450	2,260 7 6	11-74	9-63	9-27	..	250 5 0	..	1,726 12 6			
57,000	38,000	95,000	902 10 0	11,875	2,850	..	300	8,725	2,373 18 6	2,276 8 6	300	11,575	3,395 6 8	11-55	9-05	8-93	..	118 18 2	..	2,492 16 8			
72,000	48,000	120,000	1,365 0 0	15,000	3,600	..	300	11,100	3,256 0 0	4,621 0 0	300	14,700	4,312 0 0	11-36	8-65	8-91	309 0 0	..	..	2,947 0 0			
90,000	60,000	150,000	2,043 15 0	18,750	4,500	..	300	13,950	4,092 0 0	6,135 15 0	300	18,450	5,412 0 0	11-14	8-41	8-89	723 15 0	..	..	3,368 5 0			
120,000	80,000	200,000	3,475 0 0	25,000	6,000	..	300	18,700	5,485 6 8	8,960 6 8	300	24,700	7,245 6 8	10-76	8-02	8-88	1,715 0 0	..	..	3,770 6 8			
150,000	100,000	250,000	4,906 5 0	31,250	7,500	..	300	23,450	6,878 13 4	11,784 18 4	300	30,950	9,078 13 4	10-54	7-79	8-87	2,706 5 0	..	..	4,172 8 4			
180,000	120,000	300,000	5,887 10 0	37,500	9,000	..	300	28,200	8,272 0 0	14,159 10 0	300	37,200	10,912 0 0	10-54	7-78	8-86	3,247 10 0	..	..	5,024 10 0			
210,000	140,000	350,000	6,868 15 0	43,750	10,500	..	300	32,950	9,665 6 8	16,534 1 8	300	43,450	12,745 6 8	10-54	7-78	8-86	3,788 15 0	..	..	5,876 11 8			

COMPARATIVE STATEMENT AS ABOVE, ASSUMING AN EARNING OF 15 PER CENT. ON CAPITAL BEFORE ANY TAXES ARE DEDUCTED.

2,400	1,600	4,000	10 14 0	600	120	300	130	50	2 0 0	12 14 0	430	170	6 16 0	14-73	14-68	14-83	£ 5 18 0	£ ..	£ 3 18 0	£ ..
4,500	3,000	7,500	22 0 8	1,125	225	..	212½	687½	34 1 7	56 2 3	212½	912½	52 0 10	14-71	14-25	14-31	4 1 5	..	..	30 0 2
6,000	4,000	10,000	31 5 0	1,500	300	..	250	950	55 8 4	86 13 4	250	1,250	85 8 4	14-69	14-13	14-15	1 5 0	..	..	54 3 4
7,500	5,000	12,500	41 8 2	1,875	375	..	287½	1,212½	81 6 9	122 14 11	287½	1,587½	126 6 9	14-67	14-02	14-00	..	..	..	84 18 7
9,000	6,000	15,000	52 10 0	2,250	450	..	300	1,500	115 0 0	167 10 0	300	1,950	178 15 0	14-65	13-88	13-81	..	11 5 0	..	126 5 0
12,000	8,000	20,000	77 10 0	3,000	600	..	300	2,100	203 0 0	280 10 0	300	2,700	315 0 0	14-61	13-60	13-42	..	34 10 0	..	237 10 0
18,000	12,000	30,000	138 15 0	4,500	900	..	300	3,300	451 0 0	589 15 0	300	4,200	700 0 0	14-54	13-03	12-67	..	110 5 0	..	561 5 0
24,000	16,000	40,000	215 0 0	6,000	1,200	..	300	4,500	795 0 0	1,010 0 0	300	5,700	1,235 0 0	14-46	12-48	11-91	..	225 0 0	..	1,020 0 0
30,000	20,000	50,000	306 5 0	7,500	1,500	..	300	5,700	1,235 0 0	1,541 5 0	300	7,200	1,776 0 0	14-39	11-92	11-45	..	234 15 0	..	1,469 15 0
42,000	28,000	70,000	533 15 0	10,500	2,100	..	300	8,100	2,119 10 0	2,653 5 0	300	10,200	2,992 0 0	14-24	11-21	10-73	..	338 15 0	..	2,458 5 0
57,000	38,000	95,000	902 10 0	14,250	2,850	..	300	11,100	3,256 0 0	4,158 10 0	300	13,950	4,092 0 0	14-05	10-62	10-69	66 10 0	..	..	3,189 10 0
72,000	48,000	120,000	1,365 0 0	18,000	3,600	..	300	14,100	4,136 0 0	5,501 0 0	300	17,700	5,192 0 0	13-86	10-42	10-67	309 0 0	..	..	3,827 0 0
90,000	60,000	150,000	2,043 15 0	22,500	4,500	..	300	17,700	5,192 0 0	7,235 15 0	300	22,200	6,512 0 0	13-64	10-17	10-66	723 15 0	..	..	4,468 5 0
120,000	80,000	200,000	3,475 0 0	30,000	6,000	..	300	23,700	6,952 0 0	10,427 0 0	300	29,700	8,712 0 0	13-26	9-79	10-64	1,715 0 0	..	..	5,237 0 0
150,000	100,000	250,000	4,906 5 0	37,500	7,500	..	300	29,700	8,712 0 0	13,618 5 0	300	37,200	10,912 0 0	13-04	9-55	10-63	2,706 5 0	..	..	6,005 15 0
180,000	120,000	300,000	5,887 10 0	45,000	9,000	..	300	35,700	10,472 0 0	16,359 10 0	300	44,700	13,112 0 0	13-04	9-55	10-63	3,247 10 0	..	..	7,224 10 0
210,000	140,000	350,000	6,868 15 0	52,500	10,500	..	300	41,700	12,232 0 0	19,100 15 0	300	52,200	15,312 0 0	13-04	9-54	10-63	3,788 15 0	..	..	8,443 5 0

COMPARATIVE STATEMENT OF LAND-TAX ALONE AS AGAINST INCOME-TAX ALONE, AND LAND AND INCOME TAX COMBINED AGAINST INCOME-TAX ALONE, WITH NET YIELDS TO CAPITAL IN EACH CASE, ASSUMING AN EARNING OF 20 PER CENT. ON CAPITAL BEFORE ANY TAXES ARE DEDUCTED.

£	£	£	£ s. d.	£	£	£	£	£	£ s. d.	£ s. d.	£	£	£ s. d.				£ s. d.	£ s. d.	£ s. d.	£ s. d.
2,400	1,600	4,000	10 14 0	800	120	100	140	440	18 3 9	28 17 9	240	560	25 7 9	19-73	19-28	19-36	3 10 0	..	..	14 13 9
4,500	3,000	7,500	22 0 8	1,500	225	..	250	1,025	62 7 1	84 7 9	250	1,250	85 8 4	19-71	18-87	18-86	..	1 0 7	..	63 7 8
6,000	4,000	10,000	31 5 0	2,000	300	..	300	1,400	102 13 4	133 18 4	300	1,700	141 13 4	19-69	18-66	18-58	..	7 15 0	..	110 8 4
7,500	5,000	12,500	41 8 2	2,500	375	..	300	1,825	159 13 7	201 1 9	300	2,200	220 0 0	19-67	18-39	18-02	..	18 18 3	..	178 11 10
9,000	6,000	15,000	52 10 0	3,000	450	..	300	2,250	228 15 0	281 5 0	300	2,700	315 0 0	19-65	18-13	17-20	..	33 15 0	..	262 10 0
12,000	8,000	20,000	77 10 0	4,000	600	..	300	3,100	403 0 0	480 10 0	300	3,700	555 0 0	19-61	17-60	17-23	..	74 10 0	..	477 10 0
18,000	12,000	30,000	138 15 0	6,000	900	..	300	4,800	896 0 0	1,034 15 0	300	5,700	1,235 0 0	19-54	16-55	15-88	..	200 5 0	..	1,096 5 0
24,000	16,000	40,000	215 0 0	8,000	1,200	..	300	6,500	1,527 10 0	1,742 10 0	300	7,700	1,963 10 0	19-46	15-64	15-09	..	221 0 0	..	1,748 10 0
30,000	20,000	50,000	306 5 0	10,000	1,500	..	300	8,200	2,159 6 8	2,465 11 8	300	9,700	2,796 16 8	19-39	15-07	14-41	..	331 5 0	..	2,490 11 8
42,000	28,000	70,000	533 15 0	14,000	2,100	..	300	11,600	3,402 13 4	3,936 8 4	300	13,700	4,018 13 4	19-24	14-38	14-26	..	82 5 0	..	3,484 18 4
57,000	38,000	95,000	902 10 0	19,000	2,850	..	300	15,850	4,649 6 8	5,551 16 8	300	18,700	5,485 6 8	19-05	14-15	14-23	66 10 0	..	..	4,582 16 8
72,000	48,000	120,000	1,365 0 0	24,000	3,600	..	300	20,100	5,896 0 0	7,261 0 0	300	23,700	6,952 0 0	18-86	13-95	14-21	309 0 0	..	..	5,587 0 0
90,000	60,000	150,000	2,043 15 0	30,000	4,500	..	300	25,200	7,392 0 0	9,435 15 0	300	29,700	8,712 0 0	18-64	13-71	14-19	723 15 0	..	..	6,668 5 0
120,000	80,000	200,000	3,475 0 0	40,000	6,000	..	300	33,700	9,885 6 8	13,360 6 8	300	39,700	11,645 6 8	18-26	13-32	14-18	1,715 0 0	..	..	8,170 6 8
150,000	100,000	250,000	4,906 5 0	50,000	7,500	..	300	42,200	12,378 13 4	17,284 18 4	300	49,700	14,578 13 4	18-04	13-09	14-17	2,706 5 0	..	..	9,672 8 4
180,000	120,000	300,000	5,887 10 0	60,000	9,000	..	300	50,700	14,872 0 0	20,759 10 0	300	59,700	17,512 0 0	18-04	13-08	14-16	3,247 10 0	..	..	11,624 10 0
210,000	140,000	350,000	6,868 15 0	70,000	10,500	..	300	59,200	17,365 6 8	24,234 1 8	300	69,700	20,445 6 8	18-04	13-08	14-16	3,788 15 0	..	..	13,576 11 8

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## MINUTES OF EVIDENCE.

WELLINGTON: MONDAY, 14TH APRIL, 1924.

D. G. CLARK, Commissioner of Inland Revenue, examined.

*The Chairman:* I understand, Mr. Clark, that you have prepared a summary of the law with regard to land and income tax as it stands at present: perhaps you would be good enough to read that to us?—Yes, sir. The following summarizes the law in force for the financial year ended 31st March, 1924:—

### *Land-tax.*

*Returns and Assessments.*—For the purpose of the assessment and levy of land-tax every taxpayer shall in each year in April furnish to the Commissioner a complete statement of all land in respect whereof he is assessable for land-tax as owned by him at noon on the 31st March in the preceding year, together with particulars of mortgages owing on the said land. "Year" means a year commencing on the 1st April and ending on the 31st March, both of these days being included. From the returns so made the Commissioner shall in each year make assessments in respect of every taxpayer, setting forth the amount on which tax is payable and the amount of the tax. Notice of assessment shall be given to the taxpayer, and a date fixed within which he may make any objection to the assessment.

*Objection.*—Every taxpayer assessed for land-tax may object to the assessment within the time specified. Objections not allowed by the Commissioner may be heard and determined before a Stipendiary Magistrate. Magistrate's decision is final and conclusive on a question of fact, but appeal to the Supreme Court may be made on a question of law.

*Valuation of Land.*—Land-tax shall be assessed on the unimproved value of the land owned by the taxpayer, and for the purposes of the Act the unimproved value as shown on the district valuation roll in force under the Valuation of Land Act, 1908, on the 31st March preceding the year of assessment shall be deemed to be the unimproved value of the land on that day. Provision is made to exclude from the unimproved value the value of any minerals, timber, or flax (other than the roots of flax-plants). A taxpayer may for the purposes of the Land for Settlements Act, 1908, fix his own unimproved value at an amount greater than the unimproved value computed in accordance with the Act, by—(1) Returning it in his return at a higher value; (2) having it entered on the subsidiary roll in force under the Land for Settlements Act, 1908.

*Scope of Tax.*—In general the tax applies to every person who was the owner of the land at noon on the 31st March preceding the year in and for which the tax is payable, land-tax to be levied on the total unimproved value of the land so owned, diminished by certain special exemptions.

*Special Exemptions and Allowances.*—(1.) When the unimproved value does not exceed £1,500, a deduction of £500; or when the unimproved value exceeds £1,500, a deduction of £500 diminished at the rate of £1 for every £2 of that excess, so as to disappear at £2,500.

(2.) In lieu of the above there may be deducted, where the land was subject to a mortgage on the 31st March, the following amount: (a) Where the total unimproved value does not exceed £6,000, the sum of £4,000; (b) where the total unimproved value exceeds £6,000, the sum of £4,000 diminished at the rate of £2 for every £1 of that excess so as to disappear when that value amounts to or exceeds £8,000: Provided that where the total value of the mortgages is less than the amount computed under (a) or (b), then the total value of the mortgages shall be deductible in lieu of the deduction provided by (a) or (b).

(3.) In cases where the total income of the taxpayer does not exceed £300, and where by reason of age, ill health, or other disability he is incapacitated from further earning, and where payment of land-tax in full would cause hardship, an alternative deduction may be allowed by the Commissioner of a sum not exceeding £2,500.

(4.) Where the taxpayer is a widow, having children dependent on her for support, and payment of the land-tax in full would cause hardship, the Commissioner may allow, in lieu of the special deductions hereinbefore provided, a deduction not exceeding £4,000.

(5.) Where land has not been improved to the extent of £1 an acre or an amount equal to one-third of the unimproved value and which in the opinion of the Commissioner it is reasonable should have been improved to that extent, the deductions provided under 1, 2, and 3 shall not be allowed, and in addition 50 per cent. more in the rate of tax is chargeable than that fixed by the annual taxing Act in respect of other lands. A reduced rate of land-tax is provided in respect of land owned by a religious society held for religious, charitable, or educational purposes, the rate to be one-half of that chargeable on other land.

*Native Land* leased to any person is chargeable with land-tax at half the rate applicable to European land, with a proviso that the tax shall not exceed one-fourth of the rental revenue derived from the land. Occupiers of Native land are made the agents for the Native owner and pay the Native land-tax. The Act empowers them to retain from the rent tax so paid. This proviso does not apply to Native trust lands administered by a trustee.

*Exemptions.*—Land shall be exempt from land-tax in the following cases and to the following extent:—

- (a.) Land owned by or in trust for a local or public authority :
  - (b.) Land owned by or in trust for a university, college, high school, or other public educational institution in New Zealand not carried on for private pecuniary profit :
  - (c.) Land owned by or in trust for a separate institution under the Hospitals and Charitable Institutions Act, 1909 :
  - (d.) Land owned by or in trust for a friendly society, a registered building society, or a savings-bank established under the Savings-banks Act, 1908 :
  - (e.) Land owned by or in trust for a society incorporated under the Agricultural and Pastoral Societies Act, 1908, and used by that society as a showground or place of meeting :
  - (f.) Land owned by or in trust for any company and used by that company as a permanent-way of a public railway or tramway, or for yards and buildings used for the purposes of the traffic on that railway or tramway :
  - (g.) Land owned by or in trust for a society incorporated under the Libraries and Mechanics' Institutes Act, 1908, and used by that society as a site for the purposes of the society :
  - (h.) Land owned by or in trust for any society or trustees and used by such society or trustees (otherwise than for private pecuniary profit) as the site of a public library, public museum, public cemetery, or burial-ground, public recreation-ground, or public garden, domain, or reserve :
  - (i.) Land owned by or in trust for any society or institution established exclusively for charitable, educational, religious, or scientific purposes of a public nature, and not carried on for private pecuniary profit, if the land is used as a site for the purposes of that society or institution :
- Provided that if any such site exceeds 15 acres in extent, this exemption shall be limited to 15 acres thereof to be selected by the Commissioner :
- (j.) Native customary land within the meaning of the Native Land Act, 1909.

*Special Provisions.*—(1.) Any person leasing land shall for the purposes of the Act be deemed to be the owner of the fee-simple of such land, and shall be assessed and liable for land-tax on the aggregate value of the leased land and any land of which he is the owner of the freehold. A deduction of the tax payable by the owner of the freehold estate in the leased land is allowed in the assessment made against the lessee under this section.

The above provision does not apply to leasehold estates in any land of the Crown, or in any Native land, or any land where the lease was in existence on the 26th October, 1907.

(2.) The owner of a life estate in land shall be deemed for the purposes of the Act to be the owner of the fee-simple to the exclusion of the reversioner.

(3.) Joint owners shall be assessed in respect of land owned by them as if it was owned by a single person, without regard to their respective interests in the land, and only one special exemption shall be allowed. In addition each owner shall be assessed in respect of his individual interests in the joint estate, together with any other land owned by him in severalty, and with his individual interest in any other land. From the aggregate assessment so made a deduction of his share of the tax payable in respect of the joint estate is provided for.

(4.) For the above purposes the land of a company shall be deemed to be owned by the shareholders in the proportion which their interest in the paid-up capital bears to the whole.

(5.) Joint occupiers for the same purpose are liable as if they were joint owners.

(6.) No disposition of land is effective for purposes of land-tax so long as possession is retained.

The common object of all the above special provisions is the aggregation of value of the taxpayers' interests in all land owned, occupied, worked, or used for his benefit so that the highest graduated rate of tax may be imposed, provision being made for the credit of any land-tax paid in respect of the same interests taxed in any other assessment.

*General.*—Taxpayers are required to notify the sale of land in any year to the Commissioner; failure to do this makes them liable for another year's tax on the same, with, however, right of recovery from the purchaser. Land-tax may, when the assessed taxpayer has made default in payment, be recovered from the mortgagee, the successor in title, or the tenant of the land at the time of the demand. Provision is made for recovery of tax so paid as a debt, to retain it out of moneys due or payable to the taxpayer, and in the case of a mortgagee he may add the amount so paid to the principal sum of the mortgage.

*Rates of Land-tax.*—(1) Where the unimproved value does not exceed £1,000, the rate of land-tax is 1d. for every £1 thereof; (2) where the unimproved value exceeds £1,000, the rate is 1d. for every £1 thereof increased by one twenty-thousandth part of 1d. for every £1 in excess of £1,000, but so as not to exceed  $7\frac{1}{2}$ d. in the pound. Absentees are charged 50 per cent. additional. Owners of undeveloped land are also charged 50 per cent. additional, and no deductions by way of special exemptions allowed (see paragraph 5, page 17.) Native land is charged at half rates. Land owned by a religious society is also charged at half rates.

#### *Income-tax.*

*Income charged.*—In general the tax applies to—(1) All income derived by any person resident in New Zealand at the time when he derives that income, whether it is derived from New Zealand or elsewhere; and (2) all income derived from New Zealand whether the person deriving that income is resident in New Zealand or elsewhere, subject to the following limitations: (a) Exemption is allowed in respect of the income arising in and subject to income-tax in another part of the British Dominion;

and (b) companies resident in New Zealand and carrying on business exclusively in any of the islands of the Pacific, not being British possessions, are assessable only in respect of income received in New Zealand.

“ Assessable income ” is defined as—

- (a.) All profits or gains derived from any business :
- (b.) All salaries, wages, or allowances (whether in cash or otherwise), including all sums received or receivable by way of bonus, gratuity, extra salary, or emolument of any kind, in respect of or in relation to the employment or service of the taxpayers :
- (c.) All profits or gains derived from the sale or disposition of land, or any interest therein, if the business of the taxpayer comprises dealing in such property, or if the property was acquired for the purpose of selling or otherwise disposing of it at a profit :
- (d.) All profits or gains derived from the extraction, removal, or sale of minerals or timber, whether by the owner of land or by any other person : Provided that in the case of profits or gains derived as aforesaid from the removal or sale of timber or coal a deduction shall be allowed equal to the cost of the timber or coal removed or sold by the taxpayer during the income year :
- (e.) All profits or gains derived from the business of dealing in live-stock, meat, butter, cheese, or wool, or in grain, fruit, or other crops, being the natural products of land (other than flax) carried on by any person other than the owner of that land : Provided that when the taxpayer is the owner of other land which being used for purposes of the said business is not in itself sufficient for the full sustenance of such live-stock or production of such other products, then the Commissioner shall assess for income-tax only the profits derived from dealing in so much of the above-named live-stock or products as is in excess of the capacity of the said land to fully sustain or produce :
- (f.) All rents, royalties, fines, premiums, or other revenues (including payments for or in respect of the goodwill of any business, or the benefit of any statutory license or privilege) derived by the owner of land from any lease, license, or easement affecting the land, or from the grant of any right of taking the profits thereof :
- (g.) All interest, dividends, annuities, and pensions :
- (h.) Income derived from any other source whatsoever.

*Income exempted.*—The exemptions are—

- (a.) The salary and emoluments of the Governor-General in respect of his office :
- (b.) The income, other than income received in trust, of a local authority, or of any public authority other than the Public Trustee and the State Advances Superintendent :
- (c.) Income derived from sinking funds in respect of the public debt or of the debt of any local authority :
- (d.) The income of a building society under the Building Societies Act, 1908, or of a savings-bank under the Savings-banks Act, 1908 :
- (e.) The income of a separate institution under the Hospitals and Charitable Institutions Act, 1909 :
- (f.) Income derived by any person from any pension under the War Pensions Act, 1915 :
- (g.) Dividends and other profits derived from shares or other rights of membership in companies, other than companies which are exempt from income-tax :
- (h.) Income derived by a person who is not (within the meaning of this Part of this Act) resident in New Zealand, from stock or debentures which have been issued by the Government of New Zealand, or by any local or public authority, or by the Public Trustee acting as the agent of a land-settlement association under the Land Settlement Finance Act, 1909, and the interest on which is payable out of New Zealand :
- (i.) Income derived by the trustees of a superannuation fund :
- (j.) The income of a friendly society, except so far as derived from business carried on beyond the circle of its membership :
- (k.) Income derived by trustees in trust for charitable, religious, educational, or scientific purposes of a public nature within New Zealand, or derived by any society or institution established exclusively for such purposes and not carried on for private pecuniary profit : Provided that if the aforesaid purposes are not limited to New Zealand the Commissioner may apportion the income in such a manner as he deems just and reasonable between such purposes within New Zealand and the like purposes out of New Zealand, and may allow to the trustees, society, or institution a partial exemption accordingly :
- (l.) Income derived by any owner of land in respect of the profits derived from the direct use or cultivation thereof, save that this exemption shall not apply with respect to any profits or gains, extraction, removal, or sale of minerals or timber, or dealing in live-stock, meat, butter, &c.
- (m.) Income expressly exempted from income-tax by any other Act to the extent of the exemption so provided.

#### *Computation of Income.*

*Year and Basis of Assessment.*—The year of assessment runs from the 1st April to 31st March, the basis of charge being the income of the preceding twelve months.

*Reductions.*—Reduction is allowed in respect of—

- (a.) Repairs of premises and the repair, alteration, or supply of implements, utensils, or machinery used in the production of income up to the sum usually expended in any year.

- (b.) An allowance at the discretion of the Commissioner for depreciation of such implements, utensils, or machinery, whether caused by fair wear-and-tear or obsolescence, provided such depreciation cannot be made good by repair.
- (c.) Bad debts proved bad and actually written off in the year of income, provided that all recoveries are credited as income in the year in which received. No allowance is made for doubtful debts.
- (d.) Interest to the extent the Commissioner is satisfied it is payable on capital employed in the production of the assessable income.
- (e.) Five per cent. of the capital value of the taxpayer's interest in land in New Zealand used for the purposes of his business or for the purpose of deriving rent, royalties, or other assessable profits therefrom (to be deducted from the income derived from the land).
- (f.) In calculating the assessable income of any co-operative company incorporated in New Zealand and having for one of its objects the manufacture of cheese, dried milk, or butter in so far as the income is derived from the treatment, manufacture, and sale of products of milk, the amount paid or payable by the company during the income year to suppliers of milk to the company so far as paid or payable in respect of and apportioned among the suppliers in proportion to the quantity of milk or butterfat supplied.
- (g.) Contributions by employers to superannuation, pension, or benefit funds for employees.
- (h.) In arriving at the profits from the removal or sale of timber or coal, the cost of the timber or coal removed or sold.

*Deduction* is prohibited in respect of—

- (a.) Any expenditure or loss which is not exclusively incurred in the production of the assessable income.
- (b.) Any expenditure or loss recoverable under an insurance or contract of indemnity.
- (c.) Payments of any kind made by husband to wife, or wife to husband.
- (d.) Land-tax or income-tax.
- (e.) Repairs, interest, and other expenditure on property used for residence or pleasure or not used in the production of assessable income.
- (f.) Loss of any property by fire, storm, or accident.
- (g.) Rent charged in respect of premises owned by the taxpayer.
- (h.) Depreciation of leases.

*Set-off Losses.*—Any expenditure or loss incurred in the production of assessable income is allowed to be deducted from the total gross assessable income from all sources, so that a net loss in one source is in effect set against other income of the same year.

Business losses in 1923–24 and subsequent years may be carried forward and set against assessable income for the three following years, the relief to be given as far as possible from the earliest assessments within that period.

*Personal Allowance, &c.*—Exemption limit: Except in the case of absentees and companies the exemption limit is £300. Personal allowances: The following are allowed—(1) £300 less £1 for every £1 by which the income exceeds £600; (2) £50 in respect of each child dependent on the taxpayer (child includes stepchild or grandchild); (3) the amount (not exceeding £50) contributed by the taxpayer towards the support of his widowed mother; (4) insurance premiums paid in the year of income by taxpayer on his own life for his own benefit or the benefit of his wife and children; (5) contributions to the National Provident Fund or any superannuation fund or the insurance fund of a friendly society. Total of these last two deductions 15 per cent. of taxpayer's earned income, or if total income does not exceed £2,000, 15 per cent. of his total income.

*Returns and Assessments.*—Returns are required in each year, setting forth a complete statement of assessable income derived during the preceding year. Where taxpayer makes default in furnishing a return, Commissioner may make an assessment of the amount on which in his judgment tax should be levied. Tax to be paid on such assessments unless taxpayer establishes an objection that the assessment is excessive or that he is not chargeable with tax. From the returns furnished the Commissioner shall in each year make assessments setting forth amount on which tax is payable.

*Objection.*—Every person assessed for income-tax may object to assessment within the time specified. Objections not allowed by the Commissioner may be heard and determined before a Stipendiary Magistrate. Magistrate's decision final and conclusive on question of fact, but appeal to Supreme Court may be had on question of law.

*Payment.*—Tax is assessed and made payable about the 8th February in each year, public notice being given of the date of payment. If tax not paid within twenty-one days of the due date, 5 per cent. of the amount is added by way of additional tax. Repayment of tax paid in excess of the proper amount may be made if claimed within three years of the end of the year of assessment. A company is deemed to be agent of all its debenture-holders, and is liable to assessment at a flat rate on all income derived by them from the debentures. Such assessment is distinct from the company's own assessment. Provision is made for refund of excess tax paid at the source in respect of debenture income when the rate so paid is in excess of the rate that would be payable if the debenture-holder's other income and his debenture income were assessed together.

*Rates of Tax.*—For the year 1923–24 the rates of charge which are based on the net taxable income after all deductions and allowances are made were as follows: (1) Interest on debentures of companies, 3s. in the pound; (2) interest on debentures of local authorities, 2s. 6d. in the pound; (3) in all other cases where the income (a) does not exceed £400, 1s. in the pound; (b) exceeds £400 but does not exceed £6,000, 1s. in the pound, increased by one-hundredth of a penny for every £1 of such excess; (c) exceeds £6,000, 5s. 8d. in the pound, increased by one two hundredth of a penny for every £1 of

such excess up to a maximum of 7s. 4d. in the pound. From the income-tax computed in accordance with 3 (a), (b), and (c) a deduction of 20 per cent. of the tax was made. A deduction also was made of 10 per cent. of so much of the tax as was levied on earned income up to a maximum of £2,000 of earned income. Life-insurance companies are charged half rates except in respect of income derived from debentures.

*Companies and Income from Companies.*—Companies are charged with income-tax under the general scale in respect of their total profits, and the dividends are excluded from the income of the shareholders. The Commissioner may, in the case of the shareholder whose total income does not exceed £400, pay to the shareholder a sum equal to the difference between the tax paid by the company in respect of an amount of its income equal to the shareholder's dividends and the amount which would have been payable by such shareholder in respect of the dividends if they had formed part of his taxable income. This payment is limited so that the total payment and dividend combined shall not exceed 6 per cent. of the total amount paid upon the shares. The Commissioner may, in the case of companies which consist substantially of the same shareholder and which in his opinion are not so constituted for the *bona fide* purpose of more effectually carrying out their business but rather in the purposes of reducing their taxation, treat for income-tax purposes the two companies as if they were a single company.

*Partnerships.*—Partners are required to make a joint return of the partnership income and a separate return of the non-partnership income, but each partner is assessable as an individual to include his share of the partnership income. Husband and wife carrying on business together are not deemed to be partners unless carrying on under a deed of partnership. The income of a married woman is assessable as if she were unmarried.

*Non-resident Traders, Shipowners, &c.*—If a landlord, mortgagee, or other creditor is an absentee, the tenant mortgagor or other person who transmits rent, interest, or other money to him may be assessed as agent. Any New Zealand company exempt from income-tax is assessable as the agent of absentee shareholders in respect of dividends or profits paid to them. Absentee shipowners or charterers may be assessed through the masters of their ships, as their agents. The clearance of any such ship may be withheld pending the payment of tax. Non-resident agents and non-resident traders must not in respect of the sale or purchase of goods carry on business without a warrant from the Commissioner, and are required to pay a deposit as security for payment of any tax which may be payable. A taxpayer in New Zealand who enters into a contract of insurance with a foreign company or person not carrying on business in New Zealand is treated as the agent of such company or person, and is required to pay tax assessed at the rate of 5 per cent. of the premiums.

*Mining Concerns.*—In the case of a company whose principal source of income is gold-mining or scheelite-mining the taxable income is deemed to be half of the dividends paid to shareholders during the year.

*Banks.*—In the case of banking companies the taxable income is taken to be a sum equal to 30s. in every £100 of the average of its total assets and liabilities for the four quarters of the year as published in the *Gazette*, less an amount equal to the income derived on its own account as interest on Government debentures or stock expressly exempted from income-tax by any Act.

*Insurance Companies.*—In the case of insurance companies other than life insurance the taxable income does not include income derived from insurance business carried on out of New Zealand. No deduction is allowed for premiums paid for reinsurance with companies not carrying on business in New Zealand. Receipts from such reinsurances in respect of losses are not treated as income. In the case of a life-insurance company not incorporated in New Zealand the taxable income is deemed to be a sum equal to its total income from investments of any kind out of New Zealand held by or on behalf of its New Zealand branch and from investments of any kind in New Zealand, diminished by an amount equal to 2 per cent. of its investments in New Zealand, the income from which is not exempt from taxation. As pointed out before, the tax payable is half the amount which would be computed by applying the general scale to its statutory income. The State Fire Insurance Office and the Government Life Insurance Department are assessable in the same manner as New Zealand companies.

*Collection.*—Land-tax and income-tax are collected in one sum in each year. Land-tax in November. Income-tax in February. Tax may be remitted direct to the office of the Commissioner, or may be paid at any money-order post-office. The percentage of land-tax paid through post-offices is approximately 60 per cent. The percentage of income-tax paid through post-offices is approximately 50 per cent. Payment of tax may be made at least three months in advance of the due date, and where this is done interest at post-office savings-bank rate is allowed.

*Evasion.*—As the rates of tax have tended to increase, so the temptation to make false returns has become greater, and as in Great Britain so in New Zealand it has been necessary to institute more prosecutions for wilful or negligent evasion. The penalties provided under the Act are substantial, and the penalty for wilfully or negligently making false returns may be a fine not exceeding £100 and not less than £2. In addition to the foregoing the taxpayer is chargeable with treble the amount of the deficient tax. The work of the Inspectors outside examining books and accounts of taxpayers provides a check on returns, and within the Department the Investigation Branch provides a check on interest paid and interest returned, salaries paid and salaries returned, and other payments.

*Mr. Shirtcliffe.*] With reference to page 19 of your statement, in relation to income-tax, subclause (b) under the heading of "Income exempted," I gather from this that all the special trading Departments do not pay income-tax?—They do now. The Public Trustee pays income-tax. The State Advances Office pays income-tax. The Government Life Insurance Department has always paid income-tax; and the State Fire Department has paid income-tax for some years.

Does the State Coal-mines Department?—No.

Is that the only trading Department of the Government that does not pay income-tax?—That is so—unless you include the Railways Department as a trading Department. The Railways Department and the Postal Department, of course, do not pay income-tax.

What is the precise meaning of subclause (g) on page 19, which enumerates among the exemptions from income-tax “Dividends and other profits derived from shares or other rights of membership in companies, other than companies which are exempt from income-tax”?—When that clause was first inserted dairy-factory companies were exempt from income-tax; and it covered building society dividends too.

They are exempt from income-tax?—The building societies themselves are. The dividends are assessable in the hands of the recipients.

But is not this contradictory? You exempt dividends derived from shares in companies, other than companies which are exempt from income-tax?—We exempt them. If the company itself is liable to income-tax, the shareholder is exempt.

Thank you. It is quite clear. With regard to subclause (m) on page 19, I presume that that refers principally to the exemption of Government loans by other Acts—loans free of income-tax?—Yes. It saves the special exemptions that are granted under any other Act.

*The Chairman.*] That exemption applies really in practice to the free-of-income-tax Government loans, does it not?—Yes.

*Mr. Shirtcliffe.*] There are no other important exemptions?—No.

The allowance for prompt payment of tax has been done away with, has it not?—Yes; but there is still an allowance if payment is made three months prior to due date.

Does that take the place of the old 5 per cent.?—In a sense it does.

*The Chairman.*] Do many people take advantage of that provision and pay in advance?—Not a great many. At times some of the large institutions have a fair sum by them and they pay it in. To get this allowance you have to pay at least three months before due date?—Yes.

*Mr. Shirtcliffe.*] I suppose a great many people took advantage of the 5-per-cent. rebate?—Yes. The majority?—Yes—all those that were able to pay at all.

*Mr. Weston.*] With regard to that allowance if you pay three months before, you cannot get it if you pay within the three months?—No. The due date is fixed. We do not accept such a payment after three months.

Do you take any amount? Do you take £2,000 or £3,000?—We confine it to larger amounts. If a person with a small amount comes in we recommend him to go to the Post Office Savings-bank and place it on deposit there.

*Mr. Shirtcliffe.*] At page 21 of your statement there is this passage: “The Commissioner may, in the case of the shareholder whose total income does not exceed £400, pay to the shareholder a sum equal to the difference between the tax paid by the company in respect of an amount of its income equal to the shareholder’s dividends and the amount which would have been paid by such shareholder in respect of the dividends if they had formed part of his taxable income”: how does that operate? Is it really operative?—I do not think that any concession has been granted under that provision. There was one very strong application made to me, I remember, but it was by the shareholders of a company that had never paid a dividend before, and I ruled the application out on the ground that this provision was intended to relieve taxpayers from the loss of dividend occasioned by the Act. As these shareholders had never received a dividend before they could not be held to have lost any dividend. My ruling was not contested.

*Mr. Weston.*] You have only had one application?—We have had more than one application, but, speaking from memory, I do not think any of them have complied with the conditions.

*Mr. Shirtcliffe.*] Referring to page 21, why are the two industries of gold-mining and scheelite-mining specially treated under the heading “Mining Concerns”?—I can give no reason whatever for that.

They pay tax only on half of the dividends paid to shareholders?—Yes.

*Mr. Weston.*] It is because they are speculative companies. It is an arbitrary method, is it not?—It is an arbitrary method. The provision with regard to gold-mining companies was introduced into the Land and Income Assessment Act in 1893, just a year after the Act started. Scheelite-mining was included during the war. It was added to gold-mining, to encourage scheelite-mining.

*Mr. Weston.*] I think there are only three or four scheelite companies in the Dominion, and they are not doing very well now. They have been rather a “frost” since the war concluded.

*Mr. Shirtcliffe.*] Still, if they are not doing very well and are not paying dividends they will not be asked to pay income-tax?—No.

At page 21 of your statement, under the heading “Insurance Companies,” there is this paragraph: “No deduction is allowed for premiums paid for reinsurance with companies not carrying on business in New Zealand”: do you know what the special reason for that was? I notice that the amounts received under such reinsurances are not treated as income as a set-off against that; but do you know why the provision was made?—It was to bring in the net results of the whole of the business carried on in New Zealand. By allowing the deduction of the reinsurances it was dividing the business between the company here and the company beyond New Zealand which did no business here.

*Mr. Weston.*] The State Fire Department is allowed to deduct reinsurances, is it not?—Yes; there is a special exception made in favour of the State Fire Department.

*Mr. Begg.*] What is the reason for that?—It was a State institution, and it was carrying on in opposition to the other companies. It was intended to make it independent of the other companies. Is the clause in question an old clause?—Yes.

When was it introduced?—I think it was in the original Act.



Had that provision anything to do with the difficulty of the State Office getting reinsurances locally?—You mean the clause with reference to the State Fire?

Yes?—That provision was made when it was first assessed. There was special provision made to allow that deduction.

*Mr. Shirtcliffe.*] Taking page 18 of your memorandum relating to land-tax, subclause (4) reads, "For the above purposes the land of a company shall be deemed to be owned by the shareholders in the proportion which their interest in the paid-up capital bears to the whole": what is the precise bearing of that? You could never dream of collecting from each shareholder his proportion of the land-tax?—We add his share to his other land. We make an assessment on that taxpayer. There is first of all an assessment made on the company and an assessment made on the individual taxpayer, and afterwards the various interests of the taxpayer are aggregated.

A landowner makes a return of land. You have his figures before you. But naturally he does not include in that return his shareholding interest in land owned by companies in which he is interested?—No. The companies supply us with a list of shareholders, and we divided the land of the company in proportion to the holding of each shareholder. In many cases, of course, there is no additional assessment to make; it is not worth making. But where a shareholder has other lands that are taxable, and also a share in this company's land, computed in accordance with the share holding, we add the two together. It is the working of the graduated tax. We add the two together and charge the tax at the rate that the total bears, and then give credit for the proportion of the tax that the company has paid and the tax that the individual himself has paid.

The provision is only operative, I imagine, when the tax on the company's land does not reach the maximum?—No.

If a company owns land on which the maximum rate is levied, the individual shareholder's interest is also added to his return?—Yes.

In spite of the fact that the company pays the maximum rate?—It increases the rate on his other lands.

Is the tax not being paid twice, then?—No. We give credit for the amount paid by the company.

*Mr. Hunt.*] The landowner only hears from you when his rate is higher than the company's?—Not necessarily. It is when the effect of the aggregation of the lands increases the amount of the tax payable by him—the amount that would be payable if that aggregation were not made. The credit that we give wipes out the tax on the company's land, but we get the additional tax on his land by reason of its combination with the company's land.

*The Chairman.*] You get a higher rate from him?—Yes.

You do not get double tax in respect of the same land?—No.

*Mr. Begg.*] Has a case ever occurred which, treated in that way, might reduce his graduation?—We do not carry it out.

But such a case might occur?—It might; but the credit is only made in so far as it increases his graduated rate. That is provided for.

Is that applied generally—I mean, in large companies, of whose business land-owning is only a very small part?—Yes, it is applied generally. Wherever it has the effect of increasing the land-tax payable by the shareholder it is put into operation.

*Mr. Hunt.*] *Mr. Shirtcliffe* asked you if any of the State Departments paid income-tax, and you instanced the State Advances Department. The income-tax that the State Advances Department pays works out in practice at a very small thing as compared with what it would pay if it were owned by a company, does it not?—It is assessed under just the same provisions as a private company.

Supposing that the State Advances business were being run by a company. The whole of the capital that the State Advances Department used would be either in the form of share capital or debenture stock, and the company would have to pay tax on the whole interest it collected on its share capital and debenture-tax on the debenture stock, would it not?—As agent for the debenture-holders, yes.

The State Advances Department pays no tax upon the capital that it uses: it only pays tax on the profit that it makes on that capital?—Yes.

The capital is tax-free?—Yes.

Whereas in the hands of a company it would not be?—It would be as far as the company was concerned. It would be the debenture-holder.

No. The money that the State Advances uses is borrowed outside New Zealand?—Yes.

Now, if a company borrows money outside New Zealand they have to account to you for debenture-tax?—Yes.

But the State Advances Department has not?—But that company deducts the tax from the debenture interest.

Not if it borrows outside New Zealand?—Yes. It only pays as agent for the debenture-holders.

Say that a company borrowed in England: the money that it raised in England would be subject to the English debenture-tax, and it could not charge the debenture-holders New Zealand tax as well?—No.

So it works out in practice that the company would have to pay debenture-tax, while the State Advances Department pays none?—That is so. Of course, the State Advances capital is also taxable in England.

But not in New Zealand?—No.

Whereas a company would be taxable in both cases?—Yes—that is, if it had debenture capital.

And with respect to its own capital it would have to pay tax on the whole of the interest?—In the case of the State Advances Department the accumulated profits would be its own capital. It pays the full tax on that money, just the same as a company would.

On the whole of the interest that it collected on its own capital it would pay tax?—Yes.

So that really the State Advances tax is a very small thing when compared with what a company's tax would be that was doing the same business?—No, I do not think so.

*Mr. Shirlcliffe.*] I would suggest that Mr. Clark work out the comparison to give an illustration. It would not take very long?—Very well. I will give an example.

*Mr. Begg.*] Is not this the great advantage that the State Advances Department has over a company doing similar business: that it can borrow without having paid-up capital, whereas a company cannot?—Yes. It has the State guarantee.

*Mr. Weston.*] As a matter of fact, the difficulty in dealing with Government undertakings and local-body undertakings is that their capital consists of borrowed moneys?—Yes.

And it is difficult to apply the ordinary methods of assessment or rules of assessment of income to local authorities and Government undertakings?—They could be applied. They are applied in England.

You would not arrive at any satisfactory results?—They do.

We dealt with that matter on the Taxation Committee?—Yes.

Take a tramway undertaking, that is carried on purely on debenture-money?—Yes.

And if that money was borrowed in London and interest was payable in London it would be exempt from taxation?—That is so, but the operations of the local authority would not be exempt.

The local authority deducts its interest?—Yes.

That means a very big deduction?—Yes. It generally raises money at a lower rate than a private concern can borrow at.

I acknowledge that, but you see the interest they pay on debentures is exempt from taxation. The result is practically that they have not to find any money for taxation?—Unless they borrow locally.

And unless they make profits to go to reserve you have nothing to tax?—No.

If they simply square the yard, pay their interest on debentures and make whatever provision is necessary for sinking fund, there is no profit to tax?—I do not know that they often do that. There are quite large assessments made on local authorities in England.

*Mr. Begg.*] Does the Tax Department gain or lose by the extension of municipal trading enterprise and Government trading enterprise?—It loses.

*Mr. Weston.*] Have you ever taken out the loss that resulted to the country by the purchase, for instance, of the Auckland tramways by the Auckland City Council?—No.

Would it be possible to take that out?—We could give the figures.

*The Chairman.*] What the company paid in past years—you lose all that, do you not?—That is what we lose.

*Mr. Shirlcliffe.*] The position in regard to Government and municipal undertakings is that all Government trading Departments, with the exception of the State Coal-mines Department, the Railways, and the Post and Telegraph, pay income-tax?—Yes.

While, on the other hand, no municipal undertakings whatever pay income-tax, do they?—No.

*Mr. Begg.*] Then the extension of enterprise by municipalities and others restricts the field of taxation?—Yes. That is inevitable. There was provision made in one amendment to tax municipal enterprises.

*Mr. Shirlcliffe.*] There is a distinct encouragement, then, to municipalities to set up trading departments?—Yes.

To the curtailment of private enterprise?—Yes.

*Mr. Weston.*] With regard to the State Fire Office, that provision that they are entitled to deduct premiums for reinsurances outside the Dominion gives them a very substantial advantage over private undertakings?—Yes. It was done with that intention.

It was done deliberately?—It was done deliberately so that the Department should be independent of the other institutions.

*Mr. Begg.*] Could you get the date when that provision was inserted? Was that exemption of the State Fire Office part of the original Act, or has it been introduced since?—It was introduced when the State Fire Office was first made assessable.

*Mr. Shirlcliffe.*] At this stage, Mr. Clark, you could hardly be ready with any suggestions within the order of reference dealing with the general question. Perhaps at a later stage you would be ready with suggestions?—Yes; or I could answer questions now, I suppose.

We thought that perhaps you would hardly be ready at this stage?—I did not anticipate your asking me. You want me to make a statement similar to the one I made to the Taxation Committee in 1922?

Yes?—I can do that.

Your views may have changed somewhat: conditions may have changed somewhat?—Very slightly.

*Mr. Weston.*] Mr. Clark may have an ideal system to place before us?—You will never reach an ideal system.

Do you think this is the right time to make such a statement?—I would sooner think over one or two of the points and jot them down.

*The Chairman.*] Would it not be better for you to think it out and write it down for us?—Yes. I do not think we should ask you to explain the subject to us now without having prepared yourself for it?—I would rather not at this stage.

*Mr. Hunt.*] Debenture-tax is now 4s. 6d., is it not?—4s. 6d. in the pound on debentures issued after the passing of the Finance Act of last session—that is, after the 29th August of last year.

*Mr. Weston.*] What about the tax on local authorities' debentures? Is that still 2s. 6d.?—The rate is the same for both—4s. 6d.

*Mr. Begg.*] What was the object of raising that debenture-tax to 4s. 6d. or continuing it at all? The original object, I think, was to permit of local bodies borrowing at a reasonable rate?—Yes.

What was the object of continuing it?—The local bodies objected to making the rate any higher—to making the interest liable to the same tax as other interest.

Are they still wanting an advantage?—A special rate was made because the persons holding local-authority debentures, as far as we knew, did not return the interest, and the local authorities would give no help, or could give no help, in tracing them. So we had to make provision to assess the local bodies as agents. Now we make an arrangement by which they give us the lists of debenture-holders, and we deal direct with them.

*Mr. Shirlcliffe.*] The local-body rate has now gone up to 4s. 6d.?—Yes, both have gone up to 4s. 6d.

*Mr. Begg.*] Would there be any great difficulty in tracing the holders of those bonds to compel them to pay income-tax instead of a special tax?—No, it would not, with our present provision.

You could trace them?—Yes.

The provision, therefore, is made or continued merely to enable local bodies to borrow money a little cheaper than other people can do it?—The idea now is gradually to work it to the same rate as the other tax—to do it gradually—that is, any new issues are to be 4s. 6d., and it is hoped to bring the rate of the other tax down to that.

Would it not be desirable to abolish this debenture-tax altogether, as soon as it can be done, and let the income be taxed in the ordinary way?—Yes.

You could trace that income?—We could trace it now with our present provision.

*Mr. Shirlcliffe.*] I want to ask a question in relation to that paragraph on page 21 dealing with mining concerns. I am asking it simply to illustrate what might happen if the same principle were applied generally and income-tax were based upon half the dividend paid to shareholders. A company might make a very large profit in one year and might pay out only a comparatively small dividend and accumulate the rest for further development purposes or for some other purpose?—Yes.

Therefore, as regards that year, your Department would stand to lose very substantially?—Oh, yes. We should lose in any year.

That would apply generally to companies if the income-tax were based in any way upon the dividends paid?—Yes. We should lose by it.

You would lose very substantially, because the inducement would be to accumulate profits, especially at this time, in the hope perhaps that the tax would be reduced later on?—Yes. Take the case of a private company—and there are large numbers of private companies: some of the profits might never come under review for income-tax. The only way we would get them would be by death duty.

*Mr. Begg.*] That did take place on a large scale, I suppose, in the years 1916, 1917, 1918, 1919, and 1920: they carried forward as much as possible?—No, it did not take place, because the profits were all assessed. Whether they were carried forward or not they were assessed.

We had to pay on the profits that were apparent, of course?—Yes. I find that the provisions concerning reinsurances and the State Fire Office was made in 1917.

That was the year when the taxation of the State Fire Department was started?—Yes.

Was that put in as a safeguard to prevent any risk of the State Fire Department being boycotted in New Zealand?—That was it.

Was it to give the State Fire a permanent advantage, or was it a safeguard to prevent its being boycotted by other companies in New Zealand?—It was to prevent that Office being controlled as to its rates by other companies.

Supposing the State Fire Department decided that premiums were still far too high here and made another big cut, would there be a tendency not to reinsure for it here?—I think so.

*Mr. Shirlcliffe.*] About land-tax, was anything done in pursuance of the recommendation made by the last Taxation Committee that all lands owned by local bodies and leased for revenue purposes should be subject to land-tax on the same basis as other lands?—No.

No action was taken?—No.

All such lands are exempt from taxation?—Yes.

They are on a commercial basis, just the same as private lands are?—Yes.

*Mr. Begg.*] What is the bearing of this special provision on page 18, section (1) of your statement: "Any person leasing land shall for the purposes of the Act be deemed to be the owner of the fee-simple of such land"?—Those special provisions were all designed to prevent the evasion of the graduated land-tax. They were designed from experience of cases of evasion—where a farmer leased land to his son, or transferred land to his son and took a lease. In other cases men formed part of their land into a company and created a company to work part of it. That was the reason for that provision with reference to the shareholders of companies, to which reference has already been made by Mr. Shirlcliffe in one of his questions. It is the section that provides that shareholders shall be assessed with their shares in companies' lands, along with their other lands. It was caused by large landowners creating companies to work their lands.

*Mr. Shirlcliffe.*] Do you get much additional revenue from that?—Yes, a fair amount.

I can see the reason for it now?—Yes, that was the reason.

ALFRED SEIFERT examined.

*The Chairman.*] You have written us a statement, Mr. Seifert: perhaps you will read it, and then the Commissioners will probably ask you some questions about it?—Yes, sir, my statement in which I have set out my opinions is as follows:—

In offering you my opinion on taxation I want you to understand that great relief has been given to the flax-milling industry by the Act passed last session, so I am not down here to voice my

grievance towards the present Act, but to give my opinion generally on taxation, keeping in view that the Act may be altered shortly, and that such an alteration may be the means of ruining the flax industry. Further than that, if the flax industry is fairly treated, and other industries crushed by taxation, the load eventually will fall on our industry. I agree with those who state that taxation should be levied in proportion to the ability to pay, providing levying the tax does not strangle present industries or prevent new industries from starting. The present income-tax has the effect of destroying all large industries where the tax cannot be passed on. Companies have paid an excessive amount in taxation. Why people should be penalized for co-operating for the purpose of carrying on some industry which cannot be carried on in a small way is beyond my understanding. It appears to be almost a crime to join with others to run a business, judging by the way the Income-tax Act has been drafted. There is no way that an income-tax of 5s. 10d. in the pound can be levied without doing serious injury to industries. I have been unfortunate through having my interests pooled with others in a company. Had I kept a private business and not joined with others I would have been much better off to-day. There was a small gain in operating by running a large concern, but this was offset over and over again by the excessive rate placed on the larger business. My company had to pay a staggering tax, and on the top of this the yellow-leaf disease destroyed nearly all our flax. We had sufficient flax to keep nine machines going before the disease came, but after that we worked two machines for some time. Naturally we lost a lot of money. You can imagine how I feel towards a department which, in effect, says, "When you make a profit we will come in and share it"—at one period to the extent of 8s. 9d. in the pound and later on to the extent of 7s. 4d. in the pound—"but when you make a loss we are not interested; that is your difficulty; but, remember, if you make a profit we will come again for our share, but we are not interested in your losses or the loss of your capital." As an excuse for taxing in this way it is said the Government wanted the money. There must be some stronger reason than this, because a man could take money dishonestly and as an excuse give the same reason. It has been said that the excessive rate must be borne by the companies because if their load was lightened others would have to carry the extra weight. These arguments should carry no weight, because it is not right to crush out a few while others have a very light burden. Even for selfish reasons the load should be distributed so that industries should not be destroyed and the confidence of those who control them broken, because it is apparent that the extension of present industries and the establishment of new industries must ease the load for everybody. It is only natural for people to pick the line of least resistance. The man with great organizing ability finds that by arranging his industry to produce cheaply, and using his ability to extend the business, a load has been placed on him which it is impossible to carry. For this reason I call the graduated income-tax, when placed on industries, the efficiency and enterprise tax, or the good-management tax. In looking over the Official Year-book at the importations I was struck with the amount of material imported which can only be manufactured by large concerns. It would be a good thing if this material was manufactured here. The policy of the country should be to encourage manufacturing in every possible way, because the consumer usually buys locally manufactured goods cheaper than the imported. Without local industries the population of this country can hardly increase beyond three million. By carrying on manufacturing together with using the land to the fullest extent it is easy to imagine our Dominion with a population of sixteen million. Excessive income-tax means industrial destruction. If the country wants to prevent a few men from becoming excessively wealthy, then this end could be attained by putting a graduated tax on the individual. I notice in the last six years the Income-tax Department has collected about £34,000,000. This money was taken from firms who could have used it to a good advantage towards improving the country.

Do you wish to say anything supplementary to that?—All I wish to say is that I am the president of the New Zealand Flax-millers' Association, and that I am acquainted with many local bodies, in one way and another. Besides that, I am interested in a large industrial concern. I have given you my opinion on taxation for what it is worth.

*Mr. Hunt.*] You are opposed to the taxation on companies, and you think everybody should pay taxation individually?—To say that I am opposed to the taxation of companies is a little beyond what I believe, but I think a lower rate of taxation should be imposed on companies. It should not be so high as to break confidence: about 3s. or 2s. 6d. in the pound should be the limit.

Do you think that the present steeply graduated rate on companies is unfair on industries?—If my opinion goes for anything, I am sure of it. A man is always a fool to play a game when the cards are stacked against him: to try to pay 5s. 10d. in the pound when the competition is as it is in the world to-day is undoubtedly trying to play the game when the cards are stacked against you. A man is foolish to continue under these conditions. It cannot be done. We have made money, and we have lost money, but we hope to recover our losses, but the present rate is too big to pay. Further than that, all successful industries are made out of the profits from those industries. If you take the history of any successful industry you will find that it has become profitable because the people have only taken a fair amount out of the industry, and the additional capital has gone towards building up the industry.

Your business of flax-milling is a sort of manufacturing industry?—Yes; we grow the flax, and then after the flax is matured we mill it and ship it away. It goes to the United States, Canada, England, and Australia. We are in competition with manila hemp produced in the Philippine Islands, and sisal produced in Yucatan, and lately the Javanese have gone into the production of sisal. They pay a low rate there, and it looks to me, from the way they are increasing their output, that they will be an important factor. We are up against fibre produced by coloured labour.

You are not at present paying income-tax?—No,

You would pay no income-tax even if you made a profit?—No, not now. We have been put on the same footing as the farmers lately, and that has very materially altered our position.

*Mr. Weston.*] The price of fibre is governed by world competition?—Yes, that is so.

So that, as far as the passing-on the amount of tax, you could not do so by increasing the price of your fibre?—That is so. Other people producing fibre are not affected by taxation.

During the war the profits distributed by the flax-millers were very large?—For a while they were, but before that we had extremely low prices.

From 1916 onwards you had good years?—For two years, but we did not pay out much in dividends.

I know of one speculation in flax where the industry made enormous profits during the war?—For a while we had lean years, and then we had four good years, and we have had four bad years now. Yellow-leaf has been most destructive. In our case we had nine machines going before, and we had to cut them down to two. There is every chance of the industry going ahead again, but one can never be sure. We went several years without paying any dividends. We paid out one dividend for six years. I do not think any of our dividends were more than moderate. And then this yellow-leaf and low prices came along, and for years we have had no dividends. We have had to take tremendous risks and to extend our tram-lines for some miles, and we do not know whether it will be a success, and if we do make a success it is taken from us.

*Mr. Shirlcliffe.*] But you are not paying anything at all now in income-tax?—No, but this Commission is set up with a view to altering the Act.

*Mr. Weston.*] Your industry is one in which the prices are determined by world competition. The whole history of the industry has been one of good years and lean years—for a short time you would have prosperity and then bad years would come along?—Yes. The people who are in the industry have been in it for a long time. They have had the foresight which was required to run the industry.

*Mr. Shirlcliffe.*] To what extent do you estimate the yellow-leaf has affected the yields: what percentage of the profit which you should have made has been lost through yellow-leaf?—Our land had no value except to be converted into grassland. We have adopted a new way of cutting, and we were only working two machines, and then we went back to three, four, and five, and we have now six, and we hope to again get nine machines working. It is costing a great deal more to cut the flax.

May we take it that the yellow-leaf has accounted for the major portion of your losses?—Yes, but we do not pay any income-tax. Our balance-sheet shows a loss.

Had it not been for the yellow-leaf disease in all probability you would have shown reasonable profits?—In all probability. We cannot run the industry without having its ups and downs. But then when we make a little it is taken from us at a staggering rate. Our neighbours are making a lot of money because their concerns are smaller. A few people joined me with their capital, and I have run their concern, and because of that co-operation I am suffering injury.

*Mr. Weston.*] Could you not form a partnership and then be on the same footing as a single trader?—I think I would prefer it to be a company.

*Mr. Shirlcliffe.*] You hope that you are going to get rid of the yellow-leaf disease—there are signs of it disappearing?—Yes.

And you hope to get your nine machines working again?—Yes.

And with a little better market you will be in a good position?—Yes.

And then you will be in a very fortunate position under the present legislation?—Yes. I am not complaining about the present Act, but this Commission is set up to consider taxation generally, with a view to altering it.

You say that no industrial concern can possibly pay 5s. 10d. in the pound?—That is my opinion. I consider it slow destruction that will destroy our industries.

Are you able to show that the principal industries of the Dominion are not able to pay at the present rate?—I think I am able to show that.

Here is a list of industries: 8 per cent. paid by C. M. Banks, who are printers, publishers, and stationery retailers and manufacturers; Donaghy's Rope and Twine Company, 10 per cent.?—One twine company is in competition with another.

Are they not in competition with imported twine?—No.

There is the Milburn Lime and Cement Company, paying 10 per cent.?—That is in competition with others. You cannot run lime-works much smaller than theirs.

I thought there was overproduction?—The lowest size for running a flax-mill would be one strip of 250 tons a year.

There is the New Zealand Drug Company, which pays 10 per cent.?—Well, people must have drugs.

But this company is a large manufacturing concern as well; they control a very large industry in this country?—Do you think the industries in New Zealand are progressing as rapidly as they should?

That is not the point. I want to see how far your contention applies to the industries, and that is what I am trying to get at. There is the New Zealand Paper-mills, paying 7½ per cent. All these companies have fair reserves accumulated. I cannot tell you how much they are putting by annually. There is Sharland and Co., paying 7 per cent.; Scoullar Company, 8 per cent.; Smith and Smith, 6 per cent.; Wellington Cordial Company, 6 per cent.; Whitcombe and Tombs, 8 per cent.; Wilson's Portland Cement Company, 7½ per cent.; Kauri Timber Company, 8 per cent.; Leyland O'Brien, 10 per cent.; Taurangamutu Company, 15 per cent.; Mosgiel Woollens, 11 per cent.; Wellington Woollens, 14 per cent. This is the latest share list that I have got. Now, take the coal companies: Hikurangi, 8 per cent.; Taupiri, 7½ per cent.; Westport, 12½ per cent.; Waipa, 8 per cent.; the gas companies all paid good dividends, and I suppose you will contend that they pass it on?—Yes; and the lending companies pass it on. The unfortunate thing is that the big

lending companies set a high rate in order to pay their shareholders a dividend, and the smaller concerns who pay no income-tax get the high rate too, and pocket the dividends.

What do you call a high rate?—They must put up the rates to give their shareholders 5 per cent.

What do you call a high rate for lending companies?—It is possible that if we had lower taxation the Borough Councils would be able to borrow money lower than 6 or 6½ per cent. : that is about the rate to-day.

As affecting the farming community and borrowers generally, do you consider 6½ per cent. a high rate of interest?—It is high in comparison with what we had a little while ago.

But since that the war has had to be paid for?—Yes; but a lot of these small lenders are not paying any taxation. Take the man with £2,000: the big lending companies set a high lending rate, and the man with £2,000 will get an equally high rate without paying any tax. A lot of people are collecting a high rate, but not paying anything.

Do you mean private lenders?—Yes.

That is assuming that their income does not exceed £6 a week?—You have only to look through the Year-book to see that what I say is true.

Take the lending companies: I see here there is Dalgety's paying 15 per cent.—that is a fair dividend?—That is no comparison, because Dalgety's do only a small portion of their business in this country.

Take the Equitable Building Society?—They have their headquarters in Australia.

No; it is a local company. There is also the Wellington Permanent Metropolitan Company paying 8 per cent., and a little concern called the Manawatu Permanent paying 8 per cent. Then there is the National Mortgage, whose business is almost entirely in New Zealand, paying 11¼ per cent. That is a trading and lending company. The Wellington Investment Company paid 6 per cent. They have to borrow all their money. Wellington Trust and Loan Company paid 6½ per cent.; the Masterton Investment Company 7 per cent. I only put these cases before you to see whether you still adhere to your contention that the income-tax is crushing industry and creating artificially high rates of interest?—Yes, I do, in spite of that. If the industries went down by half you would still be able to read a list of companies doing well. Not long ago I saw a list of people who were in the cotton trade in England, some of whom were making 20 per cent.

Those figures do not affect your view at all?—No, not at all; because I know that even if New Zealand industries went back you would still be able to pick up a Stock Exchange list and read of companies making big profits.

But if you could tabulate the industrial and lending companies throughout New Zealand I think you would find the great majority of them are paying dividends after paying income-tax?—Yes, they can, if they can pass it on—if you are in competition with other people who are able to pass it on.

Do you mean to say that a company in competition with others can add to its costs so much per ton and yet pay dividends after paying income-tax?—Yes, they can, if what they are selling is an absolutely necessary commodity, something that the public must have.

I know the conditions of the flax-milling industry: you are up against the world's market, but you are not speaking of the flax industry?—No; I used that to illustrate my point.

I am only quoting these figures to show you that the industries generally in New Zealand are able to carry on and pay the tax and yet pay reasonable dividends; that is the view I have formed so far?—Yet in Victoria they are on a very much better wicket in regard to their industries than we are here.

In what respect?—Taking the increase in the number of employees, they have increased very much faster than our employees have increased.

I have not raised that point, but in 1916 the factory employees in New Zealand numbered 52,221, and the wages-bill was £6,654,514, giving an average wage of £127. In Victoria for the same year the number of employees was 113,834; the wages-bill was £11,036,345, an average wage per head of only £97. So that the average wage per head in Victoria in 1916 was £30 less than in New Zealand. Take 1921, in New Zealand the employees had increased to 68,206; the wages-bill has about doubled that of 1916, giving an average of £183 per head. In Victoria the employees had increased to 140,703 from 113,834; the wages-bill was approximately £21,000,000, giving an average wage of only £152 per head, or £31 less than in New Zealand?—That includes male and female employees. There are a great many more women than men employed in the factories in Melbourne.

You would think that wages there should be higher, but from the figures I have been able to get hold of the converse seems to be the case?—The cost of living is lower in Victoria.

If we had a lower rate of taxation you would be able to pay higher wages to your employees?—No; we would expand our businesses further. There is a certain rate of wages which you must pay. If we start losing money we cannot reduce our rate of wages. That risk is ours.

But you see that with the lower rate of taxation in Victoria they are paying wages a long way below what our factories are paying?—When I was in Victoria fifteen months ago I was struck with the expansion of business and industries that was to be seen on all hands.

Apparently it has been at the expense of the employees?—It might be that the difference in the average wage rate is accounted for by the larger number of female employees there.

I pointed out to you that in Victoria where taxation is less than it is here the factories have increased at the expense of the employees?—As I say, it is probably because of the larger number of female employees. The woollen industry has increased very considerably, and they pay better dividends than you have read out for the New Zealand concerns.

Probably they can pay higher dividends if they pay less to their employees. There is one paragraph in your written statement which is somewhat obscure to me. You say, "Further than that,

if the flax industry is fairly treated, and other industries crushed by taxation, the load eventually will fall on our industry": what does that mean?—If a certain load has to be carried, and if a certain number of industries or concerns are put out altogether, the remaining men or concerns will have to carry the load, and then the load would not be fairly distributed.

Then the other industries are carrying your industry on its back?—No. The flax industry has been most unfortunate. We were singled out for double taxation. They did alter it at the finish. They put us on the same footing as the industrial manufacturer. Before, we were paying the two taxes.

All other industries pay land-tax?—We are paying a very solid land-tax.

You very laudably wish to see an attempt to encourage manufacturing because the consumer buys local manufactures cheaper than the imported?—Yes; it is best to buy local machinery, for instance.

Do you think that New Zealand is going to be an exporting country permanently; will her prosperity depend for all time upon her exports?—No.

Well, for many years to come?—One can overrate the value of the land. As a matter of fact, in order to carry on small farming successfully in this country you must have a manufacturing population as well as a country population. Imagine what a man would grow on a 5-acre plot, and what you can sell to a manufacturing population. What do the Hutt people sell to Wellington?

But in the meantime and for many years to come New Zealand's prosperity will depend upon the volume of her exports?—It would not take me long to work out a statement to show that the population of this country will be very small unless we have a manufacturing population. If we had a paper-mill it would employ a big population.

*Mr. Weston.*] You would not be able to run a paper-mill in this country?—With all due respect I think certain kinds of paper can be manufactured in this country; in the North Island the waste is terrific.

*Mr. Shirlcliffe.*] Take the conditions as they are and must be for many years to come, do you not think that the prosperity of the community in this country depends upon the volume of the Dominion's export trade?—To a very large extent, but it is not the only way. If we entirely rely upon that without encouraging industries I think we will be carrying a heavy weight of taxation for many a day. You also want to manufacture what can be manufactured in New Zealand.

The productiveness of this country has not nearly reached its maximum; it may be doubled within the next quarter of a century?—I would think that might be so.

You still think we ought to encourage industries all we possibly can?—I think so. You also realize that if you do not sell you cannot very well buy?—Yes; and you cannot sell unless you have got a buyer. What the small farmer produces must be sold to local consumers. You cannot sell it elsewhere.

If we manufactured the great bulk of the goods we consume in New Zealand, where would we find our markets for our exports?—We would have a large population here as consumers. One thing will grow with another. You should consider that many a manufacturing industry can only be carried on by pooling capital.

*Mr. Begg.*] In regard to the taxation of companies, apparently you object to it from two points of view; firstly, because in an industry like the flax industry you cannot pass it on?—That is so.

And you object to it in respect of other industries because they can pass it on?—Yes, because it only makes the cost of living higher.

You think that is the effect of taxing a company that sells within New Zealand?—I do, because, as *Mr. Shirlcliffe* read out, there has not been any decrease in the company dividends while the taxation was high as compared with the dividends when the taxation was low. You see that they get about equal dividends.

*Mr. Shirlcliffe.*] That would depend upon what amount they put into their reserves.

*Mr. Begg.*] Those companies are not handicapped if they can pass it on?—I can easily imagine that. Take the gas companies and the banks; the banks can put up the exchange rate in order to get sufficient for their shareholders.

Then it is not injuring these companies; what, then, is your objection to it?—I have no special objection to it, but it is putting up the cost of my business. We have got to make use of the banks. I think the better way would be to have a low graduated land-tax, which would cause industries to revive, and the lower rate would produce more.

Do you think the taxation of companies which they can pass on ultimately recoils on a section of the community that cannot pass it on?—I suppose it must. It goes round and round; but its worst effect is that it will knock out the industries that cannot pass it on—industries that are in competition with other parts of the world—wool, meat, butter, pelts, and flax. We are all in competition with the outside world, and we are bringing about artificial conditions here, because men must live.

You think that to the extent that it does recoil upon those who cannot pass it on it must affect the industries?—Yes.

You mentioned the big lending companies fixing the rates of interest in order to give their shareholders dividends, do you think the big lending companies do fix the rates of interest?—I think they do. A man with £1,000 or £2,000 does not fix the rate, but the big lending companies fix the rate to local bodies, and the other people with £1,000 or £5,000 fix their rates accordingly. They do not go any lower because they are going to be included.

Is that not rather vitiated by the Government coming in and lending money?—Yes, perhaps, but the Government cannot meet the situation.

You do not think the Government prevents the big companies fixing an arbitrary rate?—No, because the Government cannot meet half the situation.

But even if they met one-third of it, it must affect the big companies. How do mortgage rates here compare with those in Australia?—A while ago it was said that they were lending there at 7 per cent., and then I saw that the Commonwealth Bank was lending at 6 per cent.

But do not the rates vary in different parts of New Zealand?—No; the A.M.P. rates in Southland and Auckland are about the same.

What is the current rate in the North Island?—For local bodies, about 6 per cent.

But for a mortgage?—I could not tell you, but it is about  $6\frac{1}{2}$  per cent., I think.

On the best security they certainly vary considerably within New Zealand?—They certainly are lowest in Dunedin.

*Mr. Shirtcliffe.*] Mr. Begg asked you, Mr. Seifert, whether you thought the lending companies fixed the rate of interest. You do not think, Mr. Seifert, that money is a commodity like everything else and its price is ruled by the economic laws of supply and demand?—Not altogether, because if you take off some of this taxation after giving a special rate for years back the law of supply and demand does count, but when anything happens to influence it the rate will rise in sympathy with it.

In spite of the fact that there may be plenty of money about?—It depends upon that—that there is plenty of money at one time and not much at another.

It is difficult to see how any concern can fix the rate of interest when it is in competition with similar concerns right throughout the country. The price of money must find its level, according to the supply of money in relation to the demand for it?—You would have thought that the heavy charge for operating could not have any effect, but putting 5s. 10d. in the pound on will eventually make that difference. Whatever charge is put on will be reflected.

*Mr. Hunt.*] In your statement, Mr. Seifert, you talk of industries being crushed by taxation. Do you refer to an industry that cannot pass on that taxation?—Yes, I mean that. I have made that clear at the start.

In your own industry—flax-milling—your price is fixed by the export price which is the world's price, and you cannot pass it on?—That is so.

All these other companies which Mr. Shirtcliffe mentioned are partly local companies and are passing it on?—Well, some of them. Dalgety's have a large amount in Australia.

But the great bulk of them are New Zealand companies dealing with a local trade?—Yes.

And they can pass it on?—I should say so—by those dividends.

And the fact that they are paying these dividends is proof that they are passing it on?—Yes.

*Mr. Weston.*] Can you give me any idea of the rise in value of flax land between 1914 and 1920?—There is a good deal of difference in the value. It was lower in 1923 than in 1914.

Because of this disease. Between 1914 and 1920 the value of flax land went up very much. What would you say the rise was equal to—can you give me any evidence on that point?—It is very difficult, but I should say at least 25 per cent. It would be something about the same as the purchasing-power of money. £600 would purchase as much land in 1914 as could be purchased for £1,000 in 1920.

You would not say that there was a great rise in the value of land?—Not taking the lower purchasing-power of money.

You have not got any actual figures—what about the price per acre?—About £50 for flax land.

What would you pay for that in 1914—£20 per acre?—No chance; it would be £35.

Whether an industry could survive or not would depend upon what you valued the land at from which you produced the flax?—Not necessarily, because if a company is allowed to lay by considerable reserves and has its own flax, as we have, it is in a very good position.

That is the ideal state which all business men aim at—to have all their assets written down to practically nothing. But the point I am making is this: supposing you had land that had cost you £30 per acre, you might be able to stand taxation and keep on producing at a profit so long as you only valued your land at £30 an acre, but if you valued your land at £50 an acre you would have to get a greater amount of profit?—Yes, a greater amount of profit.

So it does not necessarily follow that this taxation would throw you out of existence, because it might be met by simply reducing the value?—If you were prevented from working your flax economically in a large way, and supposing you were not able to work it in a small way, then you could sell the land for dairying. And, mind you, the taxation has already had that effect. If you own your own flax and mill—and it is not wise to carry on milling without—you must have a fair amount of capital, and therefore you must have some years when your balance-sheet would show a fairly substantial profit. If that is taken away and the dairy-farmer gets off free, he can use that land for a purpose that will not be so productive and pay a great deal more money for it than it is worth to you. I think that could be done in our case to-day. In fact, I was prepared to do that if the high taxation had continued. I had roads marked out on the land. I could see it would be hopeless for us to continue, although, mind you, we had been paying as much as £15 an acre in wages. I mention that to show what the turnover is to the country. It is an exceptionally good farm that will yield 150 lb. of butterfat per acre. If you take 100 lb. of butterfat, that is £7 10s. per acre. We were paying more away in wages than would be the receipts on a dairy farm, and yet we were in grave danger. Had that high taxation continued I should have been compelled to put that land into dairying.

*Mr. Shirtcliffe.*] But now, as regards income-tax, you have no grievance at all?—Well, gentlemen, you are here to make suggestions, and if you suggested putting that load on again, which you might do, it would put me back in the same position.

*Mr. Weston.*] You justify small taxation in your case; you say that your industry cannot afford to pay a graduated land-tax and be subject to a progressive income-tax?—No, we cannot.



Because in each case the big man is being hit by the land-tax and also by the income-tax?—Yes, that is the point. And I claim, further than that, that you want to encourage industry. Take boot-manufacturing: it might be said that boot-manufacturers are in competition with the imported article, but you can put a very high duty on. I say you should encourage local manufacture; and the same with woollen goods. If we manufactured more of our wool it would be beneficial for the country. In England I think there are only 18 per cent. of the people engaged in agriculture, and I believe that in America the proportion has been brought down to 28 per cent. I mention those figures to show the immense importance of manufacturing industries in those countries. Supposing the United States did not encourage manufacturing industries, they would not hold that 28 per cent. of agricultural population that they have to-day, because a large number of those people engaged in agriculture are so engaged because there is the manufacturing population to supply. If you cut the manufacturing population out of America there would be an immense drop in the farming population.

*Mr. Begg.*] That would apply the other way round even more, would it not? If you cut out the agricultural population the manufacturing population would tend to fall very speedily?—Yes. I know I cannot run my mill if I have not got raw material.

*Mr. Shirlcliffe.*] You will understand, of course, that America, as regards its manufacturing industries, has its raw material, and it has the labour?—Yes; but the point is this: it manufactures. You can hardly point to a single product that the people of America do not supply themselves with, and yet America can only employ about thirty millions of its people in agriculture. My point is that agriculture alone will not employ a very large population. If this country is ever to carry a large population a good portion of that population must be engaged in manufacturing.

*Mr. Begg.*] I notice you say that the Income-tax Department has collected about thirty-four millions sterling in the last six years. We must presume that it needed that and had to collect it. And you go on to say, "This money was taken from firms who could have used it to good advantage towards improving the country." We will assume that that had been collected from individuals instead of from companies—that is, individuals would have had thirty-four millions taken from them and the companies would have gone on without paying it directly. In what respect do you think that would have enabled manufacturers to establish themselves more firmly and to increase their businesses more rapidly?—Supposing you had a lighter load on—for instance, the woollen industry. As far as I can see, a large part of the money that is made in a business is reinvested to extend or improve the business, and it would be quite easy to imagine the woollen industry employing a great many more people than it employs to-day, and it could have taken risks that it could not take now.

Do you mean that there would be much less personal extravagance in the country and more money put into development?—No. When you take money away by income-tax and graduated land-tax you are taking it away from the successful men—from the people that have got some organizing ability and enterprise; and it is a bad thing to take money away from those people in excessive quantities. To my mind, it is as bad to do that through the Tax Department as it would be for me to go to my cutters and take from them a larger amount of what they have earned than I should take. You hit the successful man, because the Tax Department cannot collect money from unsuccessful firms.

I do not think you quite grasped what I wanted to get at. We have to get assume that the Government had to get thirty-four millions. If they had collected it from individuals instead of from companies, I want to know how you come to the conclusion that that would have been good for the industries of this country?—I think it would have been good because the companies then would not have had their funds depleted. They would have been able to build up funds to extend their business.

You think the effect would have been that there would have been a great deal less individual extravagance and more building-up of the industries of the country?—I think you are right, though I never thought of it in that way before. But the point is that the high rate of graduated tax must be taken from the successful firms. You are taking the very life-blood away from an industrial concern when you take away its money. I cannot run my business to-day if I have not got capital. You take that away and I am done.

It must be successful men that pay taxes, must it not, on any scale?—It is a mistake to graduate the taxation up to a rate that cripples them and breaks their hearts.

*Mr. Weston.*] You mean that the taxation has been excessive?—Yes.

*Mr. Shirlcliffe.*] Have we had any suggestion from Mr. Seifert as to what alteration he thinks should be made?—

*The Chairman.*] I understand that what Mr. Seifert is here to support is the maintenance of the present condition of affairs so far as the flax industry is concerned. He does not want that disturbed. And do you not approve, Mr. Seifert, of the heavy taxation on companies?—No, I do not approve of heavy taxation on companies.

You think the maximum should be somewhere about half a crown?—Yes.

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WELLINGTON: TUESDAY, 15TH APRIL, 1924.

D. G. CLARK, Commissioner of Inland Revenue, further examined.

*The Chairman.*] We shall be glad to hear your statement, Mr. Clark?—It was suggested that I might have an ideal system of taxation to submit. I must confess that I have not, nor do I think that such a thing can be attained. Even if there was universal agreement as to what was an ideal system, which is far from being the case, I believe that the amount of elaborate detail that would be

required for its administration would be revolting to the average mind. C. F. Bastable, in his work on public finance, states that the presentation of an objection to a particular tax is very impressive, but you require to beware of the fallacy of objections. The same writer, after an exhaustive discussion of taxation, states his conclusion that the best system of taxation for modern societies is a mixture of direct and indirect taxes; so that in considering taxation you should consider the whole system, and not any one part of it by itself. There is a school of thought that advocates progressive taxation for the purpose of correcting inequalities in the distribution of wealth and removing social injustices. There is another school which admits that there are inequalities and injustices, but contends that these should not be corrected by taxation, that taxation should be in accordance with faculty and should be proportional to income as a measure of faculty. With that school I agree. There is another system of taxation which is called by one writer on economics the cynical system. Its views are that if in the State there is a body of wealthy taxpayers with a minority of votes and you can tax them effectively—well, tax them; if indirect taxes can be disguised so as not to be felt by the body of the voters—well, impose those taxes. To put it shortly, “Pluck the goose so as to have as little squealing as possible.” Now, I said I agree with the second school, which, while admitting social injustice and inequalities in the distribution of wealth, objects to taxation being used as a means of correcting these. The contention of that school is that taxation should be used for revenue purposes only. While we have progressive taxation in our system I do not propose to attempt to defend it on the score that it is for the purpose of correcting the inequalities in the distribution of wealth. My grounds of defence are these: that the action of indirect taxes is regressive—that is, they fall more heavily on the smaller incomes; and to strike a balance you require progressive taxes on income, so as to bring out a really proportional system of taxation, in accordance with faculty. I except from that the land-tax. And, by the way, I want to say that Bastable defines taxes as compulsory contributions from the wealth of a person or body of persons for the service of the State powers. There is no strict *quid pro quo* in that. The old idea that taxation is a return for services rendered is abandoned as impossible of application, and the measure of taxation is practically according to ability to pay. I want you to remember that, because it will have a bearing on something I shall say later in connection with the land-tax. I except the land-tax from the progressive taxes. Our land-tax was introduced by the Land and Income Assessment Act of 1891, which was based on the South Australian Land and Income Tax Act of 1884. It was intended that both the ordinary land-tax and the graduated land-tax should be imposed on all land and improvements, with the exception of £3,000 of improvements. That was announced by Mr. Ballance, who introduced it in his speech on the Financial Statement. But when the Bill was actually produced the graduated land-tax was left on the unimproved value only, as the land-tax was in South Australia. The idea of assessing graduated land-tax on the improvements over and above £3,000 was abandoned. The reason for retaining what was really a part of the property-tax system in the assessment of ordinary land-tax was the fear that sufficient revenue could not be obtained by a simple land-and-income-tax system. Mr. Ballance, in the course of the debate on the Bill, excused this compromise by saying that we were treating the mortgagee as part-owner of the land. That, in my opinion, is a fallacy, and has led to unfortunate results. The mortgagee cannot be held to be in any sense owner of the land. He merely holds the land as a pledge for his debt. It is true that under the old English law that land was actually conveyed to the mortgagee, and he was the legal owner; but under our Land Transfer Act there is merely a memorandum of mortgage on the certificate of title, and the mortgagee is in no sense the owner. He does not participate in any increase in the value of the land, and he does not suffer for any decrease in the value of the land. He merely gets his capital sum that he lent, and his interest, and should he take possession of the land he has to account to the owner for anything that he may realize on the sale of it over and above the amount of his debt. The first graduated land-tax that was imposed was on the unimproved value of land in excess of £5,000, and ranged from  $\frac{1}{4}$ d. in the pound to  $1\frac{1}{2}$ d. in the pound on amounts of £210,000 and over. That was introduced with the express intention of bursting-up large estates. Although I do not agree with that principle—that is, using taxation for a social purpose—I think that whatever justification the persons who introduced that Act may have had it has now passed away. As a matter of fact, the heavy graduations on the land-tax now tend to destroy the land-tax as a revenue-producer at all. For several years past the amount of extra tax that would be realized by increased valuations has been just about counter-balanced by the subdivision of land and its being split up and transferred to small holders, most of the holdings being mortgaged and therefore exempt from land-tax. We have now made one tax of two taxes, and the one tax is progressive; and, with the exception of an exemption in respect of mortgaged lands, we have attained the object at which the person who introduced the Act aimed—namely, to have a land-tax on the pure unimproved value, as they did in South Australia. There the land-tax was levied on the unimproved value of the land, and any income from land in excess of 5 per cent. was assessed for income-tax. We have now arrived at that stage, with the exception, as I say, of the exemption in respect of mortgaged lands. These lands pay no land-tax, and there is a large amount of unimproved value which escapes taxation by that means. Mr. Ballance’s statement about treating the mortgagee as part-owner and the carrying-over from the property-tax of part of the property-tax system have led to the belief that the land-tax is a property-tax. That I disagree with. The land-tax is a tax on the monopoly value. It does not answer to the definition of a true tax in so far as it is a payment in a sense for value received. A man holding land is at an advantage as compared with a man who has no land. He can hold that land idle, and it may increase in value from the efforts of the community and from no effort of his. Adam Smith says that nothing can be more reasonable than that a fund which owes its existence to the good government of the State should be taxed peculiarly. I see no reason for the imposition of a graduated land-tax. The element of faculty or ability to pay

does not come into that question at all. The payment of the tax is the payment of a ground-rent charge—payment for a peculiar privilege held by the landholder. I see no reason why, so long as a man is putting his land to proper use, he should not be allowed to extend his operations as far as he can, provided he is paying to the State some return for the value he receives in that charge on the unimproved value. He should be allowed the same right to extend his business as is allowed to any man in an ordinary business. I do not see why any distinction should be made between the two. We have now provision for penalizing by a 50-per-cent. addition to the tax any person who holds land without properly improving it. With that provision, which can be made more severe if necessary, we do not require a graduated land-tax or any limitation of area. I think that should only be fixed by a man's ability to use the land properly. You cannot definitely limit the area. Take millions of acres in the South Island that were cut up into grazing-runs, some of the land running a sheep to 10 acres. And, in addition to that land, a man must have land on the low country to take his sheep to during the winter. You cannot limit that area. And there are thousands of acres in the North Island that are not fit for anything but sheep-farming, which is most efficiently carried on on a comparatively large scale. I do not think there is the same ground to fear undue development in that direction as there is in business, because I think the personal element enters more into farming than it does into ordinary business. You do not find companies as a rule developing large farms as they do large businesses. Then, there are thousands of acres of country that are only fit for sheep-farming, but are being used for dairy-farming. This land is running cattle, and the country is really going back. It is not fit for cattle. Then, grain-growing is more efficiently carried on in large areas. There is not the waste of land in subdivision, nor the number of teams required by separate owners; and there are many other points. Provided a man is paying a fair charge on the unimproved value, I do not see why his industry should be limited in any way. He should be allowed to extend his operations to their legitimate capacity. I may say that the subdivision of these large estates, which without special charge on them, such as a land-tax, might develop into an evil, has brought about what I believe to be a greater evil in this country, and that is speculation. That speculation has been encouraged to a great extent, first by the allowance of a deduction for a mortgage, and latterly by the mortgage exemption. That mortgage exemption covers holdings up to £8,000 of unimproved value, and it is in holdings of that size or a little larger that there is an enormous amount of trafficking. In my opinion, that has been a far greater curse to the country than aggregation has ever been. That is all I have to say about the land-tax. The income-tax part of my statement is being typed at this moment and will be in my hands shortly.

*The Chairman.*] The better course, then, will be for us to have a discussion with you as to your views in connection with the land-tax in the meantime.

*Mr. Hunt.*] You believe in a flat rate all round by way of land-tax?—Yes.

With an additional tax if the land is not being worked properly?—Yes. The tax is really not a tax at all. It is a rent charge.

*Mr. Shirlcliffe.*] But that is for use?—Yes.

*Mr. Hunt.*] In addition to the land-tax, would you charge an income-tax?—A universal income-tax, yes.

That is, there would be a flat rate of land-tax and a universal income-tax to everybody?—Yes. I will deal with that later on.

Would you make any exemption from the income-tax for the land-tax that has been paid?—Yes. Five per cent. on the unimproved value is better than the land-tax paid.

That unimproved value: do you not think that is a problem again?—Yes.

It is a most difficult thing, in my experience, to arrive at?—It is; but there are a great many difficulties in connection with taxation. You just have to take a rough-and-ready approximation.

The capital value is fairly easily arrived at—much more easily than the unimproved value, because you cannot see the improvements?—In many cases you cannot.

Very few farmers, I think, could make the improvements on their land for the amount that is allowed by the Department—the improvements necessary to bring it from its unimproved state to its improved state. If some means could be got of doing away with that unimproved value it would simplify the thing very much?—It would be a very bad thing to tax the improvements.

They really are taxed now, you know?—Yes, slightly.

To a very large extent, because the amount that is allowed for improvements is so small that not one farmer in a hundred, in my experience, could bring his land from the unimproved condition to its improved condition for anything like the amount that is allowed for improvements?—Is not that a matter of adjustment? It is a matter of adjustment. If farmers can produce evidence of that, that evidence must prevail in an Assessment Court. I think a good deal of that is owing to neglect on the part of the occupiers of land.

It is very difficult for any man inspecting land to get a picture of what it was in its unimproved state, unless there is some unimproved land in the district, and often there is not that?—Well, there should be some record of the improvements and the cost of the improvements.

But those records do not exist?—They do in some cases.

Very, very rarely. Take underground draining, for instance; that is never seen?—No. Of course, that difficulty crops up in connection with the valuation of land in England. Owners of land in Lincolnshire wanted to claim as improvements improvements that were made by the Romans, nearly two thousand years before.

*Mr. Weston.*] With regard to the exemption of 5 per cent., would it not be fair to do this: to have your flat rate of land-tax. To get over Mr. Hunt's objection to some extent, in any case where a farmer paid income-tax, simply to deduct the land-tax from the amount. Take a case like this: unimproved value, £10,000. You have a flat rate of tax. Then you allow 5 per cent. of that

£10,000 off the income. I am rather inclined to think that with a progressive income-tax it would be a very big gain to the man who is paying income-tax?—Not an undue gain.

I mean that a flat rate of land-tax on £10,000 would be considerably less than what the taxpayer would save on the £500 that you would allow him off his income?—Yes, it would be less. If we had a flat rate of land-tax, that would get some contribution from all the farmers who did not pay income-tax?—Yes.

Then, the men who paid the progressive income-tax, let them simply deduct their land-tax, and depend entirely on the progressive income-tax?—I did want to allow a little margin between the two, because there is no guarantee that the rate of land-tax would not be increased. It might be put up to 3d. or 4d.

A flat rate might be more than 1d. in the pound?—It might be, yes.

I do not think you ought to hit the small farmer too hard?—You would not hit him very hard; and, besides the farmer, there are thousands of men living in suburban areas—men in employment—who have fairly valuable sections and ought to pay land-tax and could well afford to pay land-tax. It would only be a matter of a pound or two, but in the aggregate it would amount to a considerable sum.

Take suburban areas; take a man holding a suburban area of land, not making any use of it, simply letting it stand waiting its turn for development: would you put the 50 per cent. on that? Yes. We would require an amendment of the Act to do that. That would be more general, because there is more of that sort of thing going on in suburban areas really than there is in country lands, that is where the profits of speculation are largely made, but at present that is cut out.

Your scheme would get over this disadvantage: that big concerns that must have valuable unimproved lands for the purposes of their business would not have to pay the graduated tax?—Yes.

At present I suppose the tendency is for the proportion of land-tax paid by farm lands steadily to decrease, as compared with city lands?—I could not say for certain. We have never taken out the information regularly. It is always a difficult return to compile. It takes a lot of time. We have not had the time to do it every year. Once or twice we have done it.

At present what proportion of the land-tax is paid by country lands as compared with urban and suburban lands?—I think, about four-sevenths.

*Mr. Shirtcliffe.*] If I follow Mr. Clark correctly, he favours a flat tax on land?—Yes.

Without any graduation?—Yes.

*The Chairman.*] Without any deduction for mortgages?—Yes.

You would abolish the mortgage exemption altogether?—Yes.

*Mr. Shirtcliffe.*] And you would have no exemption?—You could make it £500, or, if you wanted, £1,000. Really I think the only exemption should be of an amount that is not worth collecting.

*The Chairman.*] What would that be?—£50 or £100 of value.

You would tax anything over £100, say?—Yes.

*Mr. Shirtcliffe.*] Have you any idea as to what that flat rate should be under present conditions?—A flat rate of 3d. in the pound would bring in about £2,500,000.

You do not get anything like that at present, do you?—No.

What do you get at present?—About £1,750,000 approximately. It was less last year.

*Mr. Weston.*] You are getting about £1,300,000, are you not?—Yes, this last year.

*Mr. Shirtcliffe.*] And you say that a 3d. rate would bring in £2,500,000?—Yes.

Is there any necessity to tax the land so heavily as that?—You could make your rate less.

You are suggesting a universal income-tax, are you not?—Of course, at present in the higher gradations, when you take into account also the local rates which are levied on the same valuations, you are appropriating more than the total ground-rent. You are appropriating at the higher rates in some districts more than the total ground-rent—that is, when the tax is combined with the local rates, which are levied on the same basis.

I am trying to get down to the economic aspect of it—as to what rate would be necessary in order to maintain the present return?—I can give you later the approximate figures. I should say that between 1d. and 1½d. in the pound would bring in our present land-tax revenue.

You would still rigidly enforce the 50-per-cent. penalty for land held for speculative purposes?—Yes.

Is that done now?—Yes.

If a man buys a suburban property?—Not suburban. Lands in a borough are exempted from that provision.

But is not that where a very large amount of speculation goes on?—That is so.

You think that suburban lands held speculatively should pay the 50-per-cent. penalty?—Yes.

You will give us a memorandum of what suggested rates will yield?—Yes.

*Mr. Begg.*] About the taxation of unimproved value, there seem to be so many difficulties about assessing improvements. Do you think it would be unjust to put a tax on the capital value?—Yes.

If you were not going to assess a graduated income-tax in addition?—Yes, I think in any case it would be.

You realize that there are immense difficulties in arriving at a reasonable unimproved value?—They are not insurmountable.

One great difficulty, to my mind, is that they may alter continually: what is an improvement to-day is not an improvement to-morrow?—That is so.

What was considered an improvement twenty years ago would to-day be considered as ruining a property?—That can always be adjusted.

Take an instance—land that was in good forest twenty-five years ago. An industrious man cleared the land of it as worthless, and he was assessed, as having improved the land, we will say, to the extent of £5 an acre by doing so?—Yes.

But to-day the exact contrary would be the case: the land would be worth £50 an acre more with the forest on it. Do not anomalies like that vitiate the thing?—I do not think so. You cannot get any exactitude in a system of taxation.

This might be so inexact as to be oppressive?—There is no evidence of that so far.

A tax on the unimproved value: trying to arrive at what is the unimproved value?—I think we manage to get to it approximately.

*The Chairman.*] Taxing on the capital value would be much simpler, would it not?—It would be simpler, but a return to the old property-tax would cause a great deal of complaint. The property-tax tends to fall on real property eventually and the man who improves his land suffers as compared with the man who does not.

*Mr. Hunt.*] That might have been the case with the property-tax, but now with the land and income tax he would be exempted 5 per cent. of capital value, instead of 5 per cent. on the improvements?—That would not compensate him for the additional tax. He would have to pay a heavier income-tax by reason of his greater industry, and a heavier land-tax by reason of his improvements.

*The Chairman.*] Is that how it would work out?—The man holding the land unimproved would derive no income at all from it.

*Mr. Shirlcliffe.*] Would not there be a little inconsistency there if you taxed a man's improvements? He puts those improvements on the land in order to obtain a greater income?—Yes.

You tax him on his income on a graduated scale?—Yes.

Would you not therefore be taxing him twice on the same investment?—Yes.

There would be a system of double taxation?—Yes.

*Mr. Begg.*] That is to say, taxing improvements is taxing thrift and enterprise, of course; but in its essence there is nothing else to tax: is not that the case?—Oh, no. I do not think that. There is a value in land that cannot be held to be created by any individual.

There is as things are—that is, collectively created, not individually?—Yes.

But where it is held that way you have the other penalty to hold over the man. For instance, where he gets no income at all you propose to—we do, in fact—charge him an extra tax. If a man holds land for speculation and there is no income at all from it, we tax him 50 per cent. heavier?—50 per cent. would not be sufficient if you were dealing with capital values.

No; but in my experience of the unimproved value the capital value and the unimproved value are so many pounds apart in a district, and it varies very little on the highly improved farm and the moderately improved one. That is how it works out in practice?—That is a fault in the practice that requires remedying.

It is a practice that is almost ineradicable, apparently?—I do not think it is.

You yourself referred to claims for exemption for what the Romans had done. That seems pretty remote, but in practice in assessing the unimproved value in New Zealand a very much shorter term than that is fixed for improvements?—Speaking from memory, the term fixed under the English Valuation of Land Act for the exhaustion of improvements was thirty years.

My recollection is that some forms of improvement, such as draining, were assumed to have exhausted themselves in nineteen years, whereas every practical man knows that they are permanent—they are there for ever, if properly done?—Yes; but on the theory that the whole of the capital is returned over a certain period, that limitation of term is best.

But is not that a rather vicious principle? A man makes an improvement owing to his skill or his expenditure of capital. The mere fact that he gets back a return does not make that not an improvement for the future. It does not vitiate the fact that he has an improvement there which should come off the capital value, does it?—No, possibly not; but it is not so vicious as taxing on the whole of your improvements as a regular thing.

Would you not have this advantage: you would know what you were doing in the one case, and you do not know in the other?—You know approximately. The taxation of the whole of the improvements as a regular thing would be far more vicious than the occasional taxation of a certain amount of improvement with the unimproved value; because your case is an exceptional case; it is not a general case.

My experience is that the case is fairly general and is becoming more general every year, because the possibility of imagining what the land was like originally becomes less every year that passes. It is a young country, and we can to some extent get information as to what the improvements amount to. But that is becoming more difficult every year?—It is a difficulty that was overcome in England by a scientific system of valuation.

*Mr. Weston.*] Your principle is, How long will it take for the improvements to return you the money you have expended in making them? And when that money is returned, then those improvements, as it were, merge in the prairie value of the land.

*Mr. Begg.*] They should not merge. That is my point. The mere fact that a man has got a return from his improvements does not make them any the less belong to him. One man will get back a big return for improvements that cost him next to nothing. Another man will spend a great deal of capital and will not get any return at all from it. That it has been done successfully in England I am glad to hear. I did not know it had been done successfully. I knew it had been done?—Of course, there was a great deal of prejudice in England against it, and the method of levying the tax was so ineffective that it did not produce sufficient to justify the expenditure. That is the reason why it was abolished.

Has it been found in practice that the penalty tax of 50 per cent. checks speculation?—It has not been sufficiently long in operation. It has only been started this year, and anything like that

is started very gently. The information as to improvements is defective on the valuation rolls. People have effected improvements and have not bothered to have them put on the rolls—in many cases because if they did so they would be subject to heavier local rates. If we had applied the section rigidly this year we would have caught a lot of people, as it were, on the hop.

How does that clause work? What is improved land? What degree of improvement will keep a man's land exempt?—£1 per acre, or one-third of the unimproved value.

You do not admit that there is any particular difficulty in arriving at unimproved value?—No, no difficulty that is insurmountable.

In the cities, I thoroughly agree with you; but you do not think there is any special difficulty in arriving at it even in the case of rural lands?—No.

I suppose you know, from correspondence that you must have had, that there is a considerable sense of injustice among farmers over the taxation of unimproved value?—There is a certain amount.

A very great deal: do you not find that?—No.

They do not want improvements taxed, but what they say is that the Department has not been able to arrive at anything like equity in assessing the unimproved values. And they claim that that is true, that the weight of evidence is invariably against them. It is hard to get them together, and one man brings his evidence before the Assessment Court, and the weight that is against him is this: It is said to him, "Have you not fifteen neighbours farming similar land extending on either side of your farm? They have not appealed, and therefore they must be satisfied." That is what the farmer says is the usual procedure in an Assessment Court, and he cannot get redress?—That is their own fault. As to the feeling of injustice, I do not think there is any greater feeling amongst farmers against taxing on the unimproved value than there is against any other tax. I do not think there is any more.

You think it is just the ordinary resentment against taxation?—That is all.

*Mr. Shirtcliffe.*] To carry a little further what we have heard from Mr. Begg, it seems to me there is a great principle involved in this suggested tax on improvements. Take the case of a sheep-farmer or a dairy-farmer: He wants his land to carry the maximum number of stock, and in order that it shall do that he has got to improve his property very considerably?—Yes.

Take the case of a merchant in the city: He requires, in order to get his income, to carry more or less heavy stocks of merchandise. In order to carry those stocks he must have the property improved by way of buildings and warehouses and so forth. If you tax improvements, might you not extend the principle further and tax the stock or the merchandise out of which the income is earned?—It would be just as reasonable.

It would be as logical?—Yes.

It practically means the property-tax, does it not?—Yes.

A tax on improvements?—Yes, I think so.

*Mr. Hunt.*] I have just run out a supposititious case to see how it would work. I have set down the land, unimproved value, at £12,000, and the improvements at £4,000, making a total land-value of £16,000. Stock and plant I have set down at £4,000, making a total capital value of £20,000. Assuming that the property earned 10 per cent. before tax is paid, including the owner's labour, that would make £2,000 total earnings. If you take the land-tax on the unimproved value at £12,000—we will assume a flat rate of 1½d.—that would be £75. Income-tax would be payable on £2,000, less 5 per cent. on £12,000—namely, £600. That would leave a total taxable income of £1,400, omitting exemptions for life insurance and family, and so on. The tax on that £1,400 would be at the rate of 1s. 5-6d., which comes to £102 14s., making his total £177 14s. If you suppose that instead of taxing that man on the unimproved value you tax him on the improved value, you would levy land-tax on £16,000 instead of £12,000. At 1½d. in the pound that would be £100. The income-tax would be levied on £2,000, less 5 per cent. on £16,000, or £800; so his taxable income would be £1,200. At 1s. 4d. in the pound on that £1,200 he would pay £80, making his total payment in taxation £180. So it is almost identical, is it not?—Yes, in that case; but it would vary. I do not think you can take a stock case like that. When we take out actual cases of people with the same capital in different occupations we find that the variations are very great.

*Mr. Weston.*] There are two classes we want to exempt. There is the man who has a property of his own in the city, up to, say, £1,000—that is, including improvements. £1,000 would mean that the working-man would be able to make his house his own?—He would not nowadays.

I think he will shortly. I quite agree with you that it does run over that sum now, but we must draw a limit, and so I set down £1,000. We must give that exemption of £1,000 to the city man, and an exemption of £1,000 also for the small farmer. Then, if you were to have a flat rate, you would have to provide for farmers who came in under the progressive income-tax. It would not be fair for them to pay double taxation, would it?—No.

I would suggest that, as it were, you take your choice. Supposing a man is making a mess of his affairs, probably his income from the property will not be such as to make his income-tax equal the land-tax; but supposing the income-tax exceeds the land-tax, then tax him on his income?—Why not give the 5-per-cent. exemption, to which people have been accustomed and which in theory exempts the income from the unimproved value of the land.

The only thing that struck me there was that that would give too great an advantage to the man with a big income. Supposing he has a £20,000 property and the land is worth £16,000, you would give him an exemption of £800?—A man's income has no relation to the value of the land he occupies.

I am thinking of the big farmer, the man who has probably got £8,000?—You have got to think at the same time of the big business man. There should be no difference in the treatment of the big farmer and the big business man.

*Mr. Shirlcliffe.*] I take it, Mr. Clark, that you are suggesting an arbitrary exemption and not a percentage exemption: you suggest an arbitrary exemption of £500 or £1,000 for land-tax?—That is so. The 5 per cent. exemption would be for income-tax—5 per cent. on the unimproved value of the land.

*The Chairman.*] I understand, Mr. Clark, that you have also a memorandum covering your views on income-tax: perhaps you will read that to us now?—Yes; it is as follows:—

#### *Income-tax.*

Turning now to income-tax, that was introduced at the same time as the land-tax by the Land and Income Tax Assessment Act of 1891: at first income from land was excluded from income-tax. But from 1916 until this year tax was assessed on income from all sources. During that period land-tax was assessed in accordance with the land held by any man, whether in town or country; and income-tax was assessed on all income, whether derived from land or from any other source, and it is a purely personal tax—in fact, with the exception of South Australia and one or two other Australian States, it is the only purely personal income-tax in the British dominions. I am using the word “personal” in its strict legal meaning. There are certain anomalies—I always think a taxpayer would have a grievance if he had a perfect tax, because we would lose the use of the word “anomaly”—but they are not nearly so serious as they are alleged to be. I think most people consider it is an anomaly if they have to pay tax and cannot shift it over to somebody else. There is one that has been brought up and has been a good deal in evidence lately—that is, the disallowance of the loss derived from one operation, or one set of operations, being set against the income derived from another source; and I think the objection to that is sound, and it has been met by a recent amendment. It is a relic of the English Act under which incomes from different sources were assessed in somewhat different ways, and it was enacted partly with the idea of preventing a man from dissipating his income in hobbies or something of that sort. Then there was discussion of the assessment of the tax on the single year as against an average year. That point has been met by the amendment allowing losses to be carried forward, which comes into operation this year. Another point that has been raised is the differentiation between earned and unearned income. My opinion of that differentiation is that it is to a great extent sentimental. You cannot accurately define what is earned and what is unearned. I suppose there is a certain amount of unearned income in every income, in a sense. If you take earned income to mean income that a man can derive from his own efforts, see how it works out in the case of a professional man such as an eminent barrister or an eminent surgeon. A barrister cannot take up the cases and earn the fees he does if he has to do the whole of the work himself. He must depend on assistants or juniors to help him. It is the same with a surgeon. He could not perform the difficult operations or the number that he does perform during the day without the help of assistant surgeons and dressers, and so on. In fact, all our incomes and all our efforts are to a certain extent interdependent, and if you look at the thing logically I do not think you can differentiate between unearned and earned income. The question has cropped up in connection with pensions. There is a lot of soreness owing to the fact that pensions are treated as unearned income. In a sense they may be said to be earned incomes. A man has been working all his life to derive that income from pension. But if you define pensions as earned income, what are you going to do with the man who, instead of being able to contribute to a superannuation fund, has set aside a part of his income—invested it in company shares or in debentures or lodged it on deposit—to provide an income for his old age? Or a farmer who has been working all his life improving his farm, who has put perhaps twenty or thirty years into making improvements on his farm, and who sells it and invests the proceeds to keep him in his old age? Each of those incomes is just as much earned income as a pension, because, after all, a pension is strictly an income derived from an investment. The same reason applies to the assessment of life-insurance companies. If you are assessing the man who sets aside part of his income and invests it on his own account, why should you not assess a combination of individuals who are merely doing the same thing? The question of the assessment of interest on mortgages has been raised too, and that assessment has been compared with the assessment of income derived from debentures. On that point I think the income from debentures should be brought into line with all other income. There is always a danger, I think, in making exceptions in the assessment of income-tax. I think you have a clear demonstration of that in the exception from income-tax of the interest from war-loan debentures. It has had an effect on the financial position of this country which, I think, was never anticipated. I do not think it is advisable to increase the exemptions and to create further disturbance by excepting other income from the operation of the Income-tax Act. That is a matter that is temporary. It will adjust itself in time as these debentures are redeemed, and as the total amount of capital invested in other directions increases in proportion the effect will diminish and finally disappear. Then, the deduction of the land-tax paid has been claimed. It is considered a grievance that the deduction of the land-tax paid should not be allowed from the income-tax. My reply to that is that the land-tax is a charge against the revenue derived from the unimproved value of the land, which is supposed to be exempted by the 5-per-cent. exemption, and that, as a matter of fact, the holders of land in New Zealand who are assessed for income-tax are in a better position than they would be in Australia—that is, under the Federal law, where the 5-per-cent. exemption is not allowed, but where the land-tax is allowed as a deduction. Another point is that the general exemption should be decreased in the case of unmarried taxpayers. This would in New Zealand be practically ineffective. It means increased taxation of those who are already paying, to a greater extent than it does on those who are not paying, and who would be brought in, and it has been the experience of all tax-gatherers that there is such a thing as making the exemption too low. You want to look upon it not only from the point of view of the taxing authorities, but from the point of view of the other taxpayer. There is always a large number of those people with small incomes who can escape taxation. It is almost impossible

to follow them up. There are many men who come over from Australia in summer. They work for a certain time every year. They make at the rate of, possibly, £500 or £600 a year—or have done during the last few years. They pay no tax directly. They can only be assessed efficiently through an indirect tax on some article of general consumption, and on the whole we have a pretty good selection of indirect taxes on articles of general consumption in our beer, wine, spirits, and tobacco taxes. I do not think there is anybody in New Zealand missed when you remember the effect of those taxes. Everybody pays something. We had an illustration of the dissatisfaction that is caused by the escape of one taxpayer as compared with another when we first started assessing farmers. There are thousands of them who are not liable to tax, by reason of the 5-per-cent. exemption. They did not understand why they were not taxable. I dare say some of you know farmers congregate round sale-yards and talk about this and that. A lot of these people boasted about not paying taxes, and this made those who did pay feel very sore. There was a very strong feeling about it. That would be intensified if we went down to the small incomes. Another point that has been mentioned is depreciation. Depreciation is left under our Act, as it is under all the other Income-tax Acts, to the discretion of the Commissioner, and I think that it may just as well be left there. Complaints have been made that the Department does not allow sufficient depreciation. The rates of depreciation were first fixed by one of the early Commissioners in consultation with an engineer. They went round, looked at a number of plants, and consulted taxpayers, and arrived at the old rate. That has been amended since, as evidence has been adduced that the previous rates were not sufficient. The rates as at present allowed are higher than the general body of taxpayers write off. Another point is that it is contended that depreciation should be allowed whether it is written off or not. I do not think that would be right, and I see there is a recommendation to that effect in the report of the British Commission. But my reason for saying that it should not be allowed unless written off is that, on the one hand, there are many taxpayers who do not keep proper accounts, and we have found on investigation in many instances that depreciation has been claimed where the total cost of the plant and machinery and buildings in some cases had already appeared in the working-expenses in the return. The taxpayer not having complete accounts we were not able to trace that until the books were actually investigated. Then, in the case of companies, some carry the amount to a reserve fund, and leave the assets standing in the balance-sheet at the original value. In those cases, or a great many of them, that is done for the purpose of obtaining the full price of the asset in the event of the undertaking being sold. I think it is only fair that if a taxpayer wants depreciation allowed he should show the genuineness of his claim by writing down his asset to what he considers the depreciated value. I look upon that as a necessary proof of the genuineness of his claim. Another matter that has raised considerable discussion is the assessment of companies. I said before that our income-tax is a personal income-tax, and we are consistent in treating the companies as we do—namely, as persons. It may be asked, Why do we not follow the English system? My explanation of that is that when the income-tax was introduced into England the position of companies was not clearly understood. In the latter part of the eighteenth century partnerships began to develop into the form of companies, but there was a distinct antagonism to them. There was a disinclination to admit that they were separate entities. They were looked upon as inimical to the public interest. The practice in Scotland was different from that in England. In Scotland a partnership was looked upon as a quasi-personality and treated as a separate entity. It was held by the common law of Scotland that if people advanced to such a partnership the obligation passed to the partnership itself and not to the individual partners, and that they could only recover from the partnership assets. The position was quite different in England. There was a strong disinclination to recognize companies as separate entities. They were treated as qualified partnerships, except, of course, in the case of chartered companies. In Scotland for a long time it was not considered necessary to obtain a Royal charter for a company; but the practice in Scotland was modified to a certain extent later, in accordance with English practice. There was a lot of vacillation in the treatment of companies, and it was not until 1862 that companies in England and Scotland were formally recognized as separate entities, and that was twenty years after the income-tax came into operation, because it must be remembered that the English Income-tax Act—the consolidation of 1918—was a consolidation of the Income-tax Act of 1842 and its amendments. When we introduced our income-tax here the position of companies was clearly defined. We followed the South Australian Act, and we treated our companies in the same way as they did there—assessed them as separate entities, treated them as persons. And we were following a property-tax assessment which had been copied from America. America is the home of the property-tax, and there, although there was a great diversity of practice, companies were generally treated—I may say, altogether treated—as separate entities. In some cases the company was assessed and the shareholder exempted. In other cases both the company and the shareholder were assessed. In some cases where the company and the shareholders were in the same State the company was assessed and the shareholders were exempted. Altogether, there was a variation of practice, but on the whole companies were treated as separate entities, as persons, and we have followed that practice. While there is no doubt that companies have played a great part in the commercial development of this last forty or fifty years, or more perhaps, and are desirable, they have their disadvantages. The shareholders take no personal risk. They merely advance a certain sum, or agree to advance a certain sum, to a company. They have nothing to do with the management. They have a general control by way of vote at the annual meeting, but the management is entirely in other hands, and there is a risk of reckless trading. You have only to look back over the history of company-formation and company-flotation to realize that. An outstanding instance of that in New Zealand is in the Bank of New Zealand. Most of you will be quite familiar with it. A company can afford to take a risk that a private person cannot take. An additional evil is the Stock Exchange gambling in shares. The objections raised to the assessment of companies as separate entities are



various and contradictory. On the one hand it is alleged that owing to the fact that the companies cannot pass on the taxes they will be driven out of the business; on the other hand it is alleged that they pass on the tax, and this is a factor in the high cost of living. In reply to the first objection, I would say that I know of no instances in New Zealand in which a company has been driven out of the country by taxation. In reply to the second, I would state that normally direct taxes, such as land-tax on the unimproved value of land or economic rent, income-tax, death duties, are not passed on, while indirect taxes normally are passed on. Seligman, Professor of Economics at Columbia University, states that a general income-tax on net income is not passed on, and with this I am inclined to agree. Income-tax is not a part of the cost of production, but a portion of the difference between prices and cost of production. I think it is likely that there is a certain amount of shifting caused by the existence of taxes from investments such as war-loan stock. I do not think that shifting of the income-tax in New Zealand obtains to any great extent, if it were true that industrial companies in New Zealand passed on the income-tax. If they paid, one would expect to find a material increase in the rate of dividends paid since 1914 to compensate for the reduced value of £1. A company paying a 10-per-cent. dividend in 1914 in order to pay an equivalent dividend during the latter years would require to increase its dividends to about 15 per cent. I do not think that there is any such increases of dividends to be found in New Zealand—in fact, an examination of the Stock Exchange lists from 1914 to 1923 will show that the return on investments in companies' dividends have shown a decrease. An examination of the cost-of-living increase will show, I think, that they do not follow the variation in their rate of income-tax. I am informed by the Government Statistician that the cost of living is now at the same point as it was in 1920, although the rate of income-tax is lower than it was then. Gas companies are quoted as cases of those who pass on the tax. The examination of the returns of Auckland, Wellington, and Christchurch gas companies will show that this is not shown in the dividends. I have obtained through the New Zealand Government officers in Melbourne and Sydney some information as to the price of gas in Melbourne and Sydney, which will show that the price has increased in both States, although the tax has not varied during the period between 1914 and 1923. A comparison of the prices of gas in Melbourne and New Zealand will show that the price in Melbourne reached as high a figure as in New Zealand. The rate of interest in New Zealand has tended to be slightly lower than in Australia, so far as I can ascertain. The rate is now tending to increase in both countries, while the rate of income-tax is decreasing. There is one point that has been raised in connection with our present method of assessing companies that I must admit creates a difficulty—that is, the fact that a wealthy man may, by subdividing his investments, escape a certain amount of taxation; and to meet that difficulty I would suggest that a similar provision be enacted to that which is at present applied to joint owners of land, and that the income of such a person from all sources be aggregated so as to secure the highest rate to which such a person would be liable to be charged. There would be considerable administrative difficulties if the change advocated were adopted. The rate of tax charged on individual taxpayers would require to be considerably increased. It would require to be at least as high if not higher than the older and more highly developed countries in which the system advocated pertains. There would be considerable loss of revenue by reason of the fact that a considerable number of the largest companies operating in New Zealand have large numbers of non-resident shareholders. There would also be considerable evasions by the subdivisions of shareholding amongst members of families, and by the incorporation of private businesses. In conclusion, I would advocate a land-tax levied on a flat rate on the unimproved value of all land in excess of £500, or, if thought advisable, in excess of £1,000, on the same basis as the levy of local rates, and without reference to mortgage indebtedness, allowance for which can be made by deduction of interest in the assessment of income. I advocate a general income-tax on income from all sources, including income from land and debentures at the same progressive rates as, or similar progressive rates to, those in use at present. I think that the exemption of the income from land is a retrograde step, as I think that it is advisable to make no exceptions whatever in the assessment of income-tax. The more general the tax can be made the less probability, I think, there is of there being any shifting of the tax. The tax on debentures should, I think—from the same reason—be uniform with the tax on income from other sources. If such a system were adopted it would enable a considerable deduction to be made in the present general rate. There is, of course, a difficulty in connection with the exemption of the income from war-loan stock. It has been suggested that this should be aggregated with a taxpayer's other income in order to fix the rate, but this suggestion has been rejected by Parliament. In the United States, where the difficulty in this connection is much greater than it is here, attempts have been made to abolish the exemption of tax-free securities, but have been rejected by Congress. In any case it would take about fifteen years to bring about the necessary alterations in the law there. It might be worth while to consider the redemption of these securities in New Zealand by the issue of exempted securities at a slightly higher rate of interest. I believe that the Government has power to redeem before maturity.

*Mr. Weston.*] Your idea is this: that although income derived from companies should not be assessed in the hands of the individual, yet for the purpose of fixing the rate of tax payable upon his income, including dividends from companies, you would take his total income?—Yes, and give him credit for the tax paid by the company—that is, where it would have the effect of increasing the amount of tax to be collected. It would be a prevention of evasion by a person cutting himself into several persons, as it were.

*Mr. Hunt.*] On page 32 you say: "Taxation should be in accordance with faculty, and should be proportional to income as a measure of faculty." With that I agree; you mean in proportion to the man's total income?—Yes.

Then, on the same page you say: "My grounds of defence are these: that the action of indirect taxes is regressive—that is, they fall more heavily on the smaller incomes—and to strike a

balance you require progressive taxes on income so as to bring out a really proportional system of taxation in accordance with faculty." It looks to me as if you want, on one page, a proportional tax, and on the next page you want a progressive tax?—No; the proportion is in the income-tax. Although there is a progressive income-tax, taking the system as a whole it is really proportional.

You believe in a proportional income-tax?—Yes, provided it is not carried too far. It can be carried too far.

Before the war we did not have a progressive tax?—We did, but it was not so accentuated.

It was more of a flat rate, with lower rates on the smaller incomes?—Not exactly. About 1910, as far as I remember, we had the graduated tax introduced here, and at the same time in England.

But it was only graduated up to a small amount; it was really a flat rate that affected the fair-sized income?—Well, it is a flat rate now for a man with a fair-sized income.

It was a very much lower figure?—Yes; about £1,600.

When this steeply graduated tax came in, what was the idea behind it?—To get more revenue.

Was the idea behind it that the man with the large income should pay more for each pound than the man with the small income?—Yes.

Now, in company taxation, with shareholders in the company and the customers of the company, can you see any difference in the rate paid by the small shareholder and the rate paid by the big shareholder?—No.

They all pay the same?—I disregard the shareholders altogether.

You will admit that all the shareholders pay the same rate?—Yes.

Would you admit that a large shareholder pays less than a small one—as far as the rate is concerned?—No.

Let me put it this way: you will admit that the tax paid by the company is that paid by the shareholder or by the customer of the company?—Yes.

If it is paid by the shareholders, all the shareholders are paying alike?—Yes.

Now, assuming that I am a man in business making £10,000 a year out of my business, and that I decide that 5s. 10d. in the pound is too much to pay. So I cut my business in half and put £5,000 into, say, the Bank of New Zealand. Now, the effect of that is that on my investment in the Bank of New Zealand I am paying only the same rate of tax as the smallest shareholder?—Yes; but I propose to meet that by correcting the income-tax.

But in addition to that I have reduced the tax from 5s. 10d. to 3s. 10d., so that by investing half my capital in the Bank of New Zealand I have saved 2s. in the pound, or £500 a year?—Yes; but my suggested amendment would get over that.

That would put me in the position that I, a man with a large income, would be saving £500 a year in tax?—Yes; but that would not be so if my suggested amendment were carried out.

So that from the point of view of the shareholder the larger shareholder is in a better position than the smaller one, because he can get a safe return and save that amount in tax?—Yes.

From the point of view of the customer, is it not true that a large customer can buy cheaper from a company than a small one—because he buys in larger blocks?—I do not know the practice.

Most people would admit that that is so?—Well, I find that I can go to companies and, without their knowing who I am, I can buy goods at the same price from wholesale companies as is paid by the Government. I know the prices paid by the Government.

But the larger purchaser generally gets the lowest rate. Then we arrive at this conclusion: that the large shareholder in a company pays no more than the smaller one, but gets certain concessions that the smaller one cannot get?—You cannot say he does not pay more: he will be paying more on his private income.

But the point I am trying to bring out is that the large shareholder in a company pays no more tax than the small shareholder, and by reason of his investment in a company he saves tax on his income?—That is so.

So that the larger shareholder is getting a greater benefit from his investment than the small shareholder?—That is so.

Therefore there is no graduation in the tax on the company investment?—Oh, there is, when—

But as between the shareholders?—No.

Is it not true that of the total income-tax you collect approximately 70 per cent. comes from companies?—Yes, and it is tending to increase even more.

Therefore your graduated system—that was designed to make the large man pay a larger proportion on each pound than the small man—does not apply to 70 per cent. of the total tax you collect?—Oh, yes, it does.

You admit that as far as companies are concerned there is no spread of taxation as between shareholders, that the small and large shareholders are on the same basis in contributing 70 per cent. of the total tax you collect; therefore there is no spread in the taxation in connection with the 70 per cent. of the tax you collect?—Between the shareholders there is, of course, no spread, but there is between the companies.

So that the motive of this graduated tax as between individuals only applies to approximately 30 per cent.?—Yes.

Now, will you admit that even in the 30 per cent. there is very little spread because of the opportunities given to the larger man of saving taxation. For example, take a man that is drawing £10,000 a year, £3,000 of which comes from farming, £3,000 from shares in companies, and £4,000 from his own personal income and investments: he is only graduated as a £4,000 man?—£4,000 on his personal income, and, of course, his tax on his company income would be whatever rate the company paid.

But there he is paying no more than the smaller man?—No.

That means that instead of paying 5s. 10d. in the pound on £10,000 he is only paying 3s. 2d. on £4,000, and so saving 2s. 6d. in the pound?—Yes, that is a difficulty I propose to get over.

So that at the present time, in that 30 per cent. there is no graduation on personal incomes?—They are not availed of to the same extent as that.

I think they are. Well now, the English system is practically based on the personal income?—No, not now. Since the war came on they have had to depart from that.

In England the companies pay a standard rate, and they only pay that on their undivided profits, because the shareholders adjust with the Department?—Yes.

Now, the standard rate is not a maximum rate. At the present time it is 4s. 6d., but the individual pays a super-tax on top of that of 6s.; so that the standard rate is somewhere about the average rate of payment?—Yes.

So that a company in England only pays on its undivided profits an average rate?—Yes; but it pays the corporation-tax in addition. When the strain of the war came on it paid excess-profits duty.

That was a war-tax?—Yes.

But the corporation-tax is a very small thing?—It is comparatively small, but it has caused a great deal of complaint.

To show you how small it is, whereas the corporation-tax of this country was 70 per cent. of your total income-tax collected, their income-tax was last year £280,000,000, super-tax £58,000,000, and corporation-tax £20,000,000. So that it was only about 5 per cent. of the total, whereas here it is 70 per cent. of the total. Now, you know the great objection that has been taken to the corporation-tax in England although it is such a small tax. I will read you a few of the objections. After the corporation-tax was introduced, Sir Robert Horne, who was Chancellor of the Exchequer, is quoted in the London *Weekly Times* of the 5th April last year as saying that he strongly advocated the removal of that most unjustifiable tax, the corporation profits tax. In the *Bankers' Magazine* of May last Mr. Baldwin, who was Chancellor of the Exchequer at that time, is quoted as saying: "At the same time I feel that I must make some change in the corporations profits tax. Every one admits that this is not a good tax. Many think that it bears exceptionally heavily on enterprise and industry. We cannot give it up entirely, but I propose to reduce it by one-half, reducing the rate from 1s. to 6d. in respect of all profits arising after 30th June next." That is what the then Chancellor of the Exchequer said about the corporations profits tax, which only produced 5 per cent. of the total income-tax: what would he say about one that produced 70 per cent.?—He would probably say the same, but I do not agree with him.

Then, that same issue of the *Bankers' Magazine*, in an editorial, said: "The only small surprise in the Budget was really that contained in the immediate halving of the corporations profits tax. The unsoundness and inequity of that measure has, of course, been universally recognized, but it was feared that any relief would be deferred for another twelve months. As a matter of fact, however, the halving of the tax only comes into operation as from the end of June, which means that the loss to the Exchequer during the current year will be trifling, hence Mr. Baldwin's inability to make the remission at once. The great advantage, however, of his so doing lies in the fact that the general intent of the Government towards the impost is clearly revealed, so that its absolute remission within a reasonable space of time is now a foregone conclusion. That being so, we have at once the fact, which no doubt was the object of the Chancellor—namely, of business enterprise in joint-stock form receiving a further stimulus from the Budget statement. In fact, it was quite clear, both from the matter in the Budget and the manner of its delivery, that stimulus to industrial activity quite as much as actual relief to the taxpayer was foremost in the minds of those who framed the Budget." You think, Mr. Clark, that that opinion is wrong?—What else would you expect from that source? It is an interested source.

It is the *Bankers' Magazine*?—Yes. It refers to the stimulus of corporate industry: why should there not be some stimulus to private industry?

But there are many things that cannot be done by private enterprise—things that need a large amount of capital?—Why should you handicap private enterprise while encouraging the development of corporate enterprise?

I am just putting before you the opinions of Sir Robert Horne and Mr. Baldwin on the very small corporations profits tax compared with your opinion on a very big one?—Yes.

Have you read the report of the Commonwealth Commission on Australian taxation of two years ago? On page 82 of their second report they dealt with the taxation of companies' profits without adjustment and the exclusion of dividends from shareholders' returns?—Yes.

That is the same system as we have?—Yes.

That Commission was unanimous on very few things, but on this point they did reach a unanimous finding. They say this: "There is no need to traverse the arguments advanced in support of the method under discussion, beyond saying that its comparative simplicity and greater productiveness are purchased at the cost of so great a degree of inequity that we have no hesitation in unanimously deciding that it is a method that cannot be recommended for inclusion in a system of taxation which it is intended should rest upon 'a sound and equitable basis.'" You do not agree with that?—Neither does the Commonwealth Government.

Well, the Commonwealth Government has adopted it?—No; they are only charging 2s. 6d. in the pound. They are charging 1s. in the pound on total profits, and the dividends are assessed to the shareholders.

When did that come in?—Last year. The charge is 1s. under the Federal Government and various rates under the State Governments. The maximum fixed by the Federal Government is 2s. 6d. in the pound, and the States have the right to charge whatever rate they wish on the companies, and the dividends are assessed in addition.

In Victoria it is 1s. ?—Yes ; and in Queensland it runs up to about 3s. 9d.

But that is only where the percentage is very large ?—It strikes a good many companies. Then, the individual taxation under the Commonwealth law alone runs up to 8s. 9d. I will give you a comparison of those rates with ours—that is, without the State tax.

My point is not in connection with individual taxation : you are getting the greater part of your tax from companies ?—Yes.

Now, I have here one of your returns, that for 1921-22, which shows that the total assessable income from companies was £12,722,000, and that the tax was £4,515,000 : that assessable income of companies was all their income ?—Less whatever deductions there were—of 5 per cent.

So that the assessable income was the whole of their income ?—Yes.

That income was the property of the people who had invested in the companies ?—No.

Whose property was it ?—It was the property of the company. The shareholder only has the right to participate in profits and assets when liquidated.

The company is the property of the shareholder ?—No. The holding of shares in a company merely gives the shareholder the right to participate in the profits of the company, and in the assets in the event of liquidation.

Well, a company is owned by its shareholders, and the shareholders can do what they like with the company, or, rather, a majority of them can ?—Yes.

At any rate, the whole of that £12,000,000-odd was assessable for income-tax ?—Yes.

In addition to that the total income assessable for tax was £38,438,000, and if you deduct the £12,000,000-odd you would leave £25,623,000 ?—Yes.

But that did not represent the whole of the returns of those persons, because the exemptions were deducted ?—Yes.

And all the small incomes that had not any taxable balances were excluded ?—Yes.

Can you give us any idea of the proportion that you excluded ?—You will get an idea from the later report.

Could you give us roughly an idea ? I think you told us it was about half-and-half. It would be well if we could have the total amount that was not assessable—that is, the exemptions plus the exclusions. The total returns would be made to you when you would throw out all those that had no assessable income at all ?—We never had any information about that until we got out this return.

So that this taxable balance is less than the exemptions ?—Yes.

But with the companies there are no exemptions ?—No ; but then those individual taxpayers pay heavy unidentified taxation.

But I mean to say that, after all, that £25,000,000 of assessable income was the property of individuals who had various sources of investment, and that £12,000,000 was equally the property of another lot of individuals ?—That is where we differ. You are wanting the companies to blow hot and cold. For the purpose of trade they want the privilege of corporate trading.

If these things were in England, except for the small corporations-tax, there would be no difference between the £12,000,000 tax and the £25,000,000 ?—Yes ; but I do not agree with that.

That £12,000,000 from companies would have the same exemptions as individuals in England ?—No ; there are variations. There are only certain persons getting exemptions.

But if I am returning my income-tax at Home I include dividends ?—If you are returning for super-tax, yes.

I include dividends, and if I have not got enough to be taxed I am not taxed ?—That is so.

The dividends are no different to any other investment ?—That is so.

But here there is no exemption on this £12,000,000, and there is an exemption of approximately half on the personal incomes ?—Yes ; but what about the income of corporations that is not divided in England ?

In England the undivided profits pay about the average tax of the whole community—about 1s. in the pound corporation-tax, and that is small ?—There is a good deal escaping taxation there.

In England that £12,000,000 would be treated the same as personal incomes. Here you only tax half the personal incomes, the other half comes in for exclusions ?—Yes.

So that you really had returns of approximately £50,000,000 from personal returns and £12,000,000 from companies ?—That is so.

That £50,000,000 from personal returns paid in tax £1,750,000, or about 8d. in the pound, whereas the companies' £12,000,000 paid 7s. 1d. in the pound ?—Yes, they have the larger incomes.

What I want to bring out is this : that the effect of the New Zealand system is that on the personal incomes there is an average tax of 8d. in the pound, while on companies there is an average tax of 7s. 1d., and on the English system they would all be alike, except for the corporation-tax ?—Yes, and the super-tax. They have to bring in provisions to prevent evasions.

But the companies do not pay super-tax in England ?—They do under certain circumstances. They have had to bring in provisions to that effect. If there is a certain profit undivided, the Commissioner of Inland Revenue can assess the undivided profits as if they were distributed and charge super-tax on them.

That is only where a company has held up its profits ?—Yes ; they had to do the same in Australia.

But the ordinary commercial company paying steady dividends pays no super-tax ?—That is so. There is some tax escaping.

The point I wanted to show is that under the New Zealand system companies incomes pay 7s. 1d. in the pound, while personal incomes pay 8d. in the pound, whereas in England they are almost on the same basis ?—Yes, because the higher incomes are held by the companies and the lower ones by the individuals,

We have got to this point: that your graduated tax designed to make the person with the larger income pay a larger proportion of tax on each £1 than the person with the smaller income is quite inoperative as far as 70 per cent. of the tax collected is concerned?—No; I am applying it to persons.

But companies are individuals?—No. To work according to your system we could not carry it on for any length of time, because almost any concern would be turned into a company, and they are finding that out in other countries. They have been chopping and changing in England ever since the war started. In Australia and in America they have been trying to change. We have been able to carry on during the war without any change of taxation at all in this respect. Your arguments about tax are really against the weight of tax.

I am not arguing in any way at all. What I am trying to do is to bring out the points of difference. I want to bring out the difference between your opinion and the views held by the authorities I have quoted, and the difference between the results obtained by the English system and by our system. You admit that as far as individuals are concerned—leaving companies out—and, after all, it seems to me that the legislation of the country is for the benefit of the population—there is no spread of the tax between individuals on 70 per cent. of the amount that you collect?—No. I think you are stressing that too far. I would not care to commit myself to that.

Can you point out where there is any difference?—No, not just now.

You further admit that it is correct—and it is correct—that under the New Zealand system the tax collected from companies in the year before last came to 7s. 1d. in the pound of their total income returned, whereas the tax on the total income returned from individuals was 8d. in the pound?—Yes.

And that in England, on the other hand, except for the small corporation-tax, it would have been the same?—Yes.

You quoted Professor Seligman as saying that tax could not be shifted?—Oh, no, no—a general income-tax on net profits.

Professor Seligman's is a pre-war book, written before this steeply graduated system came into force, is it not?—Yes; but that does not alter the principles.

And it did not apply to companies?—Here is a later writer's that does. I have before me an article in the *Quarterly Journal of Economics*, by Professor Adams, of Yale University, on "Federal Income-tax in America." He says here in one part: "Business competes with business, not owners with owners. The partnership and the corporation to a certain extent derive similar advantages from the Government and are the source of similar expenses to the Government. So long as the business world is split into many political jurisdictions and business men continue to live in one jurisdiction and own property or conduct business in other jurisdictions, so long will there continue to be taxes on business and business entities—meaning by business, productive capacity." Then he goes on to say: "All this means in a practical sense that if the income-tax is to be maintained as our principal tax on business it should follow in a general way the structure of the tax which we now have. Corporations cannot be exempted and the tax confined to stockholders. Some form of a proportional or degressive normal tax must be retained. Many plans have been devised in recent months whereby the corporation might be wholly exempted from the income-tax, the distributed income being taxed in the ordinary way to the stockholders. All this is logical enough as regards that part of the corporation income-tax which may be properly regarded as the equivalent of the surtaxes on saved income paid by individuals and in effect by partnerships. But it does not bear critical examination, and it would not bear the test of experience, if applied to the burden or charge represented by the normal tax. It would split, if for no other reason, on the question of taxing the share of the profits assignable to the non-resident stockholders."

I do not see that that is much to the point?—He goes on to say: "Many solutions are proposed. (1.) A flat corporation surtax of 5 or 6 per cent., such as has been adopted in Great Britain. (2.) A flat corporation rate, normal and surtax, of 20 or 25 per cent., the stockholder to include all dividends in income and thereafter take a full credit (dollar for dollar against his tax) of the 20 or 25 per cent. tax which has been paid for him by the corporation. (3.) A flat or proportional tax on the undistributed profits of corporations with explicit authorization of the many forms of 'constructive dividends' by which corporations have been able lawfully to distribute profits but actually hold the funds for reasonable use in the business. . . . All these solutions are marked by very grave defects."

I do not think that that is very much to the point?—Yes. There is the view of a person who has been considering the matter. He says that every one of these solutions is marked by a defect. There are defects in the whole lot.

Supposing I come to you as a company-promoter and put before you a company that I want you to put your savings into. Supposing I said, "This is a good industry that I am going into. Will you put your money into it?" You would say to me, "The average income that comes from companies pays ten and a half times the average income of individuals." That is what it did the year before last. You would say, "Can you show me that you can pay that tax and still earn as much as I can get outside, where I do not have to pay the tax?" And if I cannot show you that you will not put your money into the company, will you?—I agree with you; the tax is too heavy all round.

That shows that I have got to pass it on, and if I do not pass it on you will not put your money in?—This writer has something to say about passing on, too.

But I think that none of these people that have written have had any experience of the New Zealand graduated tax?—They had a heavy graduated tax in the States. The corporation and excess-profits duty ran up to a graduation of 60 per cent. of the net income.

But that excess-profits tax has ended now?—There has been substituted for it a graduated corporation-tax.

But the corporation-tax is nothing like it?—They had experience of it for several years. It was on the companies. The corporation-tax and excess-profits tax ran up to 65 per cent. of the net income. They had experience of it.

But they have wiped it out?—Partly.

That excess-profits tax has been wiped out everywhere?—Yes. It was a war measure.

(The Commission adjourned for lunch at 12.30 p.m. and resumed at 2.15 p.m.)

*Mr. Hunt.*] You were contending, Mr. Clark, that a company is the same as an individual, but is there not this difference: Supposing I am an individual with an income of £10,000 a year, and I object to the tax that I am paying in one direction: I must put my capital into some other investment, must I not?—If you can.

I must invest in the country or else I must look for some outside country where the tax is less, and as the taxes on individuals are pretty high everywhere I would have a difficulty in finding an outside country that was fit to live in where I could invest my money. But a company is different from an individual, because it can break up and return its capital to its original investors, or, in the case of a new undertaking being considered, the company need never be formed. The company need not continue to exist. That is so, is it not?—It would have some difficulty in disposing of its assets. It would have the same difficulty as the private trader. You have not complete mobility of capital, as a matter of fact.

But if the company can dispose of its assets it can break up?—Yes, if it can dispose of its assets.

Now we come to the "passing on" point. I argue that tax can be passed on, and you argue that it cannot be?—Not to any great extent normally.

Supposing that a company has to pay the heavy tax that it pays now, which is 5s. 10d. in the pound. It is obvious that the tax must come from somewhere. It must come out of the profits the company would have, or else it must be passed on to its customers. It must be one or the other?—Yes.

Your contention is that it comes out of the profits that the company would have?—My contention is that the indications are to that effect.

Therefore the company's profits are reduced by the amount of the tax?—Yes.

Now, as companies are only aggregations of individuals, and as individuals need not put their money into companies or leave it in companies unless they like, is it not obvious that if the tax is going to materially reduce the profits—to reduce them below a point that the investors think profitable—there will be a gradual shifting of capital into other investments which are not taxed so highly?—If they can do so.

And companies will not be formed to enter into a particular enterprise if investors think the profit is not sufficient to pay the tax and leave a margin as well?—That would be so.

Then, with the gradual shifting of capital it follows that in the industries that must be run by companies the competition will become less and less gradually?—Yes.

As the competition grows less and less it will enable those companies that remain to widen their margin of profit?—That would be the effect of high taxation, if there is a non-taxable investment to shift to.

Assuming that is the case, even if companies cannot now "pass it on," which I think they can, ultimately they would be passing it on through the operation of the shifting of capital and the lessening of competition?—Yes, that is the way they would pass it on if the tax remained high and there was a tax-free investment available. I have stated that already with regard to the tax-free war-loan stock.

As such a large proportion of the capital in companies is provided by small people they have tax-free investments. All their investments, or almost all, are tax-free, except companies. If I am a man with £5,000 to invest, that is tax-free if I lend it on mortgage. If I put it into a business or into a farm, as far as income-tax is concerned I am practically free?—Yes, if you have no other income. It is only the incomes below a certain minimum that are exempt from tax. All income from whatever source above a certain minimum is liable to tax.

Even when the tax is put on by way of a new tax, like it is now, ultimately by that shifting of capital away from those taxed investments the competition will be lessened until they can pass it on?—That will be the effect if that state of things continues.

The continuation of the present system will ultimately mean?—No—a continuation of the present rates, not the present system.

Well, the present rates—will ultimately mean a shifting of capital until the customers of those companies pay it?—When I say the present rates I mean the late rates, because I am doubtful if the other advantages of company-formation would not outweigh the slightly lesser return to shareholders.

You would not call 33½ per cent. on capital a slightly less return, would you? It is very nearly one-third?—I do not follow you.

Five shillings and tenpence and two-fifths in the pound is almost a third, is it not? Six shillings and eightpence would be exactly a third?—But all companies are not paying that.

Practically all large companies are paying it?—If they are making the profits, yes.

Another point. What is the reason why a small company should pay a lesser tax than a big one?—Because it has a smaller income. It only pays it if it has a smaller income than the big one.

Is it not a fact that if you were to take the average holding in small companies—small companies are mostly private companies—you would find that the average holding in small companies is bigger than the average holding in big companies?—Probably it would be.

So that the smaller companies are another source of shelter for the man with large wealth?—My suggested amendment would meet that sort of case.

At the present time it is so?—Yes, without that modification.

How would that system of yours work? We will suppose, for example, that a man with £10,000 a year, or, say, with £6,000 a year, is drawing half of that from companies that are paying the maximum tax and half of it from other sources. In the meantime he is only taxed at the rate fixed for £3,000 a year, which is 2s. 6d.; he is not taxed at the rate fixed for £6,000 a year, which is 4s. 6d.?—It would have to be adjusted by aggregating the two sources for fixing the rate and giving credit for the tax paid by the company, so that the balance would pay the maximum rate.

The £3,000 that he got from the company would have paid 5s. 10d. in the pound?—Yes.

Would you credit him with 5s. 10d.?—On that part, yes.

The rate on £3,000 would be only 2s. 6d., and on £6,000 4s. 6d.; so he would have nothing more to pay, would he?—Oh, yes. His total income is £10,000.

No; £6,000. He is drawing £3,000 from taxable sources and £3,000 from a big company that is already paying 5s. 10d.?—I misunderstood. He would have nothing more to pay in that case. If his income were £10,000 he would have to pay the difference between what he had paid on his private income and the maximum rate.

*Mr. Weston.*] It would not be fair to give him a rebate. Supposing that on his company taxation he had not paid 4s. 6d. in the pound, he ought to make it up; but he ought not to be given a rebate if he has paid at the rate of 5s. 10d.?—No. It would have to be drawn so as to make his income from outside the company pay at the rate applicable to the total of his income. That is what I was driving at.

*Mr. Hunt.*] Suppose a man has £6,000 a year. £3,000 is drawn from a company that is paying the maximum tax at the rate of 5s. 10d., £3,000 is drawn from taxable sources, and the rate on £3,000 is 2s. 6d. The average rate that his whole income has paid is half-way between the two rates—that is, 3s. 8d.?—Yes. I see your point. We have to work the section so as to make that £3,000 pay at the rate applicable to £6,000. That is my intention.

Which £3,000?—The £3,000 derived from outside the company.

Would not you set off the extra rate that his other £3,000 would pay?—No, I would not.

*Mr. Shirlcliffe.*] You would ignore the company rate altogether?—Yes.

*Mr. Hunt.*] That means that he is going to be taxed worse than ever?—That man would be taxed worse than he is now, certainly.

*Mr. Begg.*] That income would be taxed twice, partly, would it not?—No. His company income would remain at the 5s. 10d. rate. His other income would be assessed at the £6,000 rate.

*The Chairman.*] On £3,000?—Yes.

He would not pay double taxation?—No.

*Mr. Hunt.*] There would be double taxation. Your contention is that the company is not able to pass it on, and if your contention that it cannot be passed on is correct, then his investment in the company is paying 5s. 10d.?—Yes.

And his £3,000 from outside sources is paying 2s. 6d. You are going to charge him on his outside £3,000 at the £6,000 rate?—Yes.

Which is 4s. 6d.?—Yes.

So, in effect, he will have paid at the £6,000 rate on £3,000, and at the £10,000 rate on the other £3,000?—Yes.

And he cannot pass it on, so that he is paying the whole of it?—Yes.

You are going to make it worse than ever for him?—Worse for him than it is at present, yes.

Companies are being destroyed as it is. That will destroy them so much more. Small investors are getting out of companies now because they can get better investments, and this will mean that the big investors will get out too, and that will be the end of it?—I am throwing that suggestion out to meet the difficulty which, it seems to me, has been raised by yourself as to the large shareholder who escapes taxation.

You are going to penalize the large shareholder because he invests in a company?—I do not know that he is penalized. He is prevented from evading a maximum rate by dividing his income into separate lots.

No. It would be a fair thing in that case if you took him as a £6,000 man and credited him with the over-amount he paid on his company taxation?—That would be ignoring the company altogether, and you could not afford to do that. No country can afford at the present time to ignore the company as a taxation entity.

England does?—No.

Well, she taxes to such a small amount that it hardly counts?—Well, what is all the complaint in England about the high taxation for? The complaint there is more bitter than it is here.

The Legislature in England thinks that the first thing to do to relieve industry is to take any extra burden off the company?—Then why all the complaint?

They complain about the high tax all along, and they are complaining in England that the total tax must be reduced because it is too high?—Because it is killing industry.

Because it is killing industry; but the tax that kills industry worst of all is an excessive tax put on companies?—That is, if the bulk of the industries are carried on by companies, of course, it will have a more serious effect; but it will have the same effect on enterprise that is carried on by private individuals.

But there is so much industry that you could not carry on at all unless it was done by a company?—It could be carried on by partnerships.

No?—Why not?

For this reason: a large industry must have continuity of life. A partnership means that when a partner dies his assets have got to go out?—Not necessarily. Not now. It used to be so.

Very few trustees care to carry on a partnership?—It depends on whether the business is good enough or not.

Death duties are so heavy, and those have got to come out of the partnership capital?—Yes. Those are the advantages that a company has that are some compensation for the high taxes that are paid. Those are some of the advantages that the company obtains from its formation, and it only obtains them as a company, as a separate entity, apart from the shareholders. Why should it seek to evade the liabilities of company-formation?

The liabilities of company-formation are only liabilities created in New Zealand. They are not created elsewhere?—They are created elsewhere. They are tending that way now.

It is not so in England?—Yes. The corporation-tax is an entirely new tax.

But the tendency is to wipe that out?—They will not be able to presently. They will have to come back to it.

They have reduced it £10,000,000?—They have reduced it, but they will have to come back to it.

That is quite contrary to the opinion of the last Chancellor of the Exchequer?—It may be, but it will not be the opinion of the future Chancellor of the Exchequer. Australia had to modify its company taxation this last year.

*Mr. Weston.*] You mentioned just now—Mr. Hunt used the words—continuity of existence as being one of the great advantages of a company?—Yes.

Would you say that there is an unearned increment in a company's business in just the same way as there is an unearned increment in land—that is to say, the growth of a district or a town or a country confers an additional value on a business which has a continuous life?—I would not be prepared to say that.

Would you not regard the goodwill of a business as in the nature of an unearned increment?—Yes. That will apply to a private business as well as a company.

Would not the goodwill of a company be greater owing to the fact of its continuous existence?—It probably would, but I would not like to say definitely. I think it might. That is as far as I would care to go.

So that, as it were, there is a greater resiliency in a company's business to withstand excessive taxation?—Yes.

With regard to the popularity of companies, you as Registrar have all the companies under your control now: would you say that companies are becoming less popular in New Zealand?—No; rather more popular, I think. The number of registrations is increasing.

With regard to passing it on, income-tax is either on personal exertion or on capital, is it not?—Or on income from capital.

Or the use of capital?—Yes.

As regards personal exertion, I presume that a man always tries to get as much as he can?—Yes.

So that if you put a tax on his earnings it would be difficult for him to get more than he was getting at the time the tax was put on: that is so as a general rule?—Yes.

In isolated cases, as, for instance, men of great brilliancy in a profession, they might be able to increase their charges slightly to meet the increased income-tax?—If they could do that they could do it whether there was a tax or not.

There might be some reserve for them more than there is in the case of the bread-and-butter man. You see, the ordinary man pretty well gets the full value of his work, while the very brilliant man may have a reserve?—You are talking of the man in employment?

No, in business or a profession?—Yes.

With regard to the use of capital, the return you get from capital tends, so far as interest is concerned, to be the same in every industry?—Yes.

The difference in the rates upon capital invested in different industries really is due to the allowance for risk—insurance against risk?—Yes.

The question whether capital can pass on a tax upon its use will depend upon the amount of capital in the country and the demand for it?—And whether it can shift to avoid the tax.

The question of taxation, *per se*, would not be a factor. What return you can get for capital depends upon the law of supply and demand—the amount of capital available for investment?—That fixes the rate of interest.

And the question of the taxation upon the profitable use of it is not a factor?—If all capital is equally taxed.

Just so. For instance, as an example, in England at the present time there is an increase in the interest payable on long-term loans?—Yes.

For Government and municipal securities?—Yes.

There will probably be a rise, I understand, of from 1½ to 2 per cent. On the other hand, for short-term securities last year the rate was never lower. I am speaking of London?—I did not know that.

It was under 2 per cent. Towards the end it ran up to 2½ per cent. With regard to English taxation, in England the company has to find the standard rate?—It pays tax at the normal rate, which is at present 4s. 6d. in the pound on the whole of its profits.

Not only on the dividends, but also on its undivided profits?—Yes, including certain interest on fixed loans, and in paying out the dividends it deducts the tax from the recipients.

But it finds the cash to pay the taxation?—Yes.

In addition to that it pays its company-tax of 6d. in the pound?—6d. in the pound, but not exceeding 1s. on the undivided profits.

So that practically, if it pays 1s. on the undivided profits, it would have to find 5s. 6d. Taking an average, would you say that the companies are finding 5s. in the pound on all profits?—It would



not be possible to say that. It depends on the proportion between the amount paid and the amount retained.

At all events, the company is finding something over 4s. 6d. in the pound on the profits?—Yes.

Supposing that you were to let companies off altogether and assess simply on the individual, would you be able to get the income with the present rates?—Oh, no. That stands to reason. You have a certain amount of income assessed at present. If you are going to let a certain proportion of that income off altogether—I am talking now of the taxable balance—or be assessed at a reduced rate, you must assess the balance at a higher rate to get the requisite revenue.

*The Chairman.*] What rate would you require to impose?—We would require to impose at least as high a rate as is imposed in England or Australia—probably a higher rate, because they are older and more highly developed countries, and they have a larger proportion of individuals obtaining good incomes from investments than we have here.

*Mr. Weston.*] Probably the rate would be nearly doubled on incomes between £500 and £2,000? That rate would be practically double what it is at present?—Quite double, I should think.

You have tested that, have you not?—We tested it some years back.

What do you anticipate from your suggested scheme of taxation? What reductions would you be able to make in the present rates?—I think we would come to a maximum of 4s. 6d. quite easily.

It means that companies would pay a maximum of 4s. 6d.?—Yes.

Which is the rate that the companies are now finding in Great Britain?—On their undivided profits.

And how would that 4s. 6d. compare with New South Wales, for instance, in company taxation?—The New South Wales rate is about 2s. or 2s. 6d., I think, Federal and State; and then in addition the dividends are assessed in the hands of the shareholders.

*The Chairman.*] Dividends are only assessed in the hands of the shareholders for Commonwealth taxation, not by the State?—No, not by the State, just for Commonwealth taxation. I had a comparison of the New Zealand and New South Wales rates up to £4,000 of income from property. It showed that where ours was about £750, the New South Wales tax was over £1,100. There is a difference of about £400 at £4,000 income. The Australian rates were set out in one of the Sydney papers when showing the effects of the latest amendments in the Federal Act. I can give that to you—a comparison of the rates.

*Mr. Weston.*] Do you think that the rates as they existed two years ago had got to a height that was beyond safety in taxation?—Yes, I think so.

They had got too high?—I think so.

So that in the interests of the Dominion it was absolutely necessary to get them down?—Yes.

Even if you get them down to 4s. 6d., is there any reserve of taxation for a sudden emergency?—I think our income-tax has shown itself to be wonderfully elastic. An estimate of the maximum that could be raised in England in income-tax before the war I saw stated at £90,000,000. As a matter of fact, the combined income-taxes went up to over £400,000,000—in the region of £500,000,000. Ours went up to £8,000,000-odd.

There was an absolutely unnatural business activity—an abnormal business activity?—Yes.

Due to the expenditure of huge sums of borrowed money by the State?—That was so.

But in normal time do you consider that a maximum of 4s. 6d. leaves much reserve?—If we could increase it in normal times? No; I think our object should be to get lower than that as soon as ever we can. When we had the two taxes in 1917 the maximum of our ordinary income-tax was 3s. in the pound. The war-tax was assessed on the same graduation, with an addition, making it 4s. 6d. The idea was that as soon as possible we should drop the war-tax and come back to a maximum income-tax of 3s. in the pound.

Take the case of a man at the present time who is subject to heavy taxation, and who invests in 4½-per-cent. tax-free bonds. The advantage of those bonds being free from taxation is paid for by the man investing in them in the price he gives for them?—Yes, I suppose so.

He says, "I prefer 4½-per-cent. bonds free of taxation to a 6½-per-cent. mortgage" ?—Yes.

*Mr. Shirlcliffe.*] That depends on the price he pays for them.

*Mr. Weston.*] It is allowed for in the market price?—Yes.

And it is the same with the price of companies' shares: it is allowed for in the market price?—Yes.

So that although nominally he appears to be escaping taxation really that man is not?—Not if he comes to sell.

The argument that taxation cannot be passed on depends upon the same taxation being placed on every branch of industry?—Yes.

And under our present system of taxation, including that of companies, the taxation is on every branch of industry?—Yes—well, with the exception at the present time of the income from land and the income from debentures.

*Mr. Shirlcliffe.*] I would like to get your views, Mr. Clark. There seems to be some diversity of opinion as to the principle involved in treating companies as separate entities for the purpose of taxation. There seems to be two schools of thought, one that the companies should not be taxed as separate profit-earning units, but that the component parts of the companies, the shareholders, should bear the tax; the other school of thought takes the opposite view, that the companies themselves should pay the tax. I want to ask you if you agree with some of the advantages that individuals have when they invest their money in companies. I am taking these questions from the Taxation Committee's report. When an individual is engaged in business on his own account he enters into a liability that may exhaust the whole of his resources in the event of disaster?—Yes.

But when he invests money in a company his liability is limited to the amount of his commitment in the company, and his private estate is left uninjured?—Yes.

That is one particular advantage which the shareholders in a company have?—Yes.

Then, if a man is in business on his own account it is very difficult for him probably to get out of that business at short notice if he wishes to?—Yes.

On the other hand, if he is a shareholder in a company which is at all prosperous he has no difficulty in parting with his shares: you agree that that is another advantage?—Yes.

There is a further advantage which companies have over an individual trader: it is much easier for a company to finance than it is for a private trader?—Yes.

A company can finance by offering debentures over their assets, but that way is not open to the private trader. Then, the private trader has to provide for death and succession duties, but companies do not have to do that?—That is so.

Apart from any other consideration the private trader is at a great disadvantage in competition with companies owing to the aggregation of capital in a company giving it such financial strength that it can operate more economically than the private individual can?—Yes, it has the advantage of large-scale operations.

Then, of course, a company presumably, in the ordinary course of things, never dies. It has a continuity of existence, which, as Mr. Weston was implying, gives it a goodwill that cannot attach to the business of a private trader. So that all those advantages are something very valuable that the investor in a company gets as compared with the individual trader?—Yes.

I gather from your report that you do agree that as a matter of principle and as a matter of equity in relation to private traders companies as profit-earning units should be treated as separate entities for the purpose of taxation?—Yes.

In thinking the matter over this morning it seemed to me that to shift the incidence of taxation from companies to shareholders might press very hardly upon individuals. Take this example, which is a quite possible one: Take 200 shareholders each with £100 capital. Any one of them can do nothing worth while with his £100, but by mobilizing that capital they have got a capital of £20,000, making a profit of £5,000. Under the present system the company would be taxed on £5,000?—Yes.

And, according to your view, rightly so?—Yes.

But if a company were relieved from taxation, and it was shifted to the individuals, then the whole of those 200 shareholders—presuming that they have no other income of any consequence—would escape?—Yes.

And your Department would lose £1,000, roughly, of income-tax that has accrued from a profit actually earned?—Yes.

Have you any view as to the principal effect of shifting the tax from companies to shareholders on individual investments, bearing in mind that ever since there has been an income-tax investments have been made in companies with the knowledge that the companies have to pay the taxation, and that their dividends are consequently tax-free: have you any idea of what the effect would be?—I have not considered that. You mean as regards the value of shareholders' investments?

Yes?—I do not know. If the company did not make sufficient profit to make up the tax that would be assessed to the shareholders their share-holding would be depreciated considerably.

At any rate, there would be considerable dislocation in the value of shares?—Yes.

If the contention—that I do not agree with—that income-tax is passed on, then the converse should be true, that if the income-tax is taken off, profits should remain about the same?—Yes.

Therefore dividends could not be increased—

*Mr. Hunt.*] Yes, they would be increased. You say the tax is not passed on.

*Mr. Shirlcliffe.*] I am taking your view, Mr. Hunt, that if the tax is passed on, which I do not agree with, then the converse of that should be true, and if the income-tax is taken off the companies, and profits will be no greater because you have no income-tax to pass on, therefore you would do your business on a smaller margin of profit. Then you would have no larger dividends to declare?—(Witness) I do not know that that is so. There is a modification of that.

But, broadly speaking, my contention is correct, that taking the view that income-tax is passed on, then if no income-tax is to be passed on, therefore in all probability the dividends to shareholders would be no greater?—Probably not. May I refer to gas companies: the dividends of gas companies in Australia were less than the dividends from gas companies here during the period 1914–1923, though the taxation was less on the companies there.

If that were so, if that theory is correct, then investors would be at a distinct disadvantage as compared with their position to-day?—We had an illustration of that in connection with the amendment to the Land and Income Tax Act, 1917, when certain directors of companies that were trading with farmers came to the Government and asked to have their business premises exempted from the provision of joint holding that enables us to assess the share of the shareholder in a company's land along with his own, because they wanted more capital, and they found that none of their larger clients would invest by reason of the fact that the addition of the company's share to their other land increased the graduated land-tax by so much. That argument would apply to income-tax. That is an actual illustration we have had of the effect. Then, you were a member of the Committee when Mr. Phil. Nathan, in giving evidence, stated that he had tried to get a friend in Australia to invest £40,000 in a company, but this friend would not do so because the return from the company added to his other income would so much increase his income-tax.

*Mr. Begg.*] He was looking for cover to escape the tax?—Yes.

*Mr. Shirlcliffe.*] Then, we have got as a possible effect of individual investments in companies, the probabilities are that investments would be depreciated?—Yes.

What would be the effect upon the general body of taxpayers?—They would have to find more tax. I do not think there is any escape from that.

The money has got to be raised?—Yes.

Now, from what we heard this morning one would imagine that companies were being forced out of existence, and that there is a general reluctance on the part of business people to form their businesses into companies. Now, curiously enough, I have a return here showing the registrations of companies for the past few years and the new companies registered in each year. In 1918 there were 200 registered, with a capital of £3,055,000; in 1919 328, with a capital of £5,942,000; in 1920 501, with a capital of £9,562,000; in 1921 (number not given), with a capital of £3,498,000; in 1922 417, with a capital of £13,125,000. Now, of those registrations no less than 1,307 of the companies were private companies, with capital ranging from under £1,000 up to £50,000 and over, and 476 were public companies. In the last year (1922) there were 126 public companies registered, with a capital of £11,273,000.

*Mr. Hunt.*] Those are all small companies.

*Mr. Shirlcliffe.*] They are not all small companies. In 1922 there were sixteen companies formed, with a capital of £10,415,000. At any rate, those figures go to show that even the present scale of taxation is not by any means preventing the formation of new companies?—No.

*Mr. Hunt.*] No one ever said it did.

*Mr. Shirlcliffe.*] Then I misunderstood you.

*Mr. Hunt.*] No; I said large companies. It is only the companies with the large incomes that are affected. The companies with the small incomes are getting off. Small companies are being formed by men who have large incomes.

*Mr. Shirlcliffe.*] That seems to be one of the defects of the proposals. Take all these private companies, of which 1,307 were formed during five years, if they are relieved from taxation they may consist of only two or three members—

*Mr. Hunt.* Each one will be taxed on his share, added to his other income.

*Mr. Shirlcliffe.* Only on the amount paid out in dividends: to the extent to which that company is relieved of taxation, the profits of the company would be also relieved of taxation.

*Mr. Hunt.* No; they would be taxed on the flat rate.

*Mr. Shirlcliffe.*] I say that to the extent to which you relieve the company, the profits paid out would be relieved of taxation.

*Mr. Hunt.*] The company would pay a flat rate on its undivided profits, and its dividends would be added to the income of the shareholders?—(Witness) Yes, the flat rate would be at a lesser rate than he is taxed on.

*Mr. Shirlcliffe.*] I understood, this morning, Mr. Hunt, that you were aiming at the shifting of the taxation from companies to shareholders.

*Mr. Hunt.*] Only on the dividends.

*Mr. Shirlcliffe.*] However, it does seem to me that through the formation of these private companies the payment of tax can be largely avoided.

*Mr. Hunt.*] It is being avoided now.

*Mr. Shirlcliffe.*] Only as regards the rate, but the tax has to be paid on the total amount of profits earned.

*Mr. Shirlcliffe.*] If you have got £10,000 a year, and you invest part of your capital in a small company earning £2,000 a year, you get your dividends taxed at the lower rate?—(Witness) There is another illustration. Take a partnership consisting of two partners. They form their business into a company. They divide their income by drawing directors' fees and leaving the balance in the hands of the company; whereas when they were partners they paid on the total net profits, including their salaries. When they turn the concern into a company they divide that income, part of it being taken as directors' fees, the balance being left to the profits of the company. But you would gain more, because instead of assessing them on the graduated rate you assess them at the flat rate, which would be less than the graduated rate.

*Mr. Hunt.*] That is only the undivided profits; you do not have the same protection that they have in England?—That is inoperative. It was tried in the United States, and to a great extent it will be found inoperative in England. Who is to say what proportion of a company's profits should be retained?

You can say that not more than one-third should be retained?—It would be a very grave injustice.

*Mr. Begg.*] Could you not fix a schedule rate?—No. You could not know the circumstances of the different companies.

*Mr. Shirlcliffe.*] An instance came under my notice within the last few days. I had a balance-sheet before me of a private business in which the paid-up capital is not more than £1,500. It is a partnership. They made £1,500 during the last half-year?—A large part of that would be personal earnings, salaries. They were working themselves?

But they made their profit of £1,500 during the half-year. They drew very little out of it themselves. Their net profit was £1,500, 200 per cent. per annum. If that were a private company and they only had to pay a flat rate and tax on their own drawings it would probably mean no tax at all. The whole of the balance would escape taxation, except on the flat rate?—Yes.

So that a great deal of the income-tax would be lost to the Department, taking that as an illustration?—I do not think there is any doubt about that. Of course, in those small companies if you take the total profits before charging the partners' salaries the percentage of profit appears very high, but to compare the rate of profit of a company like that with that of a large company you must charge the partners' salaries. That is a thing that is generally overlooked. Another thing that is generally overlooked in the discussion of the question as to taxation between individuals and companies is this: the general opinion is that an individual income is considered to be a cash income. It may be in the case of a salaried person, but in very few others. Even in a professional

person's income there is a great difference between the income that is assessed and the income that is actually received. It is the same with companies. When a private person is in business a great part of his income is locked up in stock and book debts, but very few people realize that. You frequently hear people say that they would have no hesitation in taking away from an individual who makes a certain income a large proportion of that income, but they might take away from him more than the cash he makes during the year.

*Mr. Hunt.*] And destroy his earning-power for the next year?—Yes. It is the effect of the heavy taxation. It applies to large businesses whether they are run by an individual or a company, and that is one of the reasons why I do not think a company should be treated differently from an individual. You should consider the individual in business as well as the company.

*Mr. Shirlcliffe.*] It would be possible for you to make up an approximate estimate of the rates of land and income tax, and the amounts that they produce, on the lines of this very interesting report of yours?—Yes.

To show what the rates would be in order to maintain the present aggregate of tax?—Yes.

You might be able to do that in the next few days?—Yes.

With regard to this question of passing on the tax, I would like to read what I think Mr. Clark intended to read this morning. This is by Professor Adams, who says: "The repeated charge that business men figure income-taxes as a part of their cost and then charge the customary percentage of profit on the increased cost basis is next to absurd. If it were true it would only be necessary for Congress to increase the income and profits taxes in order to increase business profits. Taxes were responsible in only minor degree for the high cost of living. The cost of living went up before tax rates were increased, it stayed up when tax rates were reduced, and it will come down in the future whether tax rates be increased or reduced. The argument that 'all taxes are shifted; therefore ignore equity and select the simplest tax,' is particularly misleading. Even though we may be certain that some part of the tax may be shifted or diffused in the long-run, its initial incidence is of enormous importance. Property-taxes on buildings are shifted in the long-run, but this does not make the tax a matter of indifference to the owners of buildings."

*Mr. Hunt:* All my argument was that if you are going in for a special tax on an investment, that investment will possibly cease to exist.

*Mr. Shirlcliffe:* But this is not a special tax.

*Mr. Hunt.*] It is a special tax on large companies, and if that tax cannot be passed on by those large companies, then in the long-run it may be passed on to the customers, because if it cannot be passed on immediately capital will gradually leave that investment?—(Witness) The tendency would be inclined to drive out the least efficient producer.

*Mr. Weston:* They would economize and turn out their turnover with the same staff.

*Mr. Shirlcliffe.*] I do not agree that income-tax is passed on?—But Mr. Hunt is quite right in his statement. If the tax is so applied that the capital cannot produce a sufficient return, that cannot last for very long, and the tax must come down or the person will go out of business.

Then it resolves itself into a question of the weight of the tax?—Yes.

*Mr. Weston:* There is no doubt that some businesses suffer more than others because they have not the necessary resources.

*Mr. Shirlcliffe.*] That is so. You would think that businesses like gas companies, which are monopolies, could pass that tax on?—The argument is that a monopolist can fix his price no matter whether there is tax or not. You must assume that he is getting as big a price as possible, and if the tax is put on he cannot get any more.

Does it not come back to this: that the profits are dependent upon the old law of supply and demand. A merchant gets the best price he can for his merchandise irrespective of taxation. He may be able to sell some goods at a substantial profit because conditions are so much in his favour, but in other lines he may have to sell at cost price or less; but on the average he sells his goods at the market price.

*Mr. Hunt:* That is fixed by competition.

*Mr. Shirlcliffe:* Except in the case of monopolies. I have not been able to see any evidence of income-tax being regarded as part of cost.

*Mr. Hunt:* Take your own merchandise business, which you say is no good: people will get out of it if it is no good, as you say.

*Mr. Shirlcliffe.*] There is no sign of it. You take a general business covering many departments: each department is interwoven with the others?—(Witness) There is no absolutely free competition.

What in?—In any trade.

*Mr. Hunt.*] I think so?—There is no free competition in the grocery trade.

There are a certain number of wholesale articles whose prices are controlled, but in a large number of articles there is free competition?—I doubt it.

*Mr. Shirlcliffe.*] Confining ourselves to conditions in New Zealand, it seems to me that the rate of interest is fixed by the law of supply and demand?—Yes, I think it is largely fixed by that.

I was interested in the discussion just now on your suggestion that you would allocate the various portions of a man's income and charge him the highest rate that he is liable for, based on his aggregate income—on that portion of his income that is earned outside investments?—Yes.

The point seems to be whether you should not, in so charging a man, give him credit for the tax that the company had paid on his share of the profit, because otherwise his total income might pay more taxation than the Department was entitled to receive on it?—This is the section that I had in mind; it applies to land-tax: "In the case of each joint owner there shall be deducted from the tax so payable by him under the provisions of the last preceding subsection (so far as such tax exceeds the graduated land-tax that would be payable by him if he owned no interest in any joint estate) his share of the tax so payable in respect of the joint estate."

But take the example quoted this morning—a man receiving £3,000 from earnings and £3,000 from an investment in a company; that would mean a total income of £6,000, which would carry a rate of 4s. 6d. in the pound, but that would only be calculated on his £3,000?—The section would only be effective where the tax on his combined incomes exceeded the tax payable on the separate assessments.

But supposing the tax payable on the separate assessments exceeded the amount that he would be liable for on £6,000: supposing his £3,000 invested in the company paid the maximum of 5s. 10d.?—What we do is to take the two interests and add them together, compute the tax on that, and allow him credit for the tax paid on the separate assessment. As I pointed out, that would only be effective where the amount of tax on the combined interests exceeded the tax that had been paid on the separate interest. You would have to give the man credit for the full proportion of the tax paid by the company.

*Mr. Hunt.*] The £3,000 from other sources paid 2s. 6·4d.; the £3,000 from the company paid 5s. 10·4d.; so that the average tax paid by the two was 4s. 2·9d. The rate for £6,000 is 4s. 6d., so that he would have to pay a little extra?—I had better give you some examples of the working-out of that, as illustrations.

*Mr. Begg.*] You do not propose to let him off anything on account of the income-tax paid through the company?—I propose to give him credit for that.

*Mr. Shirlcliffe.*] The Department does not want to collect a larger amount of tax than he would pay individually?—On his total income of £6,000, no.

*Mr. Begg.*] You do not want to collect more from the individual than the company taxation and his own: do you mean that you would give him a rebate?—No, we would not give him a rebate. I will have some examples worked out for you.

With regard to the companies not being able to pass on taxation, it is pretty evident from the figures we have got of Stock Exchange quotations that a great many companies have succeeded in keeping up their old dividends and paying the same amounts into their reserves, and still paying from 5s. to 8s. 9d. in the pound taxation in addition?—Which companies have?

Some companies. The market price of their shares is as good as it was. Since taxation was imposed on them at a higher scale they have succeeded in paying dividends on the old scale?—But in order to pay the equivalent of the dividend paid by them before the war they should be paying a considerably larger dividend.

They have been able to go on paying the same dividend?—I would not call it the same dividend. It is the same rate perhaps.

And the taxation in addition. Well now, they must have got it from somewhere?—If the tax had not been in operation they would have distributed much larger dividends. You do not find any 60-per cent. or 30-per cent. dividends here as you do in some corporations in England.

But you find substantially the same rate of profits—or, at any rate, as high—under the higher taxation. They must have got them from somewhere. I quite accept what you said, that companies or individual traders do not regulate their prices by anything else than the highest they can get. I suppose we can accept that they get the highest price they can?—That is so. No trader is a philanthropist: he gets as high a price as he can.

Generally speaking, that is the way prices are fixed. Well now, to pay the same rate, and the tax in addition, they must have got higher prices than previously?—They did.

Something enabled them to pay the same dividend as formerly?—Yes.

So, in effect, it was passed on, whether they were able to pass it on or not?—My contention is that they would have got that additional amount whether they were paying higher income-tax or not, and if we had not taken it in income-tax it would have gone in profits.

As it happened, there was a coincidence that while the high tax was on they were able to pass it on to somebody?—Yes; but one of the reasons was that high profits were being made.

*Mr. Weston.*] It was really in the nature of excess profits?—I suggested that while there were high rates of profit being made we should, in view of the excessive requirements at the time, make a reserve to meet the time when there would be a demand for a reduction of taxation, and when the Government would be wanting money badly.

*Mr. Begg.*] In fact, you saw the time when profits were large, and you thought the Government should get a bigger share of them. The companies did not pay it directly, but the public paid it in their higher prices?—They did—the public did pay it.

The company paid the higher tax because it was getting more profits?—Yes, otherwise the company would have retained it, for their prices would not have been any less.

In fact, they did collect the additional amount from the public?—Yes, and they had collected it before we assessed the tax on it.

I do not follow this about the additional dividend that should have been paid. You say, “I do not think that the shifting of the tax in New Zealand obtains to any great extent. If it were true that industrial companies in New Zealand pass on the income-tax, if they do one would expect to find a material increase in the rate of dividends paid since 1914 to compensate for the reduced value of the £1.” I do not just quite follow what was in your mind: is it that the dividend should have increased because the currency depreciated?—Yes. The purchasing-power of the pound was not what it was before the war, and to compensate for that, to give the same value in dividend, a company that was paying 10 per cent. in 1914 should have paid somewhere about 15 per cent. from, say, 1916 onwards.

But did not the pound of capital depreciate as the pound of income?—But the purchasing-power of that dividend in the hands of the shareholder was not the same as it was in 1914.

But he had not the same capital in the company; it had depreciated also, had it not?—Why did it depreciate?

Assuming that the capital is in sterling, £50,000 paid £5,000 dividends?—But quite apart from the capital, if the company was passing on the tax it would have passed on sufficient to give the shareholders the equivalent in value of their dividends before the war.

*Mr. Weston.*] All your assets would go up in value.

*Mr. Begg:* Yes, certainly.

*Mr. Weston:* So that your £1 would be represented by more in capital.

*Mr. Begg.*] Some capital increased in value and some capital decreased. But a company floated in 1916 or 1917, and getting into action right away and proceeding to earn dividends, the capital put into the company was depreciated to the same extent as the profits?—(Witness) That would be so; but taking the companies that were in existence before—

The capital that was sunk in something that went up in value would increase, but the other floated when the depreciation had settled would have its capital decreased?—I do not know. If a company could have sold out and divided the result of its realization amongst its shareholders at that date, and they were content to invest that on deposit until the time of stress had passed, they would have made a distinct gain.

I can see that where it was a company whose fixed assets had increased in value?—Yes, and where the stock had increased in value.

And a great many of them did increase in value?—It does not show in the returns I have there.

*Mr. Hunt.*] A great many of them, if they did not increase their dividends, retained their dividends?—The only instances I know of are one or two of the banks and the flour-milling companies.

*Mr. Begg.*] However, that deflation has taken place now, and many companies have found that the value of their capital was not there?—But my point was that the shareholders did not get the return from their capital that they were getting before the war—the return in value.

They are not getting it yet, but still they could hardly expect to get it and yet pay 7s. in the pound as well?—That is just my point.

So it is quite evident that the public generally contributed that to the companies in some shape or form or they could not have done it?—The tax was paid out of what the company took from the public; but if the tax had not been charged the company would have retained it for themselves instead of paying it in tax.

Yes. If the Department had not taken that money the shareholders would, and the public would have been in the same position?—Yes.

The public did, under the circumstances, contribute it?—That is not what is meant by the persons who advocated that the tax has been passed on.

In your statement you favour interest from debentures being put on the same footing as any other income?—Yes.

We know that a great many issues were put out when the debenture-tax was 2s. 6d. in the pound for local-body loans: would you consider it breaking a contract? Would you consider it breaking a contract if when next year's Act is passed they were placed under ordinary rates and the individuals charged?—All those contracts must be made subject to variations in the Government's tax.

Where a local body issued a loan with 2s. 6d., would you consider any contract would be broken?—No, no more than any contract was broken when we first imposed income-tax.

So that you think it would be perfectly right and proper to abolish the debenture-tax and put it on income?—Yes, now that we are in a position to trace the debentures.

Is there any difficulty in tracing those debentures?—No, not now. The local body is liable until it supplies us with a list of the debenture-holders. The debenture-holders are liable until they advise us of any change of ownership.

And the companies the same?—No.

Would it help if these bearer bonds were wiped out of existence and inscribed stock substituted?—Yes.

Is there any objection to that?—They are not so readily negotiable. Probably the real objection is that they are more easily traceable for taxation.

They could not pass from hand to hand, but as instruments of security they are practically equivalent?—Yes. The bearer bonds are usually used in the payment of ordinary accounts. With inscribed stock that could not be done.

Would that facilitate the matter much?—As far as we are concerned as a taxing authority, it would.

And, as far as you know, the advantage would outweigh the disadvantage if they were done away with?—I do not think it matters as long as we have the present arrangements with the local bodies—that they supply us with a list, and the holder of bearer bonds is responsible for the tax until he notifies us of change of ownership.

And you could put company loans on the same footing?—Yes.

Then, I gather that you do advocate that the debenture-tax should be abolished?—Yes.

And the income from debentures pay on the same footing as ordinary income?—Yes.

*Mr. Shirliffe.*] Do you advocate that that should be done as regards past issues?—Yes. I make no distinction between past issued or present and future issues.

It occurs to me that that might be construed as a breach of contract on the part of the Legislature. In the case of some companies and Corporations it would press very hardly upon the holders of the bonds, who had invested in good faith?—The holders of the bonds of local authorities were always liable to income-tax. They were liable to return the interest.

Only to pay debenture-tax?—No; that was quite a new thing. Prior to that they were liable to return the interest to us and pay the tax on that income, along with their other income. But we

could never trace these people, and so we made the local authority liable in the same way as the company was liable previously; and then when the local authorities were in that position they were willing to meet us and help us get the information necessary to assess the individual debenture-holders.

But my point is that in the past ten years probably there have been very large sums invested in these local-body and company debentures, and it would press very heavily upon the holders of the bonds?—It is not so long ago as ten years.

Well, especially during the war, we know that companies raised very huge sums on debentures?—Yes.

*Mr. Begg.*] A large number of investors, I am sure, would regard it as a breach of contract. Companies that put aside big reserves have no doubt in the last four or five years invested a lot of money in local-body bonds with a view to escaping the very heavy taxation. These were issued with a maximum tax of 2s. 6d. in the pound?—Yes.

I am very glad to get your view that there would be no breach of contract in putting all that interest on the ordinary basis?—I do not think there would, because all those contracts must be held to be subject to alteration of the law relating to taxation. Otherwise you could never make any alteration.

*Mr. Shirlcliffe.*] Just the same as alterations in the Customs tariff are no breach of contract?—That is so.

*Mr. Begg.*] Tax-free bonds you would regard in a different light, I take it?—With respect to those tax-free war bonds, that was a contract entered into with the Government itself. That is in a different position altogether.

*The Chairman.*] That is a contract made by the Crown itself?—Yes. The only way in which it can get out of that is to pay them off, and issue bonds at a higher rate of interest subject to tax.

The Government did try to convert them, did it not?—It has converted a number.

What amount is outstanding of free-tax war bonds?—I do not know. We are taking some in payment of tax. I have taken some to-day.

*Mr. Weston.*] The easiest way to get over the whole thing would be for the Government to take these bonds in payment of tax and death duties?—We have been doing so to some extent.

*Mr. Hunt.*] Do you take them at par?—No; at the market price at the time. People are content to pay them to us at the market price. The case I was dealing with to-day was a case of penal tax.

*Mr. Begg.*] You mentioned that there was far more bitter complaint in England about their income-tax than there has been here?—I believe there has been.

Do you not think that that is because it is direct and people know what they are paying—I mean, the pill is not sugared?—There is heavy indirect taxation there, too. But the outcry is made that the heavy tax is crippling business there. The heavy tax is not on the company as a company so much as on the individual.

Do you not think that if the same amount were collected from the inhabitants of this country in such a way that they felt they were paying it directly as is in fact collected from them under the income-tax there would be a considerable amount of bitter outcry here, too?—It is direct taxation, the income-tax here.

But it is levied in such a way that it does not press particularly hardly on the individual—that is, the limited liability companies provide over 70 per cent. of it?—Yes.

If individuals felt themselves taxed to that extent directly, do you not think there would be quite as bitter an outcry here as in England?—No, I do not think so. The tax would not be so heavy as it is in England. The individual tax in England runs up to about 10s.

Is not the want of outcry here as regards individual taxation partly due to the fact that they do not know they are being given this medicine? They pay indirectly—the medicine is not given to them directly, it is put surreptitiously into their tea?—(No answer).

*Mr. Weston.*] You could give us a return, could you not, showing the graduation in England? What I gather is that in England the graduation goes higher than ours?—That is so.

There are bigger gaps before you get your rise?—Yes, and there is a defect in that.

In New Zealand a man has a much greater job to make £10,000 clear for himself than he would have in Great Britain?—Yes. The reason for our graduation having to be steeper is that we have not got the body of taxpayers. We have to make it steep on the comparatively lower incomes to get the necessary revenue.

*Mr. Hunt.*] It is not as steep here as in England on the lower incomes?—Because we start higher up. That is why.

But even at, say, £1,000 or £1,500 it is nothing like what it is in England?—For that reason the graduation starts lower down. The tax paid on an individual income in England is much higher than it is here, and it starts much lower down.

*Mr. Begg.*] Could you give us a return showing the amount of debenture issues since there was a special debenture-tax?—I will try and get that.

Both local body and company—I do not mean offhand?—I will make a note of it, and see if I can get that information. We have not got it in our Department.

You gave to Mr. Shirlcliffe a number of the advantages that limited-liability companies have, and undoubtedly have. They all enjoy these advantages equally?—Yes.

Does that not seem to indicate a reason why they should pay equally, too?—Individuals enjoy the same advantages in trading, whether large or small, but the larger one pays a higher tax if he is making a larger income.

Just so; but the very big company with the very large income might be earning only 2 per cent. on its capital and the small company earning 20 per cent. One is enjoying great prosperity under

these advantages and the other is not?—Generally, where that is the case the reason for the high percentage of the small company's earning is that a large part is the personal earning of the directors. There may be exceptions, but generally that is the case. Into the smaller company's profits there enters a large proportion of personal earnings of the directors. It is very often a family concern where all the shareholders are working in the business and directing it.

At all events, you have told us already that you consider the graduation on the companies is right?—Yes, as long as it is not too high. I think that the tax lately has been too high to continue, and it is still too high. It wants reducing.

But you are satisfied that when taxation has to be increased, increasing on the present system is the most equitable way of doing it?—Yes, and certainly the most efficacious way.

In the event of absolute stress and when taxation had to go up until it practically absorbed everything but a bare living for the community?—We did not get quite up to that. I think it was about half-and-half.

You nearly reached that at 8s. 9d. in the pound?—That was on the larger incomes.

It would certainly put companies out of existence?—If you went for any length of time at that rate, that is quite likely.

It would not kill an individual, but it would kill a company?—It would kill an individual, too, who was engaged in trade. He could not carry on a business at that rate of taxation.

We had evidence that companies are becoming more popular as a public investment?—Yes; the advantages of corporate formation for trading are so great that I quite expect that tendency to go on.

Is there not some indication in that that the whole weight of the taxation does not fall on the company?—No.

It appeared to me as an indication that by some means or other these companies were escaping their full share?—No.

Or were capable of making some one else pay for them?—No, I do not think so.

It seems unreasonable to expect that large sums of money would be put into a form of investment in which probably the maximum tax would be imposed?—There are advantages which counter-balance the heavy tax. There is an expectation that the tax will not be continued at the high rates.

With regard to the rates of interest, there has been some evidence as to rates of interest being as high in a lightly taxed country as in a heavily taxed country. There are many things that affect rates of interest, but do you think that heavy taxation in itself, other things being equal, would tend to raise the rates of interest?—If the taxation was the same in all countries, I do not think it would affect the rate of interest.

I mean, anywhere. I agree with Mr. Shirlcliffe that it must be fixed by the law of supply and demand; but does not heavy taxation reduce the supply?—Yes, very heavy taxation would.

So it would naturally tend to put up the rate of interest?—It would take some time to do it. The effect would not be immediate, and the tax would have to continue for some time to have any appreciable effect.

But it would have that tendency?—It would, I think—that is, by depleting the capital available for investment.

*Mr. Shirlcliffe.*] Would it be possible, when you are making up that estimate of the rates required under your proposed scheme—you indicated just now that you thought you could bring the rate down to 4s. 6d. as a maximum?—I think so.

I was hoping you would have said 3s. 6d.; but would it be possible for you to bring forward alternate rates in order to provide for a lower maximum rate?—Yes, it might be.

Say, 4s. 6d. or 4s. or 3s. 6d.?—Yes.

It is the weight of the tax that the companies are really up against?—That is my feeling.

And it is the weight of the tax we want to get reduced?—Yes.

*Mr. Begg.*] Could you give us a short statement of the practice in the Australian States, and in Britain, and in America too, in regard to company taxation?—I could tell you now what it is.

I cannot remember if you tell us offhand?—Very well. I will have a statement made up.

(At 4.30 p.m. the Commission adjourned, to meet again in Dunedin on Tuesday, 29th April.)

DUNEDIN, TUESDAY, 29TH APRIL, 1924.

RODERICK FINCH, Public Accountant, Oamaru, examined.

*The Chairman.*] You have made a study of the subject of taxation, have you, Mr. Finch?—To some extent.

And you have prepared a statement setting forth your views?—Yes.

Will you please read your statement?—Yes, sir. It is as follows:—

My principal idea in wishing to give evidence before this Commission is to urge that the present method of levying income-tax on companies as separate entities should be adhered to, and that no change-over to the method of taxing the dividends paid should be made; and to urge that the correct time to tax profits is when they are made, and not when they are distributed. In advancing my opinions I propose to take as a basis for my remarks the majority report of the Taxation Committee which sat in 1922, and endeavour to reply to the arguments therein advanced. Any contemplated change in the incidence of taxation must be viewed in the light of its affect on the total revenue to be received by the State from this particular source, for the Government would be faced with the necessity, if it relieved one section of the income-tax payers, to increase the tax levied on the remainder in order to maintain the total amount to be collected. The majority report, clause 38 (c), reads as follows: "The Commissioner for Inland Revenue, in his evidence before the Committee,



stated that, of the total capital invested in company shares of all kinds in New Zealand, one-half was owned by people whose incomes were so small that, even with the dividends on their shares added, they would be free from income-tax on account of being below the exemption rate. Of the remaining half, a considerable portion was owned by people of comparatively small means, and it would take three-sevenths of this remaining half to bring the incomes of those who receive the dividends up to the maximum exemption. Only four-sevenths of this remainder would be taxable, and the great bulk of this at a comparatively low graduated rate." Now, let us deal with this position as it applies to the figures shown in the return of income-tax assessments for 1920-21. These figures are the latest in my possession, and though the more recent figures will vary to some extent, still the underlying principle is the same, and the 1920-21 figures will yield comparative results when taken in round sums. Out of the total tax paid (£8,000,000) companies contributed £5,000,000, and other taxpayers £3,000,000. Putting clause (c) shortly, it states that seven-fourteenths of the companies' capital is owned by people with a non-assessable income; three-fourteenths is owned by those with non-taxable incomes; leaving four-fourteenths with taxable incomes, and the great bulk of these only at a comparatively low graduated rate. Working this out on the figures quoted gives us the following result: Four-fourteenths of the £5,000,000 is £1,400,000. This leaves a deficit of no less than £3,600,000, which, to produce the required total revenue, must be added on to the other taxpayers' contributions, and these taxpayers, even when the rate had a maximum of 8s. 9d., previously contributed only £3,000,000. Can this be contended to be within even a possibility of practical realization? Turning now to subclause (d), it contains the following: "The revenue would therefore increase at the expense of approximately 225,364 persons, and would confer a distinct benefit, by reduction of tax, on 2,636 persons. There would be a considerable reduction in working-costs to the Department. It is extremely difficult to form an accurate idea of the probable reduction in costs, but it should amount to about £100,000 per annum. This gain to the Commonwealth would, however, be achieved at the expense of shareholders in companies who individually would have been non-taxable, or whose rate of tax would be less than the company's rate." That is the end of a quotation from the Federal Commissioner of Taxation when giving evidence before a Royal Commission in Australia. Then the subclause goes on: "Both the New Zealand and Australian figures emphasize the fact that, generally speaking, the capital of companies is provided by the savings invested by people of very moderate means. In this connection the members of the Australian Royal Commission, although in agreement upon very few matters, were quite unanimous in turning down the proposal to tax companies at a flat rate of 2s. 8d. in the pound, the following being an extract from the Australian report on this matter: "There is no need to traverse the arguments advanced in support of the method under discussion, beyond saying that its comparative simplicity and greater productiveness are purchased at the cost of so great a degree of inequity that we have no hesitation in unanimously deciding that it is a method that cannot be recommended for inclusion in a system of taxation which it is intended should rest upon 'a sound and equitable basis.'" Now, in spite of this definite announcement, what is the position in Australia to-day? The journal *Accounting and Commerce* of the 31st January, 1924, on page 258, states:—

*Federal Income-tax (Australia).*

The Amendment Act passed in September last makes certain amendments of the law, of which the following are the most important:—

*Taxation of Dividends.*—Dividends or other profits derived by a shareholder are exempted from income-tax, except that in cases where a taxpayer, if he were to include such in his individual return, would pay on them at a higher rate than the company pays upon them. In such cases the dividend is assessable to the shareholder, but he will get a rebate in his assessment of the amount which the company is liable to pay upon his dividend.

*Taxation of Companies.*—Companies are now to be taxed upon the total taxable income, instead of upon the portion undistributed in dividends. As explained, the dividend is to be omitted from the assessment of the shareholder. This is a revolutionary provision, and means the recognition of the New Zealand system despite its unpopularity in some quarters in this country.

We must necessarily conclude from this that the Federal authorities, after a thorough examination of all systems of company-taxation, have decided that the advantages and equity of the present New Zealand system are such that they outweigh those of other methods. Before leaving this quotation I would call special attention to the question of increase in working-costs of collection. If we change from our present system, the Commissioner's staff will be called on to handle and deal with thousands of returns and investigations where they now have hundreds; and note this: that these additional returns in the bulk of cases would be practically non-productive of revenue, as I have shown above. There would be the additional labour of checking through endless lists of shareholders when a single taxpayer held a few shares in several companies besides having his ordinary source of income. The returns themselves would also require, to be complete, to show the individual holdings in each company to assist in making the assessment, thus making further complications to be misunderstood by the taxpayers in making returns, with the resulting extra work in the Commissioner's office in giving explanations and instructions. If the system is adopted of the company deducting the tax when paying out the dividend and the taxpayer having to apply for a refund, any one with experience of similar applications to the Inland Revenue authorities in England could give you an idea of the amount of trouble, correspondence, and expense which this entails, and the extremely unsatisfactory results which finally eventuate. Clause 38 (g) gives a forecast that the present system of taxation will prevent company formation and progress: "It is submitted that for the effective carrying-on of trade and industry upon a large scale on modern lines mobilization of capital in joint-stock companies is essential. Countries which have developed this method to the fullest extent are in the lead so far as wealth, power, general comfort, and prosperity are concerned

Trade and industry have grown beyond the ability of individual capitalists to deal with efficiently." For years past—and this still obtains to-day, in spite of the taxation being levied on companies as separate entities—it has been the almost universal practice in New Zealand that when the individual has developed his business to any great extent he converts it into a company, either private or public. This custom largely accounts for the Commissioner's statement that 94 per cent. of all capital employed in trade is in the form of companies and only 6 per cent. in private hands. In the face of the forecast contained in this paragraph, new companies are being formed daily in New Zealand, and continue to be registered in hundreds annually; and I have yet to hear of any company that has ceased to progress solely from the effect of income-taxation and not from some defect in its internal organization or management. It was quite obvious that the reason why the large companies appeared to be badly hit by income-taxation when the slump came was solely due to the fact that many of them were either overlooking or ignoring the fact that as soon as profits are made a definite liability is immediately created to the amount of the State's share of that profit. They were carrying on the policy of letting the subsequent year's profit pay the tax that had actually become a liability during the previous year; consequently when they made losses they had to use up their so-called reserves to pay the tax, when the actual position was that they had previously over-distributed profits, or, rather, that they had distributed amounts which were properly not available for distribution. Now, this result is not the effect of a faulty incidence of taxation, but is due merely to lack of ordinary foresight on the part of the management. Clause 38 (h): I think the argument advanced in sub-clause (h) that the taxation system is giving an unfair advantage to individuals over companies, when such are in competition, cannot be treated seriously. When 94 per cent. of all capital engaged in trade is in the form of companies, and of the remaining 6 per cent. the greater portion must be made up of the small trader, who, for all practical purposes, cannot be regarded as a competitor, surely the 94 per cent. can effectively deal with the small opposition. The statement is also made that the produce companies must cease to lend to farmers. The statement is not borne out by facts. I have here the figures of a well-known company which show the following totals of book debts and bills receivable: March, 1921, £1,288,000; March, 1922, £1,204,000; March, 1923, £1,303,000. Does this go to show that the company is ceasing to lend to farmers? Clause 38 (i): "If the present specially heavy tax is continued on investors in companies the result will be that these investors must get a return from their company investments at least equal to that which they could get in other directions, otherwise they will not invest, and will attempt to withdraw that which they have invested. If, however, a general graduated tax were placed on the incomes of all individuals, no matter from what source derived, it would tend to stay where it was put, for the reason that no change of investment would enable its avoidance. It is clear, however, that one country cannot tax investors for a lengthy period at a higher rate than that charged by another country within easy reach and equally desirable to live in or invest in." If these arguments were sound any change in the incidence of our taxation would have the effect, as shown by my comments on clause (c), that the bulk of our taxpayers would immediately migrate to Australia. Clause 38 (k): "Take the case of a wealthy man whose taxable income is £10,000 a year. He pays £4,400 a year income-tax, but decides that he must avoid this, and accordingly calls in half his investments and buys tax-free war bonds. At the present market price these bonds will return him over 5 per cent. net, clear of tax; but in addition to that he has changed his taxable income from £10,000 a year to £5,000 a year, and his taxation rate from 8s. 9d. in the pound to 5s. 9d. in the pound, so that his change of investment not only brings him over 5 per cent. on the best security the country has to offer, but saves him £750 tax on his remaining £5,000 of income, which is equal to another  $\frac{3}{4}$  per cent. interest on his war bonds, making his net return on these equal to  $5\frac{3}{4}$  per cent." This first case given deals with a matter quite apart from the question of company-taxation, and depends wholly on the question as to whether the issue of tax-free debentures was justified or not. Then, further on the subclause reads: "The same effect, but in a lesser degree, takes place if the same man can change half his investments to local-body debentures carrying 2s. 6d. tax to company debentures carrying 3s. tax, or to shares in small companies carrying a moderate rate of tax. The result is that men of large means are gradually transferring their capital to those investments where there is little or no spread between the small and the wealthy." As regards the taxation on company and municipal debentures, this weakness has been to some extent adjusted by the Finance Act, 1923, section 6. Clause 38 (l) attempts to illustrate the effect of the present system of taxing companies, and there is not the slightest doubt that some of the statements were and still are contrary to fact. For example: "With income-tax standing at 8s. 9 $\frac{3}{4}$ d. in the pound, it means that in order to get the pre-war net rate of interest these companies would have to charge from 11 per cent. to 12 per cent. for loans—rates which farmers cannot possibly pay. Consequently no farmer can get a new advance from any such concern at the present time. The companies as they collect the advances must therefore utilize the money for other purposes, and the farmer has to do without the finance." Now, will any of these companies admit that they have charged their farming customers a regular rate of 11 or 12 per cent. interest on their advances? Then, again, the figures I have quoted above—38 (h)—go to show that advances are not being steadily withdrawn. I do not propose to deal with the minority report except to state that, with the exception of one or two small points, I can absolutely endorse what it says, and in my opinion the logic of the arguments it contains has not been and cannot be effectively replied to. In some respects I am prepared to go even further, and will read a letter which I wrote in June of 1921 and which appeared in the *Otago Daily Times* of 1st July, 1921, when this question was first being freely discussed. I wrote as follows:—

"Speaking in general terms, there are only two classes of shareholders—(a) those who have taken up shares when such are issued by the company; (b) those who have purchased shares on the open market.

"1. To deal with the small shareholder in class (b): He has purchased shares presumably at the market price, and this price is actually governed by the amounts paid as dividends by the company,

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 given 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:—

		<b>£</b>	
Amount of carry-forward considered safe for distribution .. .. .	.. .. .	4,750	
Profit .. .. .	.. .. .	48,000	
	Total .. .. .	£52,750	
<b>£</b>			
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—

		<b>£</b>	
(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

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.

But, in any case, I think they should be deductible within reasonable limits, bounded by, say, a certain percentage of the income.

6. To arrive at the graduated rate for income-tax, that all forms of income be included—share dividends, tax-free debenture interest, and so on. I know that the question of the inclusion of tax-free debenture interest has been considered by Parliament and has been turned down, but I still state that it should be done, because a taxpayer in receipt of taxable and non-taxable income is able to pay at the greater graduated rate on that portion of his income which is subject to taxation.

*Mr. Hunt.*] You referred to Australia as now adopting the New Zealand tax. Do you know the rate of tax that they are charging the companies in Australia?—I do not. I have not seen the Act itself. That quotation is all that I have seen.

*Mr. Hunt:* You know, do you, Mr. Clark?

*Mr. Clark:* Speaking from memory, it is 1s. in the pound on the total profits.

*Mr. Hunt:* And are dividends taxable?

*Mr. Clark:* Not by the Federal authorities, except where the inclusion of the dividend would increase the rate of the shareholder's tax. Then the State, of course, taxes the dividend and the company too.

*Mr. Hunt:* But it is a flat rate of 1s.?

*Mr. Clark:* Yes.

*Mr. Hunt.*] You would not suggest that that is the New Zealand system, would you, Mr. Finch? (Witness) It states in that journal that the change-over is to the New Zealand system. That is the only authority I have for my statement.

A flat rate of 1s. in the pound is quite different from a graduated rate, is it not?—That is so.

You say in your statement that "companies were carrying on on the policy of letting the subsequent year's profit pay the tax that had actually become a liability during the previous year." It was surely only small companies that did that. I never read of a big company doing that?—I have seen quite a number of examples of that, in both small and fairly large companies. They apparently ignored the question of income-tax. I have in mind a small company in Oamaru. They made a loss of about £15,000, I think. They had to pay out from £6,000 to £7,000 income-tax, and no provision had been made at all.

Then you went on to refer to the large number of companies that have been floated during recent years as proof that companies are not unpopular as a form of investment. Of course, that report of the Taxation Committee of 1922 where it mentions the companies was only referring to large companies. Can you point to any large company, with a large paid-up capital, which has been formed in the last year or two?—I believe there were some large companies registered last year.

But with a large paid-up capital? It is quite a common thing for a company to be registered with a large nominal capital, but they call up only a comparatively small sum. It takes a company with a large capital to pay the maximum income-tax, does it not?—That is so.

Did you ever analyse what these companies were that were formed?—No, I do not think I did.

Would it be a fact that a large number of them were small private companies, formed probably to escape income-tax?—I do not think so.

If a few wealthy men form a small company they escape income-tax, do they not?—In what way?

Say, a company with a total income of £3,000. It is only graduated as a £3,000 income, is it not?—That is so.

It might be formed with three shareholders having incomes of £10,000 each?—Yes.

Is not that escaping taxation?—It depends where they get their capital from. Those arguments were advanced in a pamphlet that was issued, "Excessive Income-tax charged to Large Companies in New Zealand and its Effects." That argument was advanced in that pamphlet.

*Mr. Weston.*] Is that the Taxpayers' Association's pamphlet?—No. It is one that was issued in 1921.

*Mr. Shirlcliffe.*] By whom?—A number of the stock and station companies. At the bottom of page 14 it says: "Now, the point is that the large public company may be, and often is, owned by a very large number of small shareholders, and the result is that shareholders of small and moderate means pay the maximum tax fixed for the extremely wealthy. On the other hand, these small private companies may be, and often are, owned by wealthy men. By spreading their capital amongst these small companies they get off with a comparatively light tax. For example, take a man with an income of £10,000 before income-tax is deducted. If he has to show all this in his tax return he will pay 8s. 9d. in the pound, or £4,400. If he can spread 80 per cent. of his capital amongst a number of small companies that show an average profit of £2,000 a year each, these companies would only pay income-tax at an average rate of £280 each—." That is a misstatement of fact, because you cannot have averages in a graduated tax. It goes on: "and, as our wealthy friend gets his dividends clear of income-tax, he has not to include them in his own income-tax return. The income he has to return is reduced to that from one-fifth of his capital, or, say, £2,000 a year, on which the graduated rate comes to £280. The result is this wealthy man, instead of paying 8s. 9d. in the pound, or £4,400 in income-tax, escapes with a payment of £1,400—that is, the combined tax on his small company holdings and his own direct payment. Through spreading his capital amongst small companies he makes a clear saving of £3,000 a year." That is an assumption, and there are so many fallacies in it that it is practically impossible of realization, to my mind. In the first place, the man would have to select nine separate companies with a capital of £3,300. He would have to buy 14,900 shares at par. He must have nine friends with each a capital of £1,700 to follow his lead and invest in the same companies to give him control. He must select nine separate managers for these companies. He must see that each company earns £2,000 exactly. If more, the rate is too high; if less, then he loses part of his income. None of the nine companies must take any reserves, otherwise he loses income. And each company must distribute the whole of its profits. Now, I think that such a case would be impossible.

*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

that that is at all out of proportion when you consider that you can get 6 per cent. on mortgages. At the present time I should say that 10 per cent. is quite a fair return and not an excessive return.

Can you show me the balance-sheets of any large companies now that are making 10 per cent. on their capital and undivided profits and reserves?—My experience of balance-sheets is that they are produced for the purpose of concealing the position. The amount of undisclosed information and the secret reserves in the business are so great that you cannot always go on the published figures as to the actual way in which the company is being run.

That is quite true there is a great deal of information concealed, but I am satisfied that 10 per cent. is not earned by large companies on the total capital that they are using at the present time?—Do you not think that that is the result of trading conditions rather than the question of taxation?

Trading conditions are now quite all right. Do you not think so?—I do not. They are still to a very large extent abnormal.

Why?—Take the trading conditions at Home and on the Continent. They are materially affecting the position.

But in New Zealand?—The conditions at Home affect the New Zealand conditions.

But our New Zealand conditions are fairly good just now?—They are improving, but I do not think they are up to pre-war standard.

In your statement you say this: "If these arguments were sound, any change in the incidence of our taxation would have the effect, as shown by my comments on clause (c), that the bulk of our taxpayers would immediately migrate to Australia." Why?—Clause (c) refers to the question of the increase that must be levied on the ordinary taxpayer in New Zealand, and it also refers to the fact that Australia has apparently changed over to the New Zealand system.

How has it changed? A flat rate of 1s. in the pound is not a change to the New Zealand system?—The statement in that journal is that it is a change-over to the New Zealand system.

That 1s. in the pound is not a graduated rate. It is a flat rate. And that is quite different from a graduated rate that goes up to 5s. 10d., is it not?—Yes; but if the statement contained in that journal is correct that Australia is changing over to the New Zealand system—

But Mr. Clark has shown that that statement is wrong. What Australia is adopting is a 1s. flat rate, as against a graduation going up to 5s. 10d. in the pound?—Then, of course, my statement is incorrect. I was basing it on that published statement, which was the only evidence I had as regards the change-over in Australia.

You admit, on what Mr. Clark has said, that it is not the New Zealand system?—Yes.

Why would these people go over to Australia?—I was assuming that that statement was correct.

You spoke about the difficulty in shareholders applying for a refund. Is it not true that debenture-holders now apply for a refund?—I had on several occasions to apply for a refund of tax on shares issued in England and held by a trust estate in New Zealand.

I mean, in New Zealand. Is it not true that debenture-holders in New Zealand now get a rebate of taxation?—Yes.

Is there any more difficulty in getting a rebate with respect to shares than in respect to debentures?—I should say there is a great deal more difficulty, because debentures are usually issued in big parcels, and there is a comparatively small number of issues. They are held in comparatively large amounts, while shares are held in comparatively small amounts. If I had single shares in several companies I would have to apply for a refund on the one share in each case. It would not be worth while. On the other hand, debentures being usually held in much larger parcels, it is worth while. Let me mention my experience with the Revenue authorities at Home in connection with an application that I made in connection with a trust estate. The forms were sent out for me to complete, and I completed them. They went Home and came back again. They did the round trip five times, and finally the Revenue authorities accepted my original application for a refund. The period covered was, I think, a year and nine months.

That is your misfortune from living in New Zealand; but in England they have carried out the practice for many years, and they stick to it?—Yes. The position in England is that the taxpayer is educated to that system. In New Zealand the taxpayer is not, and you have got to commence educating every business man in New Zealand up to it. To do that will throw a tremendous amount of work on the office.

*Mr. Clark:* I should like to say that the system of refunding is avoided as far as possible on debentures. We arranged to allow the local authorities to pay out in full where the taxpayer made a declaration that his income was under £300, so as to avoid collecting and refunding again. The only cases in which we make refunds are where the rate varies. Where the local authority gives us a list of the holders of debentures we deal direct with them. So that collecting at the source and refunding is being departed from as speedily as possible, owing to the irritation caused. With regard to the English system, one of the Committee's reports on taxation some years ago commented on the fact that the Revenue authorities at Home were three years behind with their refunds.

*Mr. Hunt:* The system at present in force, as I understand it, is this: Say a company is returning its list of debenture-holders to you, a declaration is made—

*Mr. Clark:* Not now. As soon as it supplies us with an authentic list of debenture-holders we deal directly with the debenture-holders, and they are responsible to us for the tax until they advise a transfer of the debentures. We departed as soon as ever we could from the system of refunding.

*Mr. Hunt:* Could not that same system be applied to shares?

*Mr. Clark:* We would have to deal directly with every shareholder, and every shareholder would have to advise us of the transfer of shares. We would have to keep a record of all transfers of shares. As far as the Department are concerned, we are not raising any objection on that point. I just wanted to explain about the debentures.

*Mr. Hunt* (to witness).] Do you believe in the system of graduated tax?—Within limits, yes. I think that the graduations are too high. They go up too high. I think that the present heavy tax on commerce is too heavy in the interests of the community.

Why do you believe in a system of graduated tax? Do you think that a man with a large income should pay more on each pound than a man with a small income?—Of course, it is open to question, but it seems to me to be a universal practice. It seems to have been recognized universally as the fairer way of getting revenue for the State. The graduations apply as regards both land and income tax. It seems to be recognized as a universal custom.

I take it you agree that a man with a large income—say, £5,000 or £10,000 a year—should pay a larger proportion of each pound than a man with a small income?—Yes.

With respect to these company incomes, the companies are owned by individuals, are they not?—Yes, but it is the company that earns the income and not the individuals.

But are not the companies owned by individuals?—Ultimately, yes.

And those individuals are large shareholders and small shareholders?—Yes.

Can you show me any difference in the graduation in the amount of tax paid on each pound between the large shareholder and the small shareholder?—I think you are getting away from the question, which is that a company is a separate entity. It is a new being. It is practically a person, from a legal point of view and from all points of view. It can hold land as an individual, and as an individual it makes profits.

Is not the State governed for the benefit of its people?—Yes.

And is not the whole of the State governed and controlled in the interests of the people themselves?—Yes.

The graduated system was brought into being, was it not, because it was thought that the man with the large income could afford to pay more in the pound than the man with the small income?—Yes.

Is there any difference in the sacrifice made for State purposes by the large shareholder and the small one?—I do not think that that argument—

I want to know. Is there any difference in the sacrifice made for State purposes by the large shareholder and the small shareholder?—I do not quite follow your question.

Supposing you are drawing £10,000 a year from company shares and I am drawing £10. Are you sacrificing a larger proportion of each pound for State purposes than I am?—It depends to some extent on how I acquired my holding.

You have an income this year of £10,000 drawn from companies. I have an income of £10 drawn from companies. Are you sacrificing any more of each pound of income than I am?—I do not think that that question can be answered definitely Yes or No, for this reason: that you must take into account how the investment arose—how you bought the shares or how you came to invest your money.

The point is that you pay income-tax each year on your income regardless of how you acquired the income. You have an income of £10,000 from shares in companies. I have an income of £10. Is there any difference in the rate per pound that we pay on our income?—The tax is paid by the company itself.

But the company is owned by the individuals?—Yes; but the company is for all purposes, both theoretical and legal, a separate person.

The State is run not for its institutions, but for its people. The institutions are for the people, not the people for the institutions?—Yes.

The company is owned by people—by large shareholders and small shareholders. Is there any difference in the sacrifice that the large shareholder makes as compared with the small shareholder?—I do not altogether follow your question.

*The Chairman.*] They pay the same rate of income-tax whether the income is large or small?—Yes.

*Mr. Hunt.*] If you are drawing a large income from interest on mortgages and I am drawing a small one, you pay a larger amount?—Yes.

But if our incomes are drawn from companies we both pay at the same rate?—Yes.

In this 1920–21 return to which you referred approximately 68 per cent. of the total tax collected came from companies?—Yes.

So that there was no graduation in the tax paid by the individuals as far as that 68 per cent. was concerned: they all paid the tax at the same proportion?—Were they all taxed at the maximum rate?

That made no difference between the small and the large shareholders. So that of the total tax paid in that year 68 per cent. came from companies. Those companies were all owned by wealthy individuals and individuals with small means. There was no spread in the tax as between the large and the small shareholders?—You are ignoring the fact that a company is an individual.

The State is not run for companies, but for individuals. You admitted that there was no difference between the rate of tax as between the large and the small shareholders?—Probably; but if you had shares in a company which paid a small profit you would pay a lower amount than a man who had shares in a company which made a large profit.

But it is not a question between a company making a small profit and one making a large profit: a company may be owned by small and large people, but they all pay the same rate?—But the individual did not earn the profit; it is the company that earned the profit.

The incomes were earned by individuals, and those individuals had no spread in the tax, as between them?—I think that is too sweeping a statement.

Can you show me any spread in the tax in any of those companies, as between the wealthy and the poor man?—If a wealthy man had shares in a company which made a small profit and a poor man had shares in a company which made a large profit, then you would have an inequality; so that you cannot have the sweeping statement that they both pay the same rate.

Some shareholders are big wealthy men and some are small poor men. There are as many large men in small companies as there are in big companies. Can you show me any difference in the rates of tax men would pay because of their large or small holdings?—No, there is no difference.



*The Chairman.*] Is not the answer that the individual is not taxed at all?—That is so.

The shareholders pay it only indirectly?—All shareholders in the one company pay the same rate.

*Mr. Hunt.*] So that in 68 per cent. of the tax collected there was no spread in the tax taken from the small and the large shareholder?—I am not prepared to say that.

A company making a small profit may be owned by people with large incomes. The point I want to make is, is there any difference in the rate of tax paid by the different shareholders?—There is no difference in the rate simply because he is a wealthy man or a large shareholder.

The shareholder is not affected at all?—That is so.

In 68 per cent. of the tax collected the small shareholder pays the same as the big one?—That is so.

It is true that there is no spread in the tax paid in respect of 68 per cent. of it?—There is no spread in the tax as between the individuals that hold the shares in a company, but that cannot apply to the whole 68 per cent., because one company makes a big profit and pays a big tax, while another company makes a small profit and pays a small tax.

It depends upon the size of the profit. There is no difference as between the shareholders in one particular company?—In each particular company, no.

So that in 68 per cent. of the tax collected there was no spread?—In each individual company that is so.

So that it only leaves the remaining 32 per cent. of the graduated tax to apply to individuals?—If you ignore the fact that a company is an individual.

But a company is owned by individuals?—But they are individuals.

It is only on the 32 per cent. that there is any spread in the tax?—No; I disagree with you, because in respect of the other 68 per cent. the companies are actually individuals.

The companies are owned by individuals. You admit that there is no difference between the rate of tax paid by the different individuals in a company?—In the same company there is no spread.

So that all the individuals in these companies paid the same rate of tax?—In each particular company, yes.

So that that leaves 32 per cent. for the graduation to apply to?—No; because there is the other 68 per cent. The company is the one that earns the profit and the company is a separate entity.

We admit that a company is a separate entity, but we are talking about the individuals who have the incomes: they have all the same rate to pay. It is only in regard to the 32 per cent. where the individuals are graduated?—You cannot make a striking distinction in that way, because part of the 32 per cent. will form part of the 68 per cent., because a shareholder may be a private individual for purposes of taxation.

But in the income paying 32 per cent. of the tax—no company income is included in that?—Yes.

What company income is included in that? On that 32 per cent. there is a graduation in the rate of tax?—Yes.

But is it not true that owing to the possibility of well-to-do men with large incomes investing in tax-free securities or company shares with no spread they avoid graduation?—It might be possible, and no doubt it is done. As regards the tax-free securities, that is a question of policy as to whether the Government is justified in issuing them, whereas company shares are not tax-free: the company pays the tax. The individual does not earn the profit on which the tax is paid. The tax should be paid when the profit is made.

Say I am a man with £10,000 a year. I invest half my capital in companies, and the income I get from that is not taxable in my hands?—It is possible that if you invested half your income you might lose it.

But if I put half my capital into companies the income is not taxable in my hands?—No.

And you admit that I do not pay any more in the pound than the smaller shareholder?—That is so.

Does not that reduce my taxable income from £10,000 to £5,000?—First of all, how was your previous capital invested?

Suppose I had it invested in loans or mortgages, which brought me in £10,000 a year, or supposing I had it in businesses and changed my investment, realizing on my old investment: does not that reduce my taxable income from £10,000 to £5,000?—As an individual, you reduced your direct income subject to taxation.

And so the effect is that in my company investments I get the same dividends tax-free as an individual, and I got a saving on the other investment?—Yes.

So that I am doing better out of my company investment?—Yes.

Now, do you think there is any shifting of the tax—the passing of it on to other people: can a taxpayer pass his tax on?—In respect of what?

An income-tax is supposed to be placed on the individual income—that a man must pay it out of his own resources?—Yes, counting a company as an individual.

It has to be paid out of his own resources: because he is paying that tax he must not obtain a larger profit out of his customers?—Theoretically that is supposed to be the case, but take the question of putting a tax on petrol or tires.

But that is a duty, which is always passed on. But take the income-tax, is that passed on or not?—I do not think it is. Personally I have never seen commodities altered in price through an increase in income-tax paid by the vendor. The thing that regulates the price of a commodity is almost entirely competition.

It is competition. The taxable income of that year you referred to, when 68 per cent. was paid by companies, was derived from two reservoirs of capital, one was owned by the companies and the other was in the hands of individuals?—Yes.

Now, the assessable income that paid the 68 per cent. was £15,341,000. The total assessable income that year was £48,000,000, so that taking away the £15,000,000 it left £33,000,000 taxable in the hands of individuals?—Yes.

That £33,000,000 in the hands of individuals paid tax amounting to £3,200,000: it paid, roughly £3,000,000 in tax, while the companies paid £5,000,000. The £33,000,000 paid £3,000,000 in tax, while the £15,000,000 paid £5,000,000?—Yes.

The whole of the income returned by the companies was assessable?—Yes.

But the whole of the income returned by the individuals was not assessable?—That is so.

Say a man has a few shares in a company, that becomes part of the assessable income of the company?—No, because what he gets from the company is a dividend; that tax has been paid.

If a man has £100 invested in a company, that is part of the reservoir of the company, and the income is earned from that £100; so that no matter how small the contribution of the individual the income is all assessable. But in the hands of the individual small investments are exempted?—Yes.

So that while that £15,000,000 represented the whole of the income from companies, the £13,000,000 did not represent the whole of the income returned by individuals?—Not necessarily.

Well, in Mr. Clark's evidence given before the Taxation Committee he said the non-taxable portion about equalled the assessable income: is that not so, Mr. Clark?

*Mr. Clark:* That is so. The figures are in that statement which you have.

*Mr. Hunt:* No; because this does not include all the incomes that have no taxable amount.

*Mr. Clark:* No. You have the exact figures in the printed book—page 10 of the introductory report.

*Mr. Hunt:* I want to point out the amount of the incomes returned by individuals. This £48,000,000 only includes those individuals who have taxable balances, but in addition there are a large number of incomes with no taxable balances, and which are not included.

*Mr. Clark:* They are included under "Under £300" at the bottom of page 12 of the report. £46,000,000 is the total income.

*Mr. Hunt:* That is the total assessable income.

*Mr. Clark:* It would be assessable if it were large enough. The amounts under £300 are included there. That includes non-taxable incomes.

*Mr. Hunt:* So that the total amount was considerably more than that £33,000,000 returned by individuals, was it not?

*Mr. Clark:* The taxable income of that lot was £21,000,000.

*Mr. Hunt:* The exemptions were much more than the taxable incomes. There was £46,000,000 taxable and exemptions £24,000,000.

*Mr. Clark:* That includes companies. You will find on page 11 of the blue-book what you are looking for. Persons and firms with assessable income £37,000,000, taxable £12,000,000; companies' assessable income £8,000,000, and taxable £8,300,000.

*Mr. Hunt.]* Without going right down into the figures, that £33,000,000 of assessable income, quite apart from exemptions, returned £3,000,000 of tax, and £15,000,000 from companies returned £5,000,000. But owing to the exemptions that £33,000,000 of income received by individuals would be actually higher, probably £45,000,000 or £50,000,000. So that the average rate of tax was very much higher on companies' than on personal incomes?—(Witness) Yes.

Now, companies are run on the investments of individuals. You need not put your money into companies unless you like, and you need not leave it there?—If you can get it out.

You can liquidate your company?—Yes.

Does it not follow that if the money in one reservoir is taxed so very much more highly than the money in another, no one will put his money into the highly taxed reservoir unless he can get an income out of it equal to what he can get out of the other reservoir?—Yes, you use your own discretion.

Would it not follow that the highly taxed reservoir must be able to pass the tax on by extra profits, or else the money will not be forthcoming?—No, I do not agree with that, because the aim of the individual, and also that of the company, is first to make profits.

The tax must be paid by the company or passed on to its customers?—It is paid out of the profits that the company makes.

It is either a direct reduction of the amount available for dividends or else because of the tax they can increase their profits and pass it on to their customers?—No; it is only the first.

If it is only the first, does not that reduce the rate of profit that the shareholders will get out of the company?—The net result that the shareholders get out of the company is, of course, materially affected by the tax paid by the company out of its profits; but it does not necessarily mean that the company is able to pass on the tax to the customer, because both prices and profits are regulated by competition.

We will admit that, but if it pays out of its profits those high taxes, does not it reduce the profits?—Yes; but at the same time a company operating on a large scale can earn a greater proportion of profit owing to its facilities with the large amount of money available than an individual can with a smaller turnover.

But would not the profits be larger if there were no tax?—Yes.

And the dividends would be greater?—Yes.

And would not that mean that more capital would flow into that industry run by the company?—But that opens an avenue for an individual to go into the same business.

But are there not many industries that are so large that they are beyond the capacity of an individual to run?—It is more a question of the development of industries, to commence with.

Is it not true that many industries are so large that they must be operated by companies?—Now, yes.

You think it is true that a company pays the tax out of its own profits?—Yes.

Therefore the payment of the tax reduces the dividend, and makes those industries not so desirable from an investment point of view as they would be if the profits were there by reason of the tax not being paid: would not that affect the flow of capital to those industries?—I think you are assuming that a large company comes into being straight away—

I am not assuming that at all. Is not it the case that if an industry is pretty profitable more capital will flow to that industry?—Yes.

If you reduce the profits by taxing it heavily, less capital will flow to it?—Yes. The more profitable the return, the more people will invest in it, and the more competition will be created.

And the result of that greater competition will be to reduce the margin of profit, until the extreme profit is not made?—Yes.

If a flow of capital reduces the margin of profit, then if you take away capital from it the margin of profit is widened, is it not?—Nor necessarily.

Competition is lessened, is it not?—Yes.

Does not that nearly always mean a widening of the margin of profit?—Not necessarily.

But it generally follows?—I am not prepared to admit that, because I am not sufficiently acquainted with that phase of the matter.

Well, do you not think it reasonable that if competition is reduced the margin of profit should be widened?—I will admit that when competition is increased the margin of profit is lessened, but it does not necessarily follow that immediately competition is lessened the margin of profit is increased.

If the margin of profit is increased by reason of stopping the flow of capital to an industry, is not that "passing it on" to the customers?—If it eventuates.

Do you not think it probable it will eventuate?—No, I do not think so. It is not probable. It is possible. I do not think the reverse is so true as a general thing as that when you increase competition you decrease profits. I do not think the reverse is so true—that when you decrease competition you increase profits. Competition does not decrease if profits are going to increase.

If you have profits, we will say, of 10 per cent., that 10 per cent. is sufficiently good to attract capital to flow to the industry and increase the competition, is it not?—Yes.

If by reason of taxes you take away, as you are doing now, nearly one-third, or say 3 per cent., you reduce the profit to 7 per cent.?—Yes.

Well, that is not sufficiently good to attract that capital, is it?—No.

Would not the effect be that competition would be reduced in that industry that is only earning the 7 per cent.?—I do not think that that can be altogether argued, because no business, practically, confines itself to one particular line. When you get competition, the business that comes into being is in competition with businesses that have other avenues of profit. There are very few companies or individuals that are actually deriving their profit from exactly the same source and no other source.

Take coal companies, freezing companies, woollen companies: they are all doing the same line of business, are they not?—Yes.

If a company in a particular line of industry is earning 10 per cent., you admit that that is a good earning and it would attract competition?—Yes.

And that competition would result in reduced profits?—Yes.

If the State suddenly steps in and says, "We are going to take 3 per cent. of those profits and reduce the earnings to 7 per cent.," will not that have the effect of reversing the flow of capital? No more capital would go into it, and a certain amount might go out?—In what way can the capital get out?

By liquidating a certain portion invested in it?—But the point is that the carrying-on of the companies or the individuals is regulated by the industry, by the amount of work and trading that is available in that particular line.

That is so?—When you get your competition reducing profits, there are more people trying to get the business. The business is always there. The trading potentialities in it are always there in a particular line. They may be developed or reduced to some extent, but when you get a reduction in profits through competition it is due to the fact that more individuals are competing for the same business, and they offer more attractive terms to the person who has business to offer them.

That is to say, the margin of profit is reduced?—Yes, when competition comes in.

And when competition slackens the margin of profit is not reduced?—It depends on what produces the slackening of competition. Is the slackening of competition the direct result of the narrowing of the margin of profit?

If the margin of profit is reduced, in the long-run that is regarded as an unprofitable line of business and capital ceases to flow towards it—in fact, gets away from it until it becomes profitable?—To some extent, yes.

I think I have got to this point: that you admit there is no spread on 68 per cent. of the tax collected, and that on the other 32 per cent. it is quite possible for the people with larger incomes to reduce their taxation by selecting investments that pay less than maximum rate; further, that we have got a certain section of industry that is taxed very heavily, and that must mean a flow of capital away from it. I do not think it is any use my going any further.

*Mr. Weston.*] Would you say that a really first-class freehold security was as good an investment as, say, 4½ per cent. tax-free bonds from the point of view of safety? Would you say that it was equally safe?—No.

Supposing I want you to invest £10,000 for me in 4½-per-cent. Government bonds, could you tell me, roughly, what my annual income would be from that investment?—At the present market price? Yes. Would it be, roughly, about £460 a year?—Yes.

What could you get me on really first-class freehold investments for my £10,000—what annual income?—About 6 per cent.

Could I take it that for all practical purposes my capital would be absolutely safe?—Not so safe as in a Government security.

But what margin would be practically the same? What would you allow for insurance? Would you allow ½ per cent., or what?—Do you mean on buildings or broad acres?

I do not care. I am coming to you and asking you to invest my money and not lose any of it?—Then I should say stick to 4½-per-cent.

If you get a tax-free investment, are you going to get that tax-free investment at such a price as will give you the same income as an investment that is subject to income-tax?—No. You will always get a lesser income for the additional margin of safety.

You do not follow me for the moment. If you are buying a tax-free investment, will you not have to pay more for that tax-free investment than for an investment that is subject to income-tax?—Yes.

Take that clause (k) in the majority report of the Taxation Committee: Is not the essential weakness of the argument set out there this: that you can get the same annual income from the investment of the same principal sum in tax-free investments as you can get from investments subject to income-tax?—Yes, I agree with you.

Supposing I have £10,000 and I invest it in really first-class freehold security in which I can get 50 per cent. margin at 6 per cent. That gives me £600 a year. Supposing I invest in tax-free bonds, I only get £460 a year. So if I have to pay 5s. in the pound income-tax on £600 it will leave me with a net income of £450. If I invest in tax-free bonds I also get about £450?—Yes.

So it works out at the same. I think we put it in our minority report very clearly. I do not know whether you agree with this paragraph (k) on page 9 of the report: "The rate of interest prevailing in every country depends upon the amount of capital available therein for investment as compared with the strength of the demand for it. The average rate of interest required for capital in each branch of trade or industry tends to be the same after allowing for an additional percentage to cover the differences in the risk involved in each trade or industry"?—Yes, I agree with that absolutely.

So that if you have an advantage in one investment being free of income-tax a man investing in that will have to pay more for it?—Yes.

With regard to that case you gave showing the injustice that will be worked between preference shareholders and ordinary shareholders. Your point there is not that the company would be making an abnormal profit, but that there would be an unfair distribution between the preference shareholders and the ordinary shareholders?—Yes, that is the main point I was making.

With regard to Mr. Hunt's last point: Income-tax, in your opinion, is not passed on by companies?—I do not think it is.

I notice this passage in the majority report dealing with freezing companies, and this was written two years ago: "In the case of freezing companies it is quite clear that the whole of the taxation must of necessity be passed on, and will ultimately reach the producer. Generally speaking, the freezing industry can only be carried on by companies bearing the maximum amount of taxation, and this is reflected to the full extent in the freezing charges." What has been the experience of the last two years with freezing companies?—A small freezing company was formed in Oamaru to take over part of the New Zealand Refrigerating Company's works on the principle of mutual co-operation among the farmers—the producers—and as far as I can see the income-tax they will be called upon to pay for many years will be very small.

So you are quite satisfied that, as regards the income-tax on companies, the assumption made in that pamphlet that you quoted, issued in 1921, that of necessity the whole of the income-tax is passed on to the consumer is quite incorrect?—In my opinion it is.

And you have had a good deal of experience, I suppose, with companies?—A considerable amount.

*Mr. Shirlcliffe.*] I notice that in your statement you suggest that the tax on debentures should be made to coincide with ordinary taxation?—Yes.

How would you deal with the past issues of debentures?—The issues in which the company has agreed to pay the tax?

Any past issues that have been put out over the last twenty years, if you like?—I would bring those in too.

Would not that be a breach of faith with the investors who took up those debentures? How would you view that?

*The Chairman.*] The Legislature has never promised that it will not alter the tax. It is only where the Legislature has committed itself that you would commit a breach of faith. If you were to tax debentures issued tax-free, that would be a breach of faith; but an alteration of the rate would not be a breach of faith. The investor knows that he takes the risk of having the tax altered every year.

*Mr. Shirlcliffe.*] Just the same as an hotelkeeper who pays an annual licence takes the risk of not having that license renewed?—Yes.

You take that view, then, that the investor who invested in debentures ought to have realized when he made his investment that he was taking the risk of the tax being raised?—Yes, to some extent. But as regards the debenture-tax, it only affects the large income-tax payer—the saving

that is made—because under the last Act you are entitled to a rebate if you are paying at a higher rate than you would be if your debenture interest were brought in for assessment. You are entitled to a rebate from the Department. The flow of capital to debentures from the bigger companies to some extent has been deliberately made with the idea of avoiding tax, and I do not think these people's efforts to avoid tax deserves much consideration.

Where companies have agreed to pay the debenture-tax—you know there have been large issues on that basis?—Yes.

I am rather referring to cases where investors have put their money into debentures—either local body debentures or company debentures—and they have to pay the tax. You would not consider it a breach of faith if the tax was raised on them?—No; because it would only affect the very large holders of debentures, and these very large holders are always alive to the fact that the incidence of taxation must be varied to some extent. It would not affect the small holder.

Towards the end of your statement you make this suggestion: "Abolition of land-tax as a means of raising annual revenue, and putting on a special tax for the purpose only of preventing undue aggregation of land and to burst up any large holdings that can profitably be subdivided." And you go on to say: "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 the 1st April he escapes tax. That 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." Does not a man, when he is buying a farm, take into account the land-tax he will have to pay and fix his buying-price accordingly?—To some extent.

*The Chairman.*] He would know that he would make himself liable to tax. He would realize that, would he not, and take it into consideration in fixing the price he agreed to pay?—There you are taking into consideration the investment of a capital sum as being portion of an annual amount that is payable to the State.

*Mr. Shirlcliffe.*] But take your point that if a man buys on the 30th March he pays land-tax?—Yes.

But if he buys on the 1st April he does not pay the land-tax for that year?—Yes.

My suggestion is that if he buys on the 30th March he takes into account in his buying-price the tax that he will have to pay?—I do not think so. In practice the question that confronts the buyer is whether it is a desirable property, and this question of land-tax does not materially affect the price that he pays for the property. It may affect his decision as to the purchase of the property if his graduated tax is to be very largely increased. But actually, as regards that particular investment, I do not think that in practice this question of the payment of that particular land-tax enters into it.

He shuts his eyes to it?—Yes. I have seen numbers of instances of that. They ignore it for practical purposes. Here is a farm of a certain acreage; what is it worth per acre? That is what is asked, and the question whether the purchaser is going to complete the sale on the 30th March or the 1st April is generally ignored in practice. I have seen numbers of instances of that. I have known cases where the purchaser has agreed with the vendor for the apportionment of all rates and taxes. He has completed the sale, and then he has found that one of the parties to the contract has got to pay the land-tax, and that cannot be apportioned.

You can only attribute that to short-sightedness on the part of the buyer?—Yes; but I do not think that it enters into it much in practice.

I understand that you are in favour of the abolition of the land-tax entirely, except an aggregation tax?—Yes.

Have you any suggestion to make as to how a special tax could be put on for the purpose of preventing aggregation?—Yes. The land-tax should only commence at a certain figure on all properties. Or, if you wish to exclude town properties, put it on the rural properties for the purpose of bursting up farm properties where they are suitable for closer settlement.

Would you make that a graduated tax?—Yes, if it is to be for the purpose of bursting up estates, most certainly, because it would have that effect.

Apart from the question of bursting up estates, would you consider it reasonable and fair to the whole community that a man who holds, say, £100,000 worth of land should pay a higher rate than a man who holds £5,000 worth?—If the tax is imposed solely for the purpose of bursting up estates, yes. I would advocate that the land-tax be used for that purpose and not directly for the purpose of returning to the Government an annual sum for revenue purposes.

I think I see your point, but apart from the question of bursting up estates, you would have a flat rate of land-tax above a certain minimum, whatever might be fixed? You would have a flat rate?—No; a graduated rate, because the graduation would make more practicable the bursting-up of the large estates.

*Mr. Begg.*] What you would like is that the exemption should be raised materially?—Yes.

And otherwise it should be left as it is?—That is what it amounts to.

*Mr. Shirlcliffe.*] Have you any suggestion as to the extent to which the exemption should be raised? At present it is £500?—It is very small.

Have you any suggestion as to the extent to which the exemption should be raised?—No. It would take a great deal of investigation before a fair basis could be arranged. I have not had the figures available to go into that question.

To revert to this question of bursting-up estates, I suppose there are comparatively few large estates now that call for bursting-up, are there not?—I do not think so.

Has not the graduated land-tax had its effect already as regards the bursting-up of estates?—To a very large extent.

Then, we may say perhaps that there is not nearly the same necessity now for a bursting-up tax that there was some years ago?—Of course, you still have the necessity for the prevention of re-aggregation.

Then, you would advocate the maintenance of the graduated land-tax for that purpose?—Yes, for the purpose of preventing aggregation.

But the starting-point would require a good deal of investigation?—Yes. It would depend to a very large extent on the class of country you were dealing with.

Then, I notice you make some reference to the inclusion as a taxable profit of any profit made on the sale of land purchased within, say, twelve months of such sale: is it not a fact that already lands that are dealt in for profit are subject to taxation?—Yes, if purchased for the purpose of resale; then your profit is taxable. But take the average farmer. He sees a good property and pays, say, £5,000 for it, and within a short time an agent comes along and brings a man who is prepared to pay £6,000 for the property. The farmer sells and pockets his profit of £1,000 and pays no tax on it. Is not that so, Mr. Clark?

*Mr. Clark.*] That is so; intent is very hard to prove.

*Mr. Shirlcliffe.*] You would provide that he would have to pay the tax on his profit if he sells within twelve months of purchase?—Yes.

As to the levying of land-tax, you want a graduated tax above a certain starting-point?—Yes.

I think the question of the passing-on of income-tax has been thrashed out pretty well, and I do not want to labour the point. I suppose you would believe in this suggestion that trading concerns—not monopolies but ordinary trading concerns—buy and sell to the best advantage. They make all the profit that the market conditions will give them from time to time, quite irrespective of the income-tax they may have to pay in the future—much or little. At the end of the year they have so-much profit?—Yes.

They know that they have to provide tax for the Government, and if they are wise they will put a reasonable proportion of their profit to reserve for the payment of tax?—Yes.

Would you agree that that profit has been made quite independent of any question of income-tax?—Yes.

If there were no income-tax the profit would still be the same?—That is my opinion.

Now, in your statement you refer to a company making 13 per cent. I understand that this is just an illustration, but is it an illustration that would be likely to be met with in actual practice? You take the case of a company which makes a profit of £48,000 and pays in dividends to ordinary shareholders £21,000; then if the incidence of taxation were altered the ordinary shareholders would receive 13 per cent., subject to taxation. But in actual practice do you think that would work out? I want your views. Do you consider that in actual practice that would work out, remembering that individuals invest their money in companies in order to obtain actual dividends?—Yes.

In most companies, if they had the opportunity would they not continue to pay out a reasonable dividend of, say, 8 per cent., and place the difference to reserve?—In practice that has been done.

Therefore the removal of taxation from the company would enable it not necessarily to pay increased dividends to the shareholders, who would, for the time being, not, therefore, benefit by increased dividends, but the company would only add to its resources for the future benefit of the company?—Yes.

In the meantime the shareholders might wish to sell out, and would not receive the dividends representing the full profits made?—To a large extent that is so.

So that it does not necessarily follow that the individual would benefit by the removal of the tax?—No; but my illustration was given to show the possibilities. The preference shareholder usually buys to get a certain specified rate of dividend; the ordinary shareholder takes up shares with the idea of getting what is left. In the one case you go for a certain specified annual return, and in the case of the ordinary shareholder he goes for the chance of getting a bigger return, but possibly gets a smaller return. I was dealing with the amount that was not available for distribution in order to show how a change in the incidence of taxation would affect inequitably the different classes of shareholders.

But as a matter of practice, with companies who are always looking ahead to the extension of their businesses, do you think the individual shareholder would derive benefit in the immediate future from a change in the incidence of taxation? Would not rather the company be led to strengthen its resources for future needs, and ultimately for the benefit of the shareholder, if he continued to be a shareholder?—Yes; but in actual practice it works out that, if a company continues to make good profits, in distributing dividends it waters its stock. This watering of stock usually goes to the ordinary shareholder and not to the preference shareholder.

That is, if the shareholder continues to remain a shareholder until the stock is watered?—Yes.

You have evidently had considerable experience in handling balance-sheets: can you tell me, speaking generally, whether company dividends are substantially less to-day than they were in pre-war times?—I am not prepared to say.

Would you consider that, generally speaking, companies are still paying fair dividends?—Yes, speaking generally.

Of course, we know that there are exceptions where companies have not been paying dividends, but you might agree that that arises from losses that they have made quite independent of taxation?—Yes, quite independent.

Have any indications come under your notice that companies are unable to pay the tax and also pay reasonable dividends to their shareholders?—Due to the incidence of taxation—not to my knowledge. Not because of the tax, but it might be because of the trading-conditions.

What would be your view as to the effect of removing the tax from companies to individuals on the profits of the larger companies : would their profits be increased, or do you think that the competition between the companies would absorb the relief obtained by the shifting of the tax ? Would the larger companies make more profit, or would the force of competition absorb that extra profit ?—The change to some extent would be gradual. For several years they would make the same profit, and consequently have a larger amount available for distribution because the company would be relieved of paying its proportion to the Government. The amount would be approximately the same, but the whole of the amount would be available for distribution, whereas part of it is now payable to the State. It would increase competition to some extent, but the change would be gradual.

What do you consider would be the ultimate effect upon the small trading concerns—individuals and small private companies—of the competition of those larger companies if they were relieved of the income-tax ?—I would certainly think it would have the effect of facilitating the formation of combines and rings and the squeezing-out of the small man.

You think that the small traders—both private companies and individuals—would be at a great disadvantage ?—Yes.

I think Mr. Hunt asked you whether you believed in the graduated income-tax ?—Yes.

I think you agreed ?—Yes.

Would you say that the necessity for the graduated tax depends upon the necessities of the country ?—Yes.

It is because such a large amount requires to be raised for the needs of the country to-day that the graduated tax is enforced to such an extent as it is ?—Yes ; and, further, if you changed the incidence of taxation, and the country was so unfortunately placed that it had to raise such a large revenue again, it would have a remarkable effect upon the taxation of the individual.

If the incidence were altered, what, in your opinion, would be the effect on the present individual taxpayers ?—If the State were faced with the necessity for raising a large amount it would practically squeeze the individual out as a trading unit and leave only the big companies.

But that is not my point. Under present conditions there is still the necessity for the graduated tax. If the incidence were shifted from the company to the individual shareholder, what would be the effect upon individual taxpayers generally ?—The Commissioner has answered that in his statement.

But I want your view ?—I agree with the Commissioner's view.

*Mr. Hunt.*] Which Commissioner ?—The Commissioner of Taxes. On page 9, Minority Report, it says : "The Commissioner of Taxes gave evidence that the proposed change in the incidence of company taxation would mean that the rate of income-tax on all taxable incomes of individuals between £300 and £2,000 would have to be at least doubled." That is a quotation from Mr. Clark's evidence.

*Mr. Shirlcliffe.*] Mr. Hunt asked you whether you agreed that the companies are owned by individual shareholders. As a matter of fact, can they exercise any power as owners individually ? Are they not simply voters ?—Yes ; and in practice it works out that the directors do what they like with the company, and the individual shareholders have no voice at all.

So far as the actual management of the company is concerned, and the handling of the assets, except in the case of liquidation, would you consider that the individual shareholders are the owners of the company ?—No.

Coming to the question of the small shareholder and the large shareholder in a big company, the small shareholder puts his £500 into the company in order to obtain what he could not possibly get in any other way, I suppose ?—Yes.

Because his small amount of £500 will be utilized in conjunction with the larger amount contributed by the wealthier shareholders ?—Yes.

And it is really the assistance afforded by their large blocks of capital that enables his £500 to get a dividend ?—Yes.

Well, they all receive the same rate of dividend, whether it is a low or a high one ?—Yes.

Do you consider that the small shareholder has anything to complain about, inasmuch as he is getting the same rate of dividend on his money as the large shareholder, knowing that he could not have obtained that dividend if he had not invested his money in the company ?—That is so.

Would you consider that he had anything to complain about ?—No.

That is, you do not consider there is any injustice, as between the large and the small shareholder, in the present method of assessing companies ?—No.

After what you have said, I presume I may take it that all profit-earning units are at present quite fairly treated by the graduated basis ?—Yes.

Now, there is just this one point. A man invests his money in a company because he thinks he can do better in that way than by handling the money himself. He is attracted to a company by the rate of dividend that he thinks he can get from it ?—Yes.

And the attractiveness of that rate of dividend must be governed by the rate he can get outside ?—Yes.

And it follows that he does not go into the company unless he feels he will do better by so doing than if he tried to obtain interest on his money outside ?—Yes.

*Mr. Begg.*] In your evidence you stated that a company is really an individual ?—Yes.

But I suppose you would admit that in certain very important particulars it is totally different from an actual individual ?—Yes.

Take one particular : an individual with small capital is comparatively poor and an individual with a great deal of capital is rich ?—Yes.

But that does not apply to companies, does it ?—It depends upon the point of view from which you look at it.

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.



What is the reason?—The reason is that he is in a position to pay it.

That is hardly a reason?—The same thing applies to the justice or otherwise of a graduated tax. The man with a large income is deemed to be in a position to pay more per pound than the man in receipt of a small income.

But that part of his income has already paid the maximum?—That part, but not the remainder.

Take the case of a taxpayer who has a total income of £3,000; he draws £2,000 of that from dividends and £1,000 from other sources. Presumably the company he has invested in has paid maximum tax, which would mean some £580 probably. At present he would only have to pay his income-tax on £1,000?—Yes.

About £60. From his earnings income-tax has already been paid by the company?—The company's earnings.

It is his earnings after he gets it, and the tax has been paid beforehand. My point is that in that case that total income in the company's hands and his own under these circumstances will pay a great deal more than the highest maximum graduated tax?—I do not so regard it. You take that particular company. He may get £2,000 as the dividend. Actually his proportion, if you divided all the available profits, might be considerably more. The dividend he receives, to my mind, cannot be regarded as having paid tax itself. It is what is left over after tax has been deducted from the company's earned profit.

That is profit that comes to him, that £2,000?—Yes.

You do not regard that as having paid tax?—No.

Well, why not tax it again? You do regard it as having paid tax, surely?—

*The Chairman:* Tax has been paid in respect of it by the company. That particular income has not paid tax, but tax has been paid in respect of it by the company when paying on its total profits.

*Mr. Begg:* Yes, that is what I mean. Tax has been paid; therefore you do not want tax collected again from that particular man, but you want that to be used to raise the graduation on the balance of the income?—Yes.

Why? Is not that practically collecting tax again?—I do not so regard it.

It seems to me the distinction is a little difficult. The total tax paid on that £3,000—we will say £3,500, because tax has been paid in respect of it altogether; but the total income-tax paid in respect of that individual's income will certainly be greater than the graduation on £3,000 if it is paid straight out, will it not?—I do not quite follow you, but I think that what you say is correct. You are assuming that the company has paid tax at the scale of £10,000 and the individual, we will say, would pay at the scale of £3,000. Naturally with the graduated scale he would pay at a higher rate on £10,000 than on £3,000.

But the total tax collected will be greater than the graduated tax on an income of £3,000?—Yes, if it is at a higher graduation.

If the company paid on the maximum grade?—Yes.

So that more income-tax than a £3,000 income ought to pay will have been paid on that particular income?—I do not quite follow that.

*Mr. Clark:* That would depend on how the thing was calculated. If you gave credit for the amount of the tax paid by the company, it could not be more than the maximum graduation on the man's total income would bring.

*Mr. Begg:* The recommendation made is 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."

*Mr. Clark:* But that implies, as is done in all those cases, a credit for the tax already paid. It is applying the principle that we apply to the land-tax now. That I take to be Mr. Finch's proposal—that we apply the same principle to the income-tax that we apply to the land-tax in the case of joint ownership. It would merely ensure that the man would not pay less than the rate that his total income would produce.

*Mr. Begg (to Witness):* But does not this rather interfere with your theory of the company as an individual? If it is a separate individual you have nothing more to do with the income from it. You tax it, and that is the end of it?—As regards taxation on an income, yes.

You have repeatedly said that the company is an individual?—Yes.

If you tax an individual income, is not that the end of it as far as that income is concerned? Are you not vitiating the principle that a company is an entirely separate entity when you make that recommendation?—I do not think so.

*The Chairman:* Yes, it is a departure. For the purpose of paying income-tax on the profits you treat the company as a separate entity. But when you come to the question of the graduated tax on the shareholder's private income, for the purpose of that graduation and for that purpose only, you treat his dividends as part of his income?—That is so.

*The Chairman:* It is inconsistent. There is no doubt about it.

*Mr. Begg:* It is inconsistent. That is the point I want to establish. Is not this inconsistency being advocated because the graduated system has been vitiated by company-taxation? Is not this an attempt to get back partially to individual taxation—to get back to the proper principle, which has been vitiated to some extent by company-taxation?—I do not think so. The question of graduation hinges to a large extent on what the maximum amounts to. I think that the maximum amount is at present too high in the interests of the commercial community; but if graduation is justified, then the fixing of the maximum is absolutely arbitrary. You are coming down to the question whether graduation is justified or not.

No. What I am getting at is this: You are proposing not to deal with a company as an individual now. Your proposal in that particular instance is not to treat it as an individual, but as something else, as producing an income which is not finished with at that point at all, but which is

going to be used in individual income returns later on in order to extract a higher graduation on the income of another individual. You propose to treat the company as an individual for one purpose, but not to treat it as an individual for another?—To some extent.

Is not your reason for doing that that you see the iniquity of treating the company as an individual?—No.

*Mr. Clark:* It is a concession to a sentimental objection. That is all it is—a concession to a sentimental objection raised about the large shareholder. It is quite inconsistent, but it is a concession to a sentimental objection.

*Mr. Begg:* It is quite inconsistent?

*Mr. Clark:* Yes.

*Mr. Begg.]* I thought it was, but I just wanted Mr. Finch to say so. I think you agree, Mr. Finch, that to some extent it is inconsistent?—To some extent.

You made some reference to the inequity of altering the system of taxation, the effect it would have on preference shareholders and on ordinary shareholders, and so on. Were not many of these preference shares taken up when income-tax was a negligible factor—when the maximum was 1s. 4d. in the pound?—Yes.

Now, the holders of those shares have been getting a tremendous advantage all along, have they not?—Yes.

If they lose that advantage now, what can they complain of? They have had that advantage for ten years. Can they really complain if they lose it for the future?—The question, to my mind, is the differentiation that is brought into being by the alteration—the differentiation between the preference and the ordinary shareholder, which was certainly never contemplated at any time.

It was not contemplated when the preference shareholder took up the 5½-per-cent. preference shares and the income-tax was 1s. 4d. that those preference shares would remain in the same position for the same income when taxation went up to 8s. 9d., and he would still get his return net. That was never foreseen?—The usual assumption on investment of capital in preference shares was that it would provide the shareholder with a fairly stable income. The ordinary shareholder takes up his shares subject to more violent fluctuations. If you alter the system of taxation in the way proposed you penalize the one class at the expense of the other.

But has not that class been penalized at the expense of the other for the last eight years?—In very few instances, as far as my knowledge goes, has the ordinary shareholder failed to receive his usual return—the return that could be expected—as a result of taxation.

Your objections here seem to me to be very largely—you must correct me if I am wrong—with regard to these fluctuations that would occur or might occur in different classes of shares?—Yes.

They are really objections to interfering with vested interests that have grown up under the present system. They are not questions of principle, but questions of vested interest that have grown up under the present system and would be interfered with if an alteration were made?—Is that a distinction or a difference? I do not quite follow.

I refer to the reasons that you give in your statement showing what would occur, how capital would be affected in different ways if a change were made?—Yes.

It is not a matter of principle at all. There is no principle involved. You say that certain interests have grown up under the present system which would be affected detrimentally if this system were altered?—Yes.

But could not these same reasons be applied in the case of the most vicious system of taxation you could imagine? Vested interests will grow up under any system and will suffer if it is altered?—Yes.

But you do not pretend that the mere fact that vested interests have grown up is a reason for not altering a bad thing?—No, certainly not.

So that these points you have made about the way in which different kinds of capital would be affected are really not matters of principle. These things would occur under any change of system?—It is possible.

You said just now that you did not know of any case in which ordinary shareholders had suffered as a result of taxation?—Yes.

You know of many companies whose tax has gone up, say, from £5,000 to £50,000 in the last six or eight years?—Yes.

You say the ordinary shareholder has not suffered?—What I say is that I do not know the company which has failed to pay its ordinary rate of dividend on ordinary shares because of the excessive amount of income-tax which it has been called upon to pay.

In those cases you assume that they have been able to earn that tax extra?—Yes.

They must have taken it out of their customers?—Yes, their margin of profit on their purchases was apparently much larger than normal.

In other words, it was passed on?—Pardon me. The first principle of a business is to earn profits. When it earns profits it pays its tax, but it does not necessarily put that tax, which it has paid out of its previous earnings, on to the price of commodities which it sells in the year.

But, whether that has been done or not, they have managed to collect it from the public somehow, have they not? If they have paid their ordinary dividend they must have done so?—They have made excessive profits.

The mere fact that the tax was there had nothing to do with that? That was an accident of the time?—Yes.

Then, in ordinary times that taxation would simply be a reduction of profits? These have been abnormal profits that they have been able to take from their customers and the public, but in normal times they would not be able to do that. That is your point, is it not?—I do not quite follow you.

You say that the shareholder has not suffered. Therefore the company that he gets his dividend from must have had a bigger margin of profit during that period?—Yes.

There seems to have been something abnormal to enable them to get that additional margin?—Yes.

In normal times the shareholder would suffer to the amount of the tax, whatever it might be?—No, not necessarily, because, to take the instance you quoted where the tax went up from £5,000 to £50,000, that is the tax paid. It is a graduated scale on the profits of the company.

A company like that would pay the maximum rate always?—Yes, the whole time. When the company earns a smaller profit it pays out less than £50,000.

But if it can go on paying its shareholders, say, 10 per cent. through the whole period and its tax rises from £5,000 to £50,000, is it not fair to assume that it has taken £45,000 more from its customers?—Yes, but not to pay the tax. The tax has been collected out of that.

But its customers and the public did pay that much more than they had done previously?—Yes, but not on account of the tax; on account of the abnormal trading-conditions.

We are agreed that it has got the money from the public, but not as to whether the tax had anything to do with that circumstance or not?—Yes.

We are agreed that it came from the public. What we disagree about is as to how the company was able to get that amount?—Whether the tax as a tax is passed on?

It has not mattered very much to the public how the company happened to get the money from the public; it did get it?—As far as the consumer was concerned he had to pay the price.

In answer to a question by Mr. Weston I think you said that the different forms of investment—a tax-free bond and a mortgage were instanced—practically adjusted themselves and left each with equal facilities for getting money?—With a margin on account of safety.

You insisted on that, though Mr. Weston tried to persuade you not to do so. Do you ever look at the balance-sheets of local insurance companies, which are big investing companies?—I have not looked at any recently.

If those investments are equally desirable at the prices going, you would be surprised to find that the reserves of a big insurance company had almost entirely changed from mortgages to tax-free bonds in the course of a few years?—I understand that insurance companies are going in for debentures to a very large extent, and that was the reason for the increase in the case of debenture-taxation. But I have not been studying balance-sheets recently.

*Mr. Weston.*] Both the A.M.P. and the South British are investing more in mortgages than they were.

*Mr. Begg.*] Take the local companies: I think that if you examine the balance-sheets you will find that eight or nine years ago three-fourths of the reserves of these companies were invested in mortgages. To-day you will find that eight-tenths of them are invested in tax-free bonds and debentures. If investments are equally good—that is, if it adjusts itself—why has that turnover been necessary?—For one very important reason: the tax-free bonds and debentures are much more liquid.

They always were, were they not? That is not a new development?—It is as far as mortgages are concerned, I think.

*Mr. Clark:* There was not the opportunity before to invest in Government bonds in New Zealand. Most of our loans then were raised in London.

*Mr. Begg.*] Do you not think that by your suggestion to have share dividends and tax-free debenture interest added to income for graduation purposes you are going to depreciate the value of your securities?—In the way of shares?

Yes, or debentures. They will be no longer as desirable, and they will depreciate in value?—Yes, to some extent.

And is not that the same thing as an alteration in the incidence of taxation?—No, because the dividends on preference shares would be depreciated in the same way. You would not affect the question of graduation.

But if you altered the incidence of company-taxation, preference shares would depreciate in value?—Yes.

If you include share dividends and tax-free debenture interest in an individual's income in order to increase his graduated tax you would depreciate the value of the securities?—Both classes of shares, yes.

Then, your objection is not to the depreciation of preference shares: if both classes of shares are depreciated alike you have no objection?—If all classes of shareholders could be equally affected on that point alone there would be no objection on that point alone.

Making this alteration you have suggested would equally depreciate certain forms of security?—Yes.

*Mr. Hunt.*] I would like to ask just one question to clear up a few points in connection with the questions asked you by Mr. Shirtcliffe. You say that companies do not pass on their tax?—That is my opinion.

If they do not pass it on, it follows that it must reduce the profits payable to ordinary shareholders—either reduce the profits or reduce the reserves?—It means a reduction in the profits of the company.

And that means a reduction in the profits divisible amongst the ordinary shareholders?—Yes.

And you said that one of your chief objections to altering the system was that it would increase the present tax on securities?—Yes.

And you quoted Mr. Clark's evidence in which he said that the proposed change in the incidence of company-taxation would mean that the rate of income-tax on all taxable incomes of individuals between £300 and £2,000 would have to be at least doubled. You thought that that was too big a

difficulty to warrant any reduction in the company-taxation or alteration in the system, that the doubling of the tax on those incomes would be a burden too heavy to warrant the change?—It takes the tax that must be collected from the companies which are in a position to pay and puts it on to the individuals who may not be in a position to pay with equal facility.

In other words, you admit that the tax paid by the company ultimately comes off the shareholder, and you think that an alteration to a new system would cause the tax on incomes of from £300 to £2,000 to be doubled, and that that would be a burden too heavy to be borne?—I do not say it would be a burden too heavy to be borne, but I say it would be a less equitable distribution of the burden.

An income of £300 pays no tax, but an income of £400 pays a tax at the present time of 2½d. in the pound: doubling that it would be 5d. Do you think it would be better for a person drawing £400 from a company to pay 5s. 10d. than for a person to pay 5d. in the pound?—I do not assume that the individual pays the tax.

But you admit that the company does not pass it on, therefore the companies pay it out of their profits, and therefore the profits for the individual shareholders were reduced?—Yes.

Therefore, if they are reduced, you think it would be better that a shareholder should have his income from a company reduced to £200 by increased tax than that a man with an income of £400 should pay 5d. in the pound instead of 2½d.?—I would require to go back to know how the shareholder acquired his shares. He must take his disabilities as to tax with his advantages.

Those shares were taken up with the knowledge that there was a flat rate of 1s. 4d. in the pound and with the knowledge that the whole burden was to be put on the companies. But to get back to my point. An individual with an income of £300 pays nothing, and doubling that gives nothing; an individual with an income of £400 pays 2½d. in the pound, and by doubling that he would be asked to pay 5d. in the pound; an individual with an income of £600 pays 5·6d. in the pound, which doubled amounts to 11·2d. in the pound; an individual with an income of £1,000 pays 1s. 2·4d. in the pound, which doubled amounts to 2s. 4·8d. in the pound; an individual with an income of £1,500 pays 1s. 6·4d. in the pound, which doubled amounts to 3s. 0·8d. in the pound; an individual with an income of £2,000 pays 1s. 10·4d. in the pound, which doubled amounts to 3s. 8·8d. in the pound. Do you think it is better that a shareholder with an income of £200 a year drawn from a company should have his income reduced to that amount through a burden of 5s. 10d. in the pound than that people with £400 should pay 5d. in the pound, and people with £2,000 should pay 3s. 8d. in the pound?—I am not prepared to admit that the income he draws from the company is the income that pays the tax. The income that pays the tax is the profit earned by the company.

You have admitted that the company cannot pass it on. Then it must come off the shareholders' profits. You admitted that the shareholders' dividends are reduced by the amount of the tax?—It is not increased by the excess amount of the profits made.

It is quite true that there are a number of companies, owing to the high tax put on, which are only paying preferential dividends?—I have not seen companies in that situation.

What about all the co-operative companies: are they not only paying dividends on preference shares?—But they have lost money.

*Mr. Shirccliffe:* Do they pay income-tax?

*Mr. Clark:* They pay some.

*Mr. Hunt.]* There is one other point: in the course of your written statement you say that you think that a farmer should pay tax on the profits made from the sale of land if the sale is made within twelve months of the date of purchase. Would you apply that to people selling town sections? Would you do the same with the purchase of town sections?—The same thing does not quite apply, because to some extent the incidence of income-tax should be for the general benefit of the community, and it is most desirable that with that end in view production should be carried on to the maximum extent. With a farm, to my mind, this selling at a profit on a farm is against production. That does not apply so much on town sections.

Does not that put up the price of the home?—Yes, but it does not reduce production in the country.

What about trading in stock shares?

*Mr. Clark:* They are liable now.

*Mr. Hunt:* But if a man is trading in shares he does not pay tax?—(Witness) That is so.

*Mr. Hunt.]* You said that an alteration in the tax would squeeze out the small trader. If you went back to the individual system, the individual system largely operated in Australia: did that squeeze out the small trader there?—I do not know.

It operates entirely in Great Britain: did it squeeze out the small trader there?—The conditions were different in Great Britain, because the tax on company income has been levied on the individual shareholder, whereas in New Zealand we have built up a system under which the company has been treated as a separate entity.

Why should the change squeeze out the small trader in New Zealand if it did not squeeze him out in Great Britain?—It is different here. In New Zealand it has grown up with a different system.

The graduated system in New Zealand has only operated since the war began; it was a flat rate, and was so small a thing that it was hardly felt?—I am prepared to admit that the graduation now goes too high in the interests of the community generally.

You have no other reasons why it should squeeze out the small trader in New Zealand while it does not do that in Australia or in the United Kingdom?—That certainly is the main reason.

*Mr. Begg.]* In regard to this income-tax from land, you say you are impressed with the fairness of income-tax from land in order to prevent aggregation?—Yes.

In your experience—I take it that you have been in the habit of sending in farmers' returns or assisting the farmers to do so—do you really get the return from a farm? Do you think that is feasible?—Yes, you get it approximately correctly.

Take, for instance, the farmer who has 200 acres and grows 100 acres of crop: do you allow for depreciation of the land?—He is allowed to manure his land.

But he may not?—Then it is injudicious farming.

A great deal of farming is injudicious. Do you not think it is extremely difficult to distinguish between capital and income return in agriculture?—No.

Would not it be possible for a farmer to show no income for ten years and be improving his land all the time?—Yes.

Would he not be escaping income-tax and be building up his capital? Personally I think it is almost impossible to get accurate returns from agricultural lands. Do you think it is as possible to get as reasonably accurate income statement as from a business?—Yes, because it is spread over a period. The provision to carry forward losses over three years enables it to be done.

You know the rules relating to landlord and tenant and the trouble there has been to define the rights of each?—I have never studied the subject, though I have seen it referred to.

You think it is quite possible to get reasonably correct income-tax returns from agriculture?—Yes.

*Mr. Shirlcliffe.*] Mr. Begg drew attention to the fact that some large insurance companies have been withdrawing their investments from mortgage securities and putting them into tax-free securities. Do you think that the slump in the value of rural lands and the uncertainty in regard to their values during the past few years has had anything to do with that?—I should say it is extremely probable from an ordinary investment point of view.

Because the securities were more or less uncertain?—Yes.

So that it is quite likely that because the investments in mortgages have been uncertain they have preferred to put their money into tax-free securities?—Yes.

Mr. Hunt mentioned that most shareholders in companies took up their shares under the old system without the knowledge that they would have to pay graduated tax. Well, I just want to put it this way to you: during the past five years, since 1918, there have been registered 1,307 private companies and 476 public companies. In the last year, 1922, there were 106 public companies registered with a nominal capital of £11,000,000.

*Mr. Hunt:* They were mostly small.

*Mr. Shirlcliffe.*] I am not referring to the size of the companies; but does that seem to indicate that shareholders and investors are becoming shy of putting their money into companies, either private or public, because of the graduated income-tax?—I should say not.

With the present system of collecting the tax from the unit that makes the profit?—I should say not.

MALCOLM STEVENSON examined.

*The Chairman.*] You are a carrying contractor in Dunedin, Mr. Stevenson?—Yes, and I have also a farm which I run in conjunction with my business. I have prepared the following statement of my views, which I will read to the Commission:—

1. *Income-tax paid by Farmers.*—I understand that if a farmer owns the freehold he is exempt from taxation on income. If he owns a farm—of which he has the lease—he has got to pay income-tax. If this is a correct statement of affairs, as I happen to be a leaseholder and pay income-tax on my farm I fail to see because I am a leaseholder why I should pay income-tax. Although my lessor pays land-tax I pay income-tax, and yet he does not. He derives that land-tax from me. Hence I fail to see why because a man is a leaseholder with a farm he should pay income-tax and the freeholder should be exempt.

2. *Unearned Income.*—I own certain house property which I let to tenants. After allowing for collection of rents, depreciation, and interest, I consider that I get barely 2½ to 3 per cent. on my capital. On this I am charged unearned income-tax. I fail to see why this should be so, considering the shortage of houses at the present time. I also own some war bonds. On these I would not mind being charged unearned income-tax, because here you have no depreciation, no trouble collecting your money, and no rent-restrictions. Not only that, but many a time a tenant will let you in for a month's or six weeks' rent. While on that point I would like to mention another matter in connection with which I have got into conflict with the Valuation Department. I am the holder of land from the Otago Harbour Board. I have a valuation which shows the capital value at £1,650. The owner's interest in the unimproved value is £1,050. The lessee's interest in the unimproved value is £95; hence I am asked to pay land-tax on £95. I have got to thresh that out with the Valuation Department. This is not the first occasion on which we have had to pay the tax in connection with leasehold land.

Are these the only points you wish to lay before the Commission?—Yes.

*Mr. Hunt:* In regard to the tax on the leasehold, that is wrong, is it not, Mr. Clark?

*Mr. Clark:* The position is that the only income-tax payable by the occupiers or leaseholders of land is where they have live-stock or produce, and where the land held is insufficient to produce the tax. It is only intended to apply to dealers. The leaseholder as a leaseholder is not liable for income-tax. If he is letting the properties and he is getting more than 5 per cent. on the taxable value he is liable.

*Witness:* I carry on the farm as part of my business. The whole of the farm-work is in a separate account. The teams are charged up to the farm the same as if they were ploughing for my neighbour. On that we have to pay income-tax.

*Mr. Clark:* No.

*Witness:* That is my reason for bringing it up. This is a burning question with quite a number of people, and we see a great deal of correspondence about this matter. If we show a profit of £300 on this farm we have got to pay income-tax.

*Mr. Weston.*] Not as long as you are not dealing?—We are not dealing.

What are you using your farm for?—I have at the present time 50 acres of turnips on the farm. We sold them the other day for £350. That goes to the credit of the farm account. We have got about 60 tons of chaff. We assume that to-day, for the purpose of income-tax, to be worth so-much per ton, and that goes to the credit of the farm account. If after deducting our working-expenses we show a profit of £300 on the working, have we got to pay income-tax?

*Mr. Clark:* No.

*Mr. Shirtcliffe* Are you right in your second paragraph? You say you are only receiving from 2½ to 3 per cent. net return on your capital in the houses you are renting. Do you have to pay income-tax?

*Mr. Clark:* It depends upon what 2½ per cent. on the capital means. He may have paid a great deal more for these properties than they are valued at. He is allowed 5 per cent. on the Government valuation—the capital value.

*Mr. Shirtcliffe:* Assuming that they are fairly valued and Mr. Stevenson has not paid an undue price for them, he will not have to pay income-tax, Mr. Clark?

*Mr. Clark:* No.

*Witness:* We have got to show in our return how much net profit we make out of our rents.

*Mr. Shirtcliffe.*] But you get an allowance of 5 per cent. on the capital value?—Yes; but that does not meet one's expenses to-day. We had all these properties before the war, and we have not been in a position to raise the rent, while the cost of repairs and all charges have gone up.

*Mr. Clark:* You are entitled to deduct all your expenses. Enter them in the place provided in the return. If you have any trouble, go to the Stamp Duties Office here. There is an officer there who will show you how to make the return.

*Witness:* Thank you.

(The Commission adjourned at 3.35 p.m.)

DUNEDIN: WEDNESDAY, 30TH APRIL, 1924.

JOHN CHRISTIE examined.

*The Chairman.*] You are a farmer at Balclutha, Mr. Christie?—Yes.

Do you occupy any official position?—Not in regard to this matter, but I am president of the Balclutha Branch of the Farmers' Union.

And Mr. Lee, who has also signed the statement you propose to place before the Commission, what is his position?—I do not know what position Mr. Lee holds.

He has signed the statement?—Yes, but as a working freehold farmer.

He is not an officer of your branch?—I do not think so.

Will you read the statement, which is signed by yourself and Mr. Lee?—Yes. It is as follows:—

*On Taxation.*—We beg to submit this evidence from the viewpoint of the average working freehold farmer. We realize that the Government must have revenue, and that it is inevitable and just that the farmer should provide his share of the taxation. We feel that the land-tax in its present form is the most equitable from the viewpoint of the working freehold farmer. We feel that this tax is simple to collect and impossible to evade. It has been the means of closer settlement through the compulsory cutting-up of large holdings. On the other hand we realize that the Government would require to devise means whereby Crown tenants should provide their share of taxation. The Crown tenant for many years paid taxation in the form of income-tax only—to-day he pays none. During the same time the freehold farmer paid land-tax, super-tax, and income-tax as well, besides the heavy county ratings for charitable aid, &c. Many of the Crown tenants hold their lands at ridiculously low rentals, and the money thus lost to the Government has to be made up by taxation, and the freehold farmer, with others, has extra to bear through he is taxed already on a valuation placed on his land in the "boom" period. The matter of revaluation should be considered by the Board. Any suggestion that the freehold farmer, already paying land-tax, should have the additional burden of income-tax is unjust, because the working freehold farmer, if he is to succeed, must devote long hours of labour to his work, and in many cases not only himself but his wife as well. If he were taxed on income as well as land it would be a tax on his thrift and industry. The thrifty and industrious would pay and the indolent would escape, and eventually the country would suffer through lack of production. Unlike in commercial business, the farmer is unable to pass the tax on to the consumer of his goods, which is the London market. A rise in produce does not benefit the working freeholder as much as the pastoral leaseholder. The working freehold farmer is perhaps the most heavily taxed in the country. In addition to his land-tax he pays heavily through the railway on his produce to the market and his goods from the city. Also in the Postal Department: whereas the city dweller has his mail delivered twice daily, the farmer, if he is fortunate enough to be on a rural delivery, will have it delivered perhaps twice a week, and then only if he pays for it. We feel that a fruitful field for taxation, and one which is at present unexploited, is that of municipal enterprises, such as the Power and Lighting Department. In conclusion, we feel that the taxation question is closely allied with that of efficient Government service. The Government should ascertain if it is receiving an adequate return of service for money expended. Earl Grey said, very aptly, on his return to the Old Land from a visit to the Dominion, "New Zealand is a colony of about one million inhabitants, mostly in the employ of the Government."

*Summary.*—Land-tax for working freehold farmers. Income-tax for pastoral leaseholders or Crown tenants. Revaluation of all freehold farms. Inquiry into further profitable fields for taxation which are at present exempted.

That expresses the views of the Farmers' Union?—We do not say it expresses the views of the Farmers' Union.

It expresses the views of yourself and Mr. Lee?—Yes, and a number of other freehold farmers. We do not officially represent the Farmers' Union at Balclutha.

You say that you are perfectly satisfied with the land-tax as at present imposed: you do not suggest any change in that?—As far as we can see it seems all right. The graduated land-tax has a very healthy effect on aggregation. There may be technical points in it that might be changed, but as far as we can see it seems all right.

*Mr. Shirtcliffe.*] I would like to ask you what area of land you are farming?—1,500 acres.

About what is the capital or unimproved value of the land?—I have not the figures with me.

Have you no idea of the Government valuation?—It varies. Some of it is suburban land which I do not farm; it is probably from about £20 to £30 an acre.

Is it all freehold?—Yes, with the exception of 260 acres, which my son has, in Woodlands.

It is probably about £30,000?—About £22,000.

What tax do you pay now?—Just on £200 a year.

Apart from local rates what tax do you pay?—Just on £100.

How is that calculated?—I do not know how it is arrived at, but I think it is on the unimproved value. I paid a good deal more before.

That works out at about 5 per cent. of its value?—Roughly, a little less.

You pay no income-tax?—Not this year. I never can make enough—more than I can spend on the land.

Your income goes back into the improvement of the land?—Yes.

And does your valuation go up?—Possibly it will shortly. We are going in for costly draining. I consider that any freehold farmer can get rid of his income in that way.

You would be able to pay on a larger income?—I may, but I have yet to learn that you will ever make hard cash out of farming. You can always find holes to put it in.

Take a business with £22,000 invested in it, the same capital as is invested in your farm?—That is only half, for we have the stock besides.

And have you £20,000 worth of stock?—Yes.

Take a trading concern with £30,000 invested in it, that trading concern has to pay land-tax in the same way as you do, and also income-tax. Now, do you think that is as it should be?—I should imagine that there is quite a difference. They do not farm the land. I could not express an opinion on the question whether that is equitable or not.

Do you see the point? You with £30,000 invested, upon which you are making your income, do not pay income-tax and only £100 a year land-tax, while another man with £30,000 invested in a business, making perhaps £2,000 a year, has to pay land-tax and also income-tax on the graduated scale?—What does a business man keep his land for?

Warehouses and offices, and so forth, in the city where the valuations are high?—But he does not plough, and sow and harrow it.

No; but I am trying to get your view as to the principle involved. You agree that taxation to be just must be applicable to every one?—Before I could answer that question I would have to know the whole circumstances. I do not know their point of view although I know my own.

I do not want to drag from you any views that are contrary to your opinion, but I want your opinion as to whether taxation should be universal in its application?—Certainly; I do not think any one can say otherwise.

Does it not follow that for the tax to be universal in its application the income-tax should apply to every one who earns an income?—As far as I am personally concerned, I think that is quite all right.

I only want your views. Your evidence has been clearly placed before us, but I wanted your views as to the principle involved. You say that if the working freehold farmer were taxed on income as well as on land it would be a tax on his thrift and industry, and that the thrifty and industrious would pay and the indolent would escape. Does not that apply to all sections of the community who have to pay income-tax? Does not income-tax weigh heavily on all sections of the community?—Supposing you had £6,000 invested at 5 per cent., it would bring you an income of £300, which would be exempted. If you had the same £6,000 invested in land you would be paying £120 in local rates. Do you see the difference? If I choose to realize on the investment I would probably have an income of £400 or £500 a year, but I would pay on only perhaps £100, and would get exemption on £300; but if I put £6,000 into land and farm it, and spend another £1,000 a year in the operation, I have expenses and risks of bad crops.

In that case are you not continually improving your land and building up an added value to your land which will be realized in the future? Your land is worth to-day £22,000, and, as you are continually improving it, in ten or fifteen years it may be worth double that. You hope it will be worth double?—It is a question of whether wool and mutton keep up. The moment the price of them drops the value of your land drops. It is only worth what you can take out of it.

At any rate, the remark in your evidence to which I referred applies to every one who pays income-tax, that it is a tax on thrift and industry, and that it does not specially apply to farmers?—(No answer.)

*Mr. Begg*] Is your experience of land-valuation that valuations are satisfactory: you have to pay land-tax on the unimproved value?—I understand so.

In those valuations do you get full value for your improvements?—I would scarcely say that we do.

Do you think it is possible to arrive at the value of the improvements?—No, I do not think you can. There is so much buried out of sight that unless you saw the drainage and so forth it would

not be possible to arrive at the true value of the improvements. A man coming on to the property is not able to say what is the value of the improvements effected by the money that has been sunk in the property.

You get an allowance for ploughed land?—Yes.

Is ploughing always an improvement?—No.

Have you ever seen land that was depreciated by being ploughed?—I have in the North Island, and also in this Island. I have a farm which would have been more valuable if it had not been ploughed. Of course, to fatten stock you must have feed. You must keep the plough going in order to fatten sheep and lambs.

You think that many improvements are not ascertainable through being buried in the land?—That is so.

That being the case, do you think it would be fairer if a man were taxed on the capital value, with an allowance for structures or fencing the value of which could be easily ascertained?—Yes.

The value of the other improvements is difficult to ascertain?—Yes. I had not thought of that aspect of the question at all. It would require some consideration.

Do you find the unimproved value tends to rise as you improve the farm?—Yes. Our valuations rise with the prices people are prepared to pay for land adjoining. The valuing officer says, "Oh, that farm over there was sold at twice the value put on your farm." It might have been sold at twice the value. That is how they arrive at it.

In your statement you refer to "Crown tenants": who, exactly, do you mean by Crown tenants? There are all sorts of Crown tenants. It may refer to small-grazing-run holders or pastoral-lease holders?—The O.R.P. men, the perpetual-lease men, and the Crown tenants on the pastoral holdings. I hold some Crown land, 260 acres, on which I pay £3 in rates. If I had that land under ordinary conditions I would be paying £10 or £15 on it.

Do you pay land-tax on that?—Yes.

How is that based?—I do not know.

Perhaps Mr. Clark can tell us. These L.I.P. lands, Mr. Clark, I think the land-tax is paid on the tenants' goodwill in the land.

*Mr. Clark:* On the tenant's goodwill in the land, yes. The land is capitalized at 5 per cent. Provision for that is in the Valuation of Land Act.

Do you think that the Crown tenants should pay income-tax, Mr. Christie?—We think that is the best way to get even with them.

*The Chairman:* They did pay income-tax until last year.

*Mr. Clark:* The tenants on the pastoral runs and the small grazing-runs paid income-tax.

*The Chairman:* But, unfortunately, the Act of last year was passed in such a shape that they escaped taxation altogether.

*Mr. Clark:* That is so.

*Mr. Weston:* Was that an oversight?

*Mr. Clark:* No; they are supposed to pay in full. There is no goodwill in their land.

*Mr. Begg:* But, Mr. Clark, the facts of the case upset that view, because we know that such lands are sold with very substantial goodwills.

*Mr. Clark:* Not the small grazing-runs. I do not think they have any right to sell them. The perpetual leases are sold.

*Mr. Begg:* But the pastoral licenses are sold.

*Mr. Clark:* I do not know that.

*Mr. Begg:* Yes; they are transferred frequently with substantial goodwills.

*Mr. Weston:* It may be improvements.

*Mr. Begg:* It may be in the stock or improvements.

*Mr. Weston:* There is nothing to prevent a man on a grazing-run paying land-tax provided the Valuation Department puts a valuation on the goodwill as such.

*Mr. Clark:* No.

*Mr. Weston:* Are they expressly exempted in the statute?

*Mr. Clark:* Yes.

*Mr. Begg:* A small grazing-run holder pays land-tax. I held one and paid it?

*Mr. Clark:* That may be, but the pastoral licensees never pay land-tax.

*Mr. Weston:* The valuation is only a supposition of the Valuation Department.

*Mr. Clark:* No; it is fixed by law. The rent is supposed to be fixed so that they can acquire no interest in the unimproved value.

*Mr. Begg.]* You think, Mr. Christie, that income-tax should be paid on those Crown leases in order to put them more on the same level with the freehold farmer?—Yes.

Is the real income from a farm readily determined?—No; it is hard to determine it.

You have had long experience of farming: have you, by any system of book-keeping, been able to ascertain what your income was in any given year?—No; it is quite impossible, even with a fairly accurate system of book-keeping. It is very complicated.

It is impossible to give the accountant who makes up the books the whole facts?—Yes, though it is a very healthy recreation to try to do it. It is quite a good thing for the farmer to endeavour to do it.

You advocate taxation on municipal enterprises?—We make the suggestion that that is worth investigating. I am not personally acquainted with these matters, but we suggest that they should be investigated in connection with taxation proposals.

*The Chairman.]* Do you suggest that the profits should be taxed?—It might be worth looking into.

The difficulty might be to find out what the profits are?—(No answer.)



*Mr. Begg.*] Was there anything specially in your mind when you suggested that?—It was really a suggestion from one of our members. I had not thought about it. Perhaps there is an aspect of this matter that you do not appreciate so much as we do in the taxation. Take the railways, we working farmers are the men who keep your railways running. We are continually getting stuff by the railways and sending stuff away—fat lambs and so on—and we help to make the market for the pastoral-run holder by exporting our stuff. We pay a 40-per-cent. increase on pre-war rates for railage. I say that those people should contribute towards the upkeep of the railways, even if they do not use them. They should be using them. People buy five hundred or six hundred ewes and derive an income from them. Those are the men we think should contribute towards the cost of the railways.

Is not that done by the tax being on the unimproved value? The man who does not improve his land pays the same tax as the man who does. Do you think that the theory of taxation on the unimproved value does not work out in practice?—It has not the effect that it should have. There is a big question involved there. The land should not be allowed to remain unimproved and unworked.

*Mr. Shirtcliffe.* But is there not provision for 50 per cent. addition in the tax?

*Mr. Clark.* If the land is not improved to the extent of £1 per acre, or one-third of the unimproved value, there is 50 per cent. additional tax payable.

*Witness.* It can easily be improved to that extent.

*Mr. Begg.* Is that put into effect to any extent?

*Mr. Clark.* Yes.

*Mr. Begg.* How do you ascertain whether the land has been improved to the extent of £1 per acre?

*Mr. Clark.* By the valuation rolls.

*Mr. Begg.* But valuations are made only once in five or seven years.

*Mr. Clark.* Well, there is no stated interval, but if the improvements are there to that extent there is no question about it.

*Mr. Begg.* And that valuation stands good until the next valuation: you have no means of ascertaining whether the land is being improved from year to year.

*Mr. Clark.* If the valuations of improvements are not on the roll, and the occupier can produce evidence that he has effected improvements since, the improvements are put on to the roll whenever they are made, or should be. Perhaps the occupier is frightened of his increase in his local rates. A good many of the owners do not have the improvements put on because they want to escape the local rates, but still the majority have sufficient improvements put on. There are exceptions, and the penalty is applied in those cases. There is back country which is really not capable of improvements to that extent. It would not pay to put improvements on tussock country to the extent of £1 an acre. Those lands are exempted.

*Mr. Begg.*] I feel that there is great difficulty in arriving at the unimproved value of land. That land might be improved to the extent of £1 an acre by fencing and ploughing. The occupier may get three crops of oats off second-class land and at the end of that time the land might be worth less with fences on it than originally?—(Witness) Yes, it might have depreciated.

Can you make any suggestion as to how the assessment could be made in a fairer way?—I do not know that I can in a case of that sort. It would be a case of a man having sufficient knowledge of the business. A practical man would have to make a personal inspection of each farm and see the improvements.

*Mr. Shirtcliffe.*] Do the valuers go and make a personal inspection of each farm now?—No, I do not think so.

How do they arrive at their valuations?—That is a mystery. I have seen two farms valued the same, though one was on the flat and the other rose into the hills. The man whose farm was in the hills came before the Court and objected to the valuation, and the officials went up and looked at the place and found out the position. I do not know whether it is possible for the valuer to make a personal inspection of each property.

*Mr. Clark.* They are supposed to do so.

*Mr. Shirtcliffe.*] You raised a very important question, that of the taxation of municipal enterprises. It is quite a new question. First of all, how would you differentiate or would you differentiate between local-body enterprises and Government enterprises?—If you will excuse me, I do not want to go into those technical points. We just made that suggestion.

You have not studied it?—No. We suggested that these matters might be inquired into.

WILLIAM LEE, Farmer, Goodwood, near Palmerston South, examined.

*The Chairman.*] I take it that the statement Mr. Christie has read expresses your views?—Yes, sir.

Do you wish to supplement that in any way?—In this way: I am a working-farmer. Unfortunately, during the last two or three years I have not paid income-tax. Before that I paid income-tax. And I am in the unfortunate position that I do not pay a great deal of land-tax. I think I can speak from the point of view of a real working-farmer when I say that he prefers the land-tax, because he can see that the dishonest man has no chance of evading it, as he has with the income-tax. With respect to the income-tax on the average farmer, it is the honest man that pays and the dishonest man that escapes. With the average working-farmer, if he keeps books they are very crude, and to him the filling-up of the income-tax paper is a nightmare—even to the honest man. I know of one case where a widow and her family were working, and eventually she got a business man to make up her income-tax return, and he found that she had been paying hundreds of pounds that she should not have paid, that a business man would not have paid. With regard to the Crown tenants, it is news

to me that they pay land-tax. I understood that there was no land-tax whatever paid on Crown lands. However, I know that I would rather be a Crown tenant than a freeholder. I think that is about the only thing I wished to say, speaking as an average working-farmer. I know that the big landowner would prefer the income-tax. I am speaking now of the man who owns large tracts of country. The average farmer and his wife, if they make an income, work equally for it, but he cannot make any deduction for his wife's services. The other man—the large landowner—can sit on his farm and his wife can have a good time, and he undoubtedly would prefer the income-tax, as he does not expend very much energy in the production of his income.

*Mr. Shirtcliffe.*] But why would he prefer the income-tax to the land-tax?—That is a point regarding which we incidentally took a vote in our Farmers' Union. It was not taken in earnest, but I counted heads. I noticed that every large sheep-farmer voted for the income-tax, and every working-farmer voted for the land-tax.

The men in a large way voted for the income-tax in place of the land-tax?—Yes. If it was a question of having one tax, the working-farmer would have the land-tax.

On the large landowner, is it not a fact that the land-tax works out at less than the income-tax?—That is a thing I could not say, because, unfortunately, I have not had a large landowner's experience. I just go by what I know to be his natural inclination.

*Mr. Begg.*] Were these large farmers leaseholders or freeholders?—Some of them I know were freeholders. That is not a Farmers' Union matter. It was not an earnest vote, but informal; and we do not speak for the Farmers' Union at all. We do not come from the Farmers' Union.

*The Chairman.*] You are expressing the views of yourselves and other farmers?—Take a case in point, that of two farmers living side by side. They both have a farm of the same value. One man sets out to make the most he can. Under the income-tax the harder that man works, the heavier he is taxed.

*Mr. Shirtcliffe.*] That applies to every one?—The other man can sit back and have an easy time and he can escape taxation.

He does not make anything?—He does not make anything; but I think it is better for the country that he should be making something—a great deal better.

You agree, do you not, that every one in the country who puts his back into his job, whatever it may be, and endeavours to make a success of it has got to pay tax?—Yes. Unfortunately, the farmer cannot pass on his tax. He and the salaried man to-day are the only two men in the country who cannot pass it on.

*Mr. Weston.*] Here is what a town man says on that very point of passing on—a town man who carries on the business of selling goods: "Whilst on this subject we would like to point to the fallacy that we can pass on taxation to the consumer. This cannot be done, because prices are regulated by competition." And then he goes on to mention how the one-property business, especially if it is a leasehold, is competing with them and, of course, can undersell them?—I think there is a certain fallacy in that statement. I understand that if the manufacturer in the city finds that imported goods are coming into direct competition and he cannot make a do of it he goes to the Government and he can induce them to put on a little more duty to protect him.

That is not the case?—I understand that a duty is put on with a view to protecting the manufacturer.

*Mr. Shirtcliffe.*] But why do you contend that the trader can pass on the taxation? Is it only an assumption or have you any particular reason for saying that?—He must do it.

Why?—He can pass it on in this way: The farmer can pass nothing on, because he is the only man in the country in whose case there is no relation between the cost of production and the price he gets for his goods. The business man counts up his wages. He takes his overhead charges. He allows for his own time and his profit, and that is the price to the consumer. With the farmer it does not matter if it has cost twice as much to produce, the market conditions may be such when he has got to sell that he gets less than he has paid for the production of his goods.

But would you not say that the trader buys and sells to the best advantage?—I have no doubt.

He makes all the profit he can irrespective altogether of taxation, and then at the end of the year when he arrives at his profit he knows that he has to divide that in certain proportions with the Government?—Yes.

He cannot add his taxation on to his costs and increase his selling-price accordingly by reason of the competition. Did you take that view?—I can see your point, but I can see that a man might arrange that he is protected from competition by an import duty.

I do not think you are right in saying that people can always go to the Government and get an increased duty?—There is not much combination among the farmers. The farmer cannot fix the price of his goods. There is no doubt the merchant can fix it by combination. He can fix the price of his goods. Even in professional circles men fix their price. The lawyer tells us what we have got to pay. The doctor tells us. There is no argument about it with them. We have got to pay it. But in the case of the farmer, in the end he has got to take the market rates. He and the salaried man are the only two who cannot "pass it on." The business man, if he has set his mind on a certain profit, can take good care that his profit will be that, subject to the income-tax.

You say that the farmers never combine to fix a price: is that strictly correct? Take dairy-produce—butter and cheese: is there no combination among the co-operative dairy companies and among the farmers to fix the local prices?—None whatever. There might be among the dairy companies in the cities, but as far as the great majority of the dairy companies are concerned there is no adhesion among them at all as far as the local market is concerned, and there is absolutely none so far as the London market is concerned. I think the farmer is the only man that cannot fix prices. It is impossible for him. With regard to the dairy companies, I do not wish to infer that these men

can fix prices independently, because we had an instance lately of butter being fixed in Dunedin here, and the North Island swamped the South Island with butter, and the price had to be reduced. So there is competition there all right.

I suggested before that the trader buys and sells to the best advantage and makes what profit he can according to the market conditions. Does not the farmer do the same thing as regards selling his produce? Does he not sell to the best possible advantage, irrespective of the cost of production?—There is no doubt about that, but, after all, he is ruled by the London market.

But if the London market goes up, as it has done during recent years, in respect of dairy-produce and wool—wool especially during the last twelve months—the farmer welcomes the rise and takes the fullest possible advantage of the increased values. So in that respect he is on all-fours with the trader who makes all the profit he can, but the trader has not the same chances of making a big market rise as the farmer has?—There is this difference with the farmer: that all the produce he sells he has got to sell in the open market in competition with the whole world. On the other hand, everything he buys he has to buy in a heavily protected market.

ALFRED FELS examined.

*The Chairman.*] You are a director of Hallenstein Bros. (Limited), Mr. Fels?—Yes.

And you propose to submit your views in connection with the question of the incidence of land-tax?—Quite so.

You have put your views in a letter: will you read it to us?—Yes. It is as follows:—

City and town properties should be taxed on an entirely different principle from that applied to rural properties. The present graduated tax was originally designed for bursting-up large rural estates and for preventing the aggregation of rural lands. The application of the same principle to town lands does not seem logical. For instance, we own the freehold or leasehold of a few poles in various towns, and as these properties are situated in the retail area their values are necessarily high. According to the present taxation law, the unimproved values of these small properties are added together, and we are taxed on the total at the highest graduated rate as if we were owners of an unduly large rural estate. This is an iniquitous system, and as far back as 1910 Sir Joseph Ward, then Prime Minister and Minister of Finance, admitted it in Parliament, but did not feel inclined to introduce amending legislation.

All business concerns that own or lease more than one property, either in the same town or in various towns, are affected similarly, and some of them consequently suffer great hardship. The tax hinders and in some cases absolutely stops commercial and industrial development, which is the last thing any Government can desire.

This tendency is strongly accentuated by section 52 of the Land and Income Tax Act of 1923 (formerly section 7 of the Finance Act of 1917), which further raises, through the addition of leaseholds, the graduated rate of land-tax. We refer to it specially in the next paragraph. Section 52 of the Land and Income Tax Act, 1923, states that any person holding a lease over a property shall be deemed for the purpose of this Act to be the owner of the fee-simple, and shall be assessed and liable for land-tax accordingly. On the other hand, he is entitled to a reduction in his land-tax by the amount of tax payable by the owner of the freehold. If the owner's tax on such property amounts to more than the lessee's tax on the same property, the lessee cannot benefit by such excess. On the other hand, if the owner is taxed at a lower rate than the lessee, the latter pays the difference in extra tax. Apart from this result, the effect of the above section of the Act is to increase the lessee's graduated scale applicable to the whole of his freehold and leasehold. In reality, it is only thinly veiled double taxation, and more than double taxation. To illustrate these remarks we give hereunder a few instances relating to land-tax so levied in 1923. It will be seen from these examples that, owing to the high graduated rate at which we were assessed, we actually paid in the first case over four times as much land-tax, and in the second case practically six times as much land-tax, on these leasehold properties as was simultaneously paid by the freehold owners.

*Leasehold Property situated Corner Princes Street and Octagon, Dunedin.*

	£	s.	d.
Tax paid by us .. .. .	343	8	0
Less refund of tax paid by owner .. .. .	66	1	0
Extra taxation paid by us .. .. .	£277	7	0

*Leasehold Property situated Corner Cuba and Ghuznee Streets, Wellington.*

	£	s.	d.
Tax paid by us .. .. .	245	10	0
Less refund of tax paid by owners .. .. .	36	17	0
Extra taxation paid by us .. .. .	£208	13	0

We could quote further examples, but think that these illustrations are sufficient. In regard to the Wellington lease, we still would like to state that we are not leasing any land, but only a portion of the ground floor of a building not belonging to us, and a special valuation had to be made for the purpose of ascertaining the unimproved value of that portion. It follows that if we rented a room on the top floor of a six-story building the unimproved value of such room would also have to be

ascertained in order to be added to the total of unimproved value held by us on either lease or freehold. We can hardly believe that such results were intended by the Legislature, and we certainly think that section 52 of the Act should be abolished or be made inapplicable to town lands, because it sets a premium on inactivity and stagnation. We also believe (though we have no statistics on the subject) that this section of the Act affects town property more than rural property, because to a very large extent rural lands are held on lease either from the Crown or from some public Board or body, none of which are subject to taxation, and as a consequence this section does not apply. Another matter to which we wish to draw attention is the question of a lessee's interest in freeholds. This is purely a device for raising taxes. We contend that if a lessee's rental is below 5 per cent. of to-day's unimproved value of the property leased by him this should not be made a reason for saddling the lessee with land-tax by giving him an interest in such unimproved value, and at the same time relieve the actual owner of tax to that extent. An advantageous lease must necessarily be reflected in higher profits and therefore in increased income-tax, which should be sufficient. Whilst on this subject we would like to point to the fallacy that we can pass on taxation to the consumer. This cannot be done, because prices are regulated by competition. The one-property business—particularly if the property occupied is only leasehold—be such business large or small, is either not burdened by graduated land-tax or only so to a very negligible extent, and therefore can and frequently does undersell the business which of necessity must own or lease a number of properties. We also wish to combat the idea that large concerns can easily stand heavy taxation. This is not so, nor is it just or equitable that because of their organization they should be singled out and penalized. We beg to suggest, therefore, that land-tax on town properties should be abolished, especially as business concerns owning such properties also pay income-tax, and are, besides, burdened by very heavy municipal rates. It is hardly fair that town properties should also pay seven-sixteenths of the total land-tax, which we understand is the proportion of tax yielded by them. It seems to us that if land-tax were abolished altogether it would not be a serious matter, as it amounted last year to less than £1,500,000, which is a comparatively small item in the revenue of the Dominion.

*Mr. Hunt.*] In making up your land and income tax return I take it that you pay land-tax on your interest in the freeholds and leaseholds?—Yes.

In making up your income-tax return you deduct 5 per cent. of the capital value of these properties, do you not?—Quite so.

So you do not pay income-tax on that 5 per cent.?—No.

Have you worked it out to see whether you would be better off by paying income-tax only on the whole amount or land-tax on a portion and income-tax on a portion?—No, I have not worked that out. I am not sure of the position. I could not answer that offhand.

Would it not mean this: that if you had no land-tax to pay you would have to pay income-tax on the whole income?—You mean I would not have the 5 per cent. deduction?

Yes, you would not have the 5 per cent. deduction?—That is quite true. But let me put it in this way: suppose we had no freehold property and had only leasehold properties, then we would be entitled to deduct from our taxable income the rental we pay.

Yes; but you would have the capital that you now have in freehold properties in use in your business earning somewhere else, would you not?—That is quite right.

I was just wondering if you had worked it out to see which way you would be better off?—I have not done so. It would take some calculating.

In your statement you say: "Whilst on this subject we would like to point to the fallacy that we can pass on taxation to the consumer. This cannot be done, because prices are regulated by competition." Your business is a retail business, is it not?—It is retail, wholesale, and manufacturing.

I mean, a large section of your business is retail business?—Yes.

And in that retail business you are in competition with the small trader who has only a small rate of income-tax to pay?—Yes.

It is the competition of the small trade that prevents you from passing the taxation on?—It is not only the small trader. The one-property business is considerably less burdened.

The small trader with one property has a much smaller tax?—Even if he is in a fairly large way, if he has only one property it is not such an important matter, particularly if it is only a leasehold property.

Your point is that the competition that prevents your passing on the tax is the competition of the man who pays less tax than you do?—Yes.

*Mr. Shirlcliffe.*] Not necessarily. You do not say it is the small man entirely that you have to compete with?—No; that is quite right. But our business is probably exceptional in this way: that it is comprised of a number of retail branches.

*Mr. Hunt.*] I will put it in this way: if all your competitors were taxed as heavily as you are and nobody could buy anything from people that were taxed lighter than you are, then you might pass on the tax?—That might follow, but not necessarily.

If every one was taxed at the same rate and nobody could buy from a person in competition with you who was taxed at a lower rate, you think it might be possible to pass on the tax?—It might, yes. It cannot be the case as things are at present.

No, because you are competing with lightly taxed people?—Yes.

*Mr. Shirlcliffe.*] On that question of the passing-on of tax, assuming that all traders could be on the same footing as regards taxation and other conditions of trade, under present conditions do you find it possible to add on to your costs so much per cent. for taxation, and then fix your selling-price accordingly?—No, we do not.

In fixing your selling-price in competition with others, do you ignore the question of taxation altogether?—Completely.

Then at the end of the year you ascertain your profit—I hope it is always good—and then you divide that in certain proportions with the Government?—Quite so.

In your statement you instance the case of two leasehold properties—one in Dunedin and one in Wellington—in respect of which you pay land-tax many times greater than does the owner. In those cases have you long leases of the properties?—The Dunedin lease is a fairly long one.

Is it fifty years?—No, not so long as that.

*Mr. Clark:* May I explain? The length of the lease would have no bearing on that question that Mr. Fels raises. He would still pay despite the fact that he had even a year's lease.

*Mr. Shirlcliffe:* Would the length of the lease not affect the lessee's interest?

*Mr. Clark:* The lessee's interest does not enter into this computation. Mr. Fels is referring to section 52 of the Act. It is treated as his land for the purpose of assessment, and the company's land is aggregated with this leasehold. The unimproved value is treated as the company's freehold, and then credit is given in the assessment for the amount of tax paid by the freeholder.

*Mr. Shirlcliffe:* How is the proportion of tax paid by the freeholder arrived at?

*Mr. Clark:* We take the amount that he actually pays, the amount that the freeholder is actually assessed with.

*Mr. Weston:* It is to prevent evasion, is it not?

*Mr. Clark:* Yes, to prevent evasion. The owner of that freehold that is leased by the company may own no other land, and he pays his land-tax at the rate fixed by the unimproved value of that property alone. The company owns land in other centres, and it leases land, and the whole of these lands are aggregated together, and the rate of land-tax is fixed according to the total arrived at by the aggregation. That accounts for the larger amount that is paid by the company than that paid by the owner.

*Mr. Weston:* Does that account for the lessee's tax being six times as much?

*Mr. Clark:* Yes.

*Mr. Weston (to witness):* Let me put it in this way: when you lease these properties you lease them with the knowledge that you have to pay this taxation?—Quite so.

*Mr. Clark:* Not always. There is one case there which is a matter of dispute—the case referred to in which the company leases part of the ground floor of the building.

*Witness:* You are quite right.

*Mr. Shirlcliffe (to witness):* You do lease these properties with the knowledge that you have got to pay heavy taxation?—It is this way: if we went in for a lease at present we certainly would go in with that knowledge, but we hold some leases which commenced many years prior to the Finance Act of 1917 being passed.

*The Chairman:* This provision that bears so heavily upon you was first introduced in 1917, was it not?—Yes.

*Mr. Shirlcliffe:* Still, if you were leasing property to-day, in considering the rental that you paid you would calculate that you had so-much taxation to pay?—We must necessarily.

And you would take the risk of that taxation being either increased or reduced later on?—Quite so.

When you took up these leases you did not anticipate that the tax would be increased in consequence of the war to such an extent as it has?—No.

But you had that risk in view?—We were not quite sure in regard to this Wellington lease, because we were under a misapprehension there, as Mr. Clark has just mentioned. We have had some correspondence on the matter. We were under the impression that this section of the Act applied to leases of land and buildings, but not to the lease of part of a building.

I do not want to discuss the matter strictly from your own personal standpoint or from your firm's standpoint, but on the principle of the thing. Speaking generally, when lessees take up a lease they take into account the tax that they will be called upon to pay?—If they know the law they will do so.

It is their business to know the law?—Quite so. I am sure that many who take up a lease are not aware of that section.

You would not take up a property unless you thought you could make it pay?—That is so.

You suggest, do you not, that the land-tax should be abolished?—Yes.

Entirely?—Yes.

And would you make the income-tax universal, applying to town and country?—That is really outside my province.

What would you put in its place, because money has to be raised?—I quite realize that. As I stated in my statement, the total land-tax last year amounted to less than £1,500,000, and that is a comparatively small item in the Budget.

Still, that £1,500,000 of money has to be found somewhere else if the land-tax is abolished?—A remedy would certainly be to make income-tax universal. I think that would probably account for a great deal of this land-tax.

Do you see any difficulty in differentiating between rural lands and city properties as regards land-tax?—No, I cannot see that myself, because town properties are necessarily situated in town areas and are used either for the purpose of business or for private dwellings. That is a very different thing from rural property, which is used for the production of produce.

The graduated land-tax originally was intended to burst up large estates and is now intended to prevent reaggregation?—Yes.

If your suggestion were carried out and there was a differentiation made between rural lands and town lands by which the graduated tax would not apply to town lands, might that not possibly lead to a great deal of speculation in town lands, not for *bone fide* business purposes, but for speculative purposes?—There is that danger certainly, that it might lead to such speculation, but I do not think it would be a very important factor.

You realize that there is a good deal of speculation goes on in town property?—There is.

And, of course, the graduated land-tax must check that to some extent?—Decidedly.

If it were removed it would render it much easier and much more profitable for speculators?—Yes; but even at present I do not believe that speculators take the graduated land-tax into account—I mean speculators in town properties.

They are very short-sighted if they do not?—Yes; but I do not think it plays any part in the speculation.

*Mr. Clark*: It does not touch them; it is too small.

*Mr. Shirlcliffe*.] Instead of abolishing the tax altogether, would you prefer a flat rate of land-tax?—That would be an alternative if it is not possible to abolish the land-tax. That alternative would be an improvement, and would be acceptable. Before the war we had the two taxes, the flat rate and the graduated tax.

*The Chairman*.] If the flat rate were adopted, how would it affect you in connection with your present grievances?—It would relieve us. It would certainly abolish our hardship.

That is what *Mr. Clark* referred to.

*Mr. Clark*: It would remove all the necessity for section 52 and the other sections in regard to joint ownership.

*The Chairman*: To avoid the effect of the graduated tax?

*Mr. Clark*: Yes.

*Mr. Begg* (to witness).] Do I understand you to say in your evidence that if you lease a room on the sixth floor of a building you are assessed for a portion of the value of the land on which the building stands?—Yes, according to the present Act.

*Mr. Clark*: If the company had other lands: that is practically the provision—instead of a room it has the whole floor.

*Witness*: That is the case in Wellington. It is not the whole of a floor; it is a portion of the ground floor.

*Mr. Begg*.] But it would apply to any room?—Yes.

And this tends to put a big firm with numerous branches at a considerable disadvantage?—Yes, decidedly.

And your contention is that the big firm with the aggregation of capital is an advantage, and should not be so discouraged, and that this is discouraging it?—Yes.

You mentioned that it is impossible to pass on these taxes?—Yes.

Would high graduated taxation not tend to stifle competition?—To some extent it would.

And as it stifled competition it would enable the tax to be passed on?—Well, no, it would stifle competition on the part of the highly taxed businesses, but not on the part of the small trader.

The survivor would get the advantage?—Quite so. It would mean that large concerns—companies or partnerships—would be unable to compete.

They would go out?—They would go out.

And the survivors would reap the harvest through the reduced competition?—Yes; it would mean less tax for the Government.

And would it lead to more profit for the survivor through lesser competition?—Well, there would be a greater number of smaller traders. The law of supply and demand would probably rectify it.

You think it is impossible for the tax to be passed on by any trader?—I would not say it is entirely impossible to pass it on, but competition rules prices.

May we take it that a trading firm's profits have been reduced by the amount of tax that has been imposed?—Absolutely.

*Mr. Hunt*.] As to passing on the tax, you cannot pass it on because you are in competition with the small trader?—That is so.

But take the class of business in which the small trader cannot compete, and which can only be handled by the large trader or company, then all those in the trade would be paying a high tax, would they not?—That might be the consequence.

Do you run your business with the object of earning a certain rate of profit?—Yes.

And if you do not get that rate you withdraw from it?—Yes.

So that in the end if the large businesses were faced with the competition of the small traders it must result in the tax being passed on?—Not necessarily. In our particular business the question of taxation is not an overhead expense.

But your business is such that your competitors are small people?—Yes.

But supposing you were conducting the class of business that could only be handled by large operators, then all the people in that class of business would be paying high taxation?—If those businesses formed a combine and regulated prices.

But even if they did not form a combine, would it not follow that you run your business to earn a certain profit, and if you could not earn that profit there would be a gradual withdrawal of capital until the competition eased?—Well, it might be so. That is purely theoretical, but in practice it does not exist.

But there are many industries which can only be carried on by large operators?—Well, hardly, in the industries that are distributing goods.

But take concerns like shipping, coal-mining, fire insurance, banking: these can only be carried on by large operators, and small people cannot compete in them?—Yes, that is quite true. You mention banking, but notwithstanding the increase in taxation the banks have not increased their charges.

Have they not widened the difference between their deposit rate and the lending rate, and they have increased the exchange rate?—Well, that is again governed by external factors.

There are not many external factors that govern exchange?—Yes; the law of supply and demand. Imports have a great deal to do with the exchange rate.

The suppliers of exchange are chiefly banks?—Yes; but there are other factors—for instance, the prohibition of gold shipments. That is the principle reason for the big divergence we have had in the rates.

*Mr. Weston.*] Take the short-call money in London: have you followed the rates last year of short-call money in London? In England, in spite of the heavy taxation, the short-call money was never so cheap as last year?—I believe that is right, except in pre-war days, when it was about the same.

*Mr. Shirtcliffe.*] I would like to follow up the suggestion made by Mr. Hunt as to the question of passing on the tax, which is a very important one. You are in competition with other houses in Dunedin which are probably in as large a way as yourselves?—Yes.

In Christchurch the same thing applies, where you are in competition with firms like Strange and Co. and Ballantyne's, and in Wellington with such firms as Kirkealdie and Stains and others?—Yes, any number of them, in fact.

The same thing applies to all the centres. Would it be possible as a matter of practical commercial dealing for you to combine with those other firms for the purpose of passing on the tax to your buyers?—No, it could not be done. There are too many in the field for that.

As a matter of actual commercial practice, you say it is impossible in either a large or a small trade, except perhaps in the case of a monopoly, to pass on the tax?—I do say that.

WALTER GOW examined.

*The Chairman.*] How do you describe yourself now, Mr. Gow? Do you call yourself a merchant?—A retired merchant.

Residing in Dunedin?—Yes.

During your career you have had to deal with all kinds of businesses—companies and all kinds of commercial concerns?—Yes, and even with the breaking-in of a farm.

I understand that you have some views on the subject of taxation, and we shall be glad if you will impart them to us, taking first the question of land-tax?—Of course, I had no intention of appearing before the Commission and would not have done so but for your kind invitation to come, which I got yesterday afternoon. I have had no opportunity to prepare anything in the nature of a written statement, but if you will permit me to express my views shortly as to income-tax and land-tax I will be pleased to do so, and then I might answer some questions.

If you will do that we will be obliged, taking the subjects in the order most convenient to yourself?—As far as my first statement is concerned I will be very short, and I will keep within the bounds of the Commission's order of reference, which only deals with the questions of income-tax and land-tax. I need not worry you with the question of the principles of taxation, which perhaps you know more of than I do, but we all admit that the basis of taxation is the basis of equity. That may be taken for granted. Then, it is also taken for granted, and will become more and more the doctrine of economists, that the basis of a man's ability to pay is his income. In America Professor Seligman says definitely that the opinion of economists in that country is steadily coming round to the view that the true basis of a man's ability to pay is his income. In America they have not been dependent upon income-tax; they have been dependent upon property—and other taxes. It being admitted that the fairest measure of a man's ability to pay is a man's income, we may say that income-tax is essentially a fair tax, provided you can adjust it in such a manner as to reach every one, and to reach every one equitably. I think that may be taken for granted. There is another principle which comes into play, and that is the principle of equality of sacrifice. Some of these phrases you have heard before; they are old Adam Smith phrases. Equality of sacrifice means something more than a mere flat rate of payment by every one upon his income. For this reason, no doubt, it is that a man is relieved from payment of tax until his income reaches a certain amount. For that reason also there is an exemption where a man is involved in many responsibilities, such as children. That seems to be just and fair, and for the same reason—equality of sacrifice—it being obvious that a man with a superfluity is in a better position to pay taxation than a man with only enough to serve the necessary purposes of life, it becomes obvious that it is quite reasonable that there should be graduation in taxation, and that the man with larger means should pay in a larger proportion than the man with smaller means—I mean, in a larger proportion, not on the flat rate, but because he is able to spare more. As against that view, I have always held—and I am very much confirmed in my opinion by the most recent work of Sir Josiah Stamp—that there is a danger of carrying graduated taxation too far. That writer in his latest book on "Taxable Capacity," which was only published eighteen months ago, makes it quite clear that there is the greatest danger of killing the goose that lays the golden eggs if you carry the scheme of graduation too far. I am afraid that at one time we have done that in New Zealand. Then, that simply means that income-tax is a fair tax, provided that the conditions are reasonable, and that they ought therefore to be the main bases on which our people are to be taxed. It is the best measure of the capacity to pay. But there are other subjects which are fair subjects of taxation. I am not going to enumerate them, because that would lead me to wander away from the reference of the Commission. Privilege is one of them. If by reason of circumstances individuals are in possession of exceptional privileges, that is a fair subject of taxation. That brings us to taxation on land. Land is a fair subject of taxation because it carries with it a privilege which is not common to other sources of income. I do not mean to say that it carries with it what we speak of as unearned increment, that sooner or later the possessor of the land will become richer by reason of what is known as land increment. I am not prepared to say that

the unearned increment appertains only to land. Unearned increment is a community value, a value created by the community; but that applies to some other things; even, for instance, to the income of a solicitor practising in the Court carries with it to some extent a community created value because in a larger town his opportunities are greater, and his services are more sought after than in a smaller community. But in the case of land the community value created in land is so obvious, and so much in excess of the community value created in any other direction, that it seems to me that land is a fair subject of taxation.

You mean for special taxation apart from the taxation of the income derived from it?—Apart from the question of the income derived from it. You cannot, of course, exclude the income derived from land. You cannot doubly tax the owner of land, but you can preferentially tax him—that is to say, that the tax on his privilege will have precedence over any other tax. That being so, I hold the opinion—and, by the way, I may say that my opinions are not just picked up accidentally: I have given a great deal of study to the question and a great deal of thought—that there ought to be a tax upon land, because the owner of land is a privileged person and in receipt of great advantages arising out of the value which attaches to his property. That is more particularly the case with regard to town property, residential lands. Land is occupied for different purposes; two, mainly: the one is merely a location for the individual, and the other is that it is an instrument for producing income. In the case of town land and small holdings they may be simply the location of the individual. In the case of country lands they are in the same category as machinery or any other instrument of production, with this difference: that there is always at the back of it the unearned increment raising its head and likely to appear. That being so, I think that taxation upon land is quite a fair proposition; but I do not think it is a fair proposition to make use of land-tax as an instrument to be used for political purposes for the breaking-up of large estates. If we are to tax land at all it should only be taxed because of the privilege attaching to it, and for that reason only. To my mind, there is no real justification for making use of that tax for the purpose of breaking up large estates. It may be desirable that large estates should be broken up, but that problem should be attacked in some other way than indirectly through taxation. Taxation should only be imposed for the purpose of raising revenue. In regard to land-tax, the view I take is that there should be a flat rate of land-tax, and that that rate should apply upon all land—country lands and town lands. Though it might be unpopular to say it, I would make that tax applicable without exemption. A man who owns an eighth-of-an-acre section in the town, which is his location, is just as much a subject of taxation for his privilege as is the man who owns a farm in the country; that is to say, he has got possession of something to which the community is paying by adding value. And, as I said before, that is more obvious in the towns than it is in the country—very much more obvious. I advocate—it would be unpopular no doubt—the imposition of a land-tax without exemption. Taking myself, on the half-acre on which I live I should pay land-tax on the full amount of its value, instead of being exempted to the extent of practically the full amount.

*The Chairman.*] Would that be without any regard to any mortgage on the land or not?—Without regard to any mortgage on the land. Some people, of course, hold that the mortgagee is a partner.

Under the old system he was taxed as being in effect a partner?—The mortgagee is taxed upon the income which he derives from that mortgage, and the privilege does not attach to the mortgagee. The privilege which I am speaking of taxing does not attach to the mortgagee at all. It is the privilege of the true owner of the land. If he is foolish enough to go and buy land at an extraordinary price and mortgage it up to the hilt—perhaps to more than its real value—that is his own lookout. I am speaking of the general principle, not of exceptional cases. Let me say a word now with regard to country lands, and although I am a long time away from it now I know from experience some of the difficulties of those who have to deal with country land. I was at it for three or four years in my earlier days, and I have been in contact with those who have been very hard pushed in that connection. Still, even to country land there is something attached in the nature of unearned increment, and for that privilege the country people ought to bear just the same rate of taxation as I think should be applicable to all town land. And here again I would say that it should be without exemption; every one should pay. It should also be, in my opinion, at a flat rate, leaving the Government to deal with the question of the breaking-up of large estates by some other legislative means. We are not taxing for the purpose of breaking up large estates.

*Mr. Shirtcliffe.*] Have you any means of doing so in mind?—Would you mind asking me that later on? I am apt to lose the thread of my thought. The tax ought not to be used as an instrument for breaking up land. If that is desirable, it ought to be done in another way. We are taxing people for the privilege which those people enjoy. Then, in regard to the valuation of these country lands for taxation purposes, I have always held that the present system of guessing at—for that is what it amounts to—guessing at the unimproved value is a mistake. The value on which I think lands ought to be taxed is what might be called their naked value. Mr. Begg will understand the difference between unimproved value and naked value. To take the unimproved value, of course, assumes that you know what was the condition of that land when the Dominion was taken possession of, and an attempt is made by a process of guesswork to ascertain what would be the value of that land to-day if it were in that condition to-day. It is an impossible kind of problem to answer; but there is no difficulty at any time in answering the question, What is the naked value of that land to-day? What is the value of that land to-day minus buildings and fences? If you say that that is not fair to the man who has improved his land, I do not see where the unfairness comes in, because the man who has sunk his money in improvements in land, such as drainage and clearing and whatnot, may really plead that he has paid more for his land than the original purchase price, and he is in the same position precisely as the man who buys land in that condition and pays the value of it. The one man buys the land as it stands to-day. The other man bought the land in its rough condition and has



brought the land to the condition in which it stands to-day ; and in both cases, although it is not a true assumption, it may be assumed that the cost is the same. Personally, I know perfectly well that a man cannot bring land into the condition it is in to-day and make money out of it at the price he can sell it at, unless the question of unearned increment comes into play. But that, I think, would be a fair basis for the taxation of land. That being a basis for the taxation of land, I think it is a very unwise policy to value land upon its speculative value. New Zealand, particularly the North Island, I think, has suffered enormously by this land speculation. Land is not worth the money which people are paying for it or which people have paid for it in many cases. It would be impossible to make anything out of it at the prices which people pay for it sometimes, or have paid. I do not know what the condition may be now, but I am speaking of what was the condition a year or two ago ; and I think, therefore, that the valuers should be capable men and ought to value the land strictly upon the basis of what that land will produce in the way of income. That cannot be absolutely accurate. There will, no doubt, be errors and injustices here and there, but in the main I think a fair accuracy might be attained by valuing land on the basis of what it will produce ; and that valuation, of course, would vary from time to time according to the value of the produce of the land. It would vary also in accordance with the situation of the land—whether it was close to a market or far from a market, and so on. I think that if that course were adopted we would get to a much fairer basis on which to assess tax upon land than the present one. As between land-tax and income-tax, I have said that the true estimate of a man's ability is the amount of his yearly income ; but some men who are of a speculative turn of mind may sink their money indefinitely, with a view to getting later on the unearned increment, and land may be held up in that way, producing practically nothing or very little, in the hope that twenty or thirty years hence it may be disposed of at a profit which will be sufficient to cover the idleness of the intervening years. And that is one of the reasons for the existence of a land-tax, not for the purpose of breaking up the estate, but to make these people pay tax as if they were using that land properly. It may be said that there is danger of double taxation. The man who is using his land properly and paying income-tax should not be called upon to pay a land-tax as well. That is perfectly true, and if my theory were carried out he would not be called upon to pay land-tax, because I would deal with that by simply assessing the land-tax, making it the primary tax to be paid. I would assess the income-tax in due time, and from the amount of the income-tax deduct the amount paid in land-tax, letting the man pay income-tax simply upon the difference.

*The Chairman.*] I can see how that would be perfectly fair in the case of a man having land which he used in connection with a business ; but suppose the case of a man who has land, part of which only he used in connection with his business, would you then deduct the whole of the land-tax from his income-tax in that case ?—Why not ?

He might be deriving income from the land which he was not making from his business ?—Very well ; he has got to return that income.

You would tax him on his rents ?—One difficulty in studying this question lies in the fact that practically none of the authorities of any consequence deal with land-taxation as we have it in this country. They deal with taxation of the rents of lands. Of course, that is consequent upon the different tenure which exists in other countries. But it is quite clear that if a man is paying a privilege tax he should not on the same source of income pay the income-tax. The privilege tax would never, I take it, reach the amount of the income-tax on a well-worked place. With regard to the 5 per cent. deduction to which Mr. Clark referred and which was in operation here up till a year or so ago, it is quite clear that for some people it represented an improvement as compared with the former position. To others it represented a loss. That is to say, 5 per cent. was too much of an allowance in some cases and too little in others ; but it was a very fair attempt to meet the difficulty I have spoken of. It was assumed that land would produce a net income of 5 per cent., and that amount was allowed to people when they were paying their income-tax—5 per cent. of the value of the land was allowed to them. But on the plan which I advocate there would be no need to do anything of the kind, because a man would simply, from the amount which he was due to pay as income-tax, deduct the amount he had already paid as land-tax. Of course, a good deal of what I am saying would be subject to modification by reason of practical conditions, which I am not dealing with at present. I am rather theorizing upon principles. But I think that that would be a fair solution of the question. The tax would be a flat tax. There would be no graduation so far as land is concerned. I believe in graduation so far as income-tax is concerned, provided that you keep in mind the fact that you may kill the goose that lays the golden egg by overdoing it. I think every one will admit that we were in some danger of doing that in New Zealand.

*Mr. Clark :* We were very close.

*Witness :* We came very close to it, anyhow. I do not know that I need say much more in that connection. Shortly, it means this : the main basis of our taxation—leaving out of the question death duties and so on—should be a man's income. If a man holds privileges such as the possession of land, which he may hold to the detriment of the community and to his eventual profit, then year by year he should be taxed upon that ; but he should not be taxed both upon the privileges conferred by the possession of property and the income of that same property. Hence the amount which he pays as tax upon his privilege should be deducted from the amount which he pays as tax upon his income.

*Mr. Shirlcliffe.*] You suggest that land-tax should not be imposed for breaking up large estates. Of course, we know that that was the original intention of the Act ?—I think it was a mistake.

And probably it has achieved its object to a very large extent ?—I do not know that it has.

There are comparatively few large estates now as compared with the position twenty or twenty-five years ago ; but there is still the question of the possible reaggregation of large blocks of land. Have you any means in your mind to deal with that ?—I would not worry about that.

You said that other legislative means should be taken?—If desired, to break up large estates.

Or prevent reaggregation?—No, I did not say that. I said to break up large estates. The Government have the means in their power. They can take possession of those large estates at a fair valuation. I do not see why the possessor of a large estate who purchased that land in the early days should not have his reward. Take, for instance, Hawke's Bay. I know that I am too timid a person to have gone and taken the risks that some of those early settlers took in Hawke's Bay. They practically held their land at the risk of their lives, and I can see no reason why the men who did that in those days should not reap the reward of their boldness and progressiveness. But if the country wants their land, then the country is entitled to take it at a fair price and use it. Of course, we know the difficulties. We know that they sometimes get more than a fair price. We know that all kinds of strings are pulled; but the principle still remains, that these men are entitled to the benefit of their early boldness and foresight, and if the country wants their land it is entitled to take it from them at a fair price. I think that will be admitted. Then, in regard to aggregation, I think there is a great deal too much made of aggregation. Aggregation arises not always out of an earth-hunger on the part of the purchaser of land, but very often out of the fact that lands have been cut up in areas on which it is quite impossible to do any good with them. Mr. Begg will understand that. It is only a natural thing that these lands should pass into the hands of other people, who will seek to increase the size of the holdings. If it is thought there is a danger of undue aggregation—that is to say, of wealthy people adding acre to acre simply for the purpose of becoming large estate-owners—very well; that can be dealt with in the same way as the holders of the present large estates can be dealt with; the land can be taken from them at a valuation. I think nothing of aggregation, because it is a reaction from undue subdivision.

Then, you would not differentiate at all between the man who holds £1,000 worth of land and the man who holds £100,000 worth?—No, not in the land-tax. The land-tax is simply a tax upon his privilege of holding land at all, and, counting year by year, it to some extent absorbs the possibility of unearned increment. I do not say that it wholly absorbs it, but if the tax is a fair one and is exercised year by year, in the course of years—twenty years, for instance—the tax, paid regularly and capitalized, would approximate perhaps the possible unearned increment.

That would depend upon the rate of tax, of course?—Yes. I am not in a position to say how much that tax ought to be, nor am I in a position to say how much the income-tax ought to be.

*The Chairman.*] What would you regard as a safe maximum for the income-tax?—I should imagine about 3s. in the pound, or 3s. 6d., to be a safe maximum for income-tax. I do not know whether I should say anything on the subject of the taxation of companies.

If you have views we shall be glad to have them?—I have views on that subject. It is a very debatable subject. Would you like to hear them?

*The Chairman:* When Mr. Shirtcliffe has finished.

*Mr. Shirtcliffe.*] I am very much interested in what you have said about the land-tax. I understand that you advocate a flat rate of land-tax irrespective of area or value, and, in the case of land held for speculative purposes, the imposition of no additional penalty?—No; because if the flat rate is properly considered—and Mr. Clark is capable of properly considering it—it will be a rate which will in normal circumstances pretty well eat up the possible unearned increment; that is to say, the unearned increment of one year would be pretty well eaten up by the rate. I have bought sections myself and have paid rates on them, and land-tax too, and I know that when you come to sell out and think you are doing very well, when you figure out what you have paid in the meantime in the way of taxation you find there has not been very much in it.

It seems to me that if a man has held land for speculative purposes for twenty years and made no attempt to improve it the community has been deprived of the use of that land. Would you not consider it fair that he should pay some penalty, in addition to the land-tax that anybody else pays?—It might be considered fair, but I question whether it would serve any particular purpose. In the case of country land, whether it be agricultural land or pastoral land, no man holds that land absolutely idle. He may not be using it to the best advantage. He may be using it very much short of the best advantage, and he may be doing so deliberately. What I point out is that this year-by-year tax will spur him up in the matter.

Take suburban lands?—In the case of suburban lands I do not know that it is a matter of very much consequence. One man wants to hold on to his 5-acre patch. There are plenty of others who are wanting to sell. In some cases there will be more difficulty than in others. In a place where land is exceedingly scarce there might be some little purpose to be served by the proposal to put a special tax upon such land; but, generally speaking, I do not think that the putting-on a special tax upon land which is being held and not sufficiently used will serve any particularly good purpose.

*Mr. Clark.*] Do you think that the exemption of such a large area of land in recent years by reason of the ordinary mortgage exemptions has helped speculation, and that the abolition of those exemptions would meet the difficulty that Mr. Shirtcliffe has mentioned?—To some extent it would. I do not suppose it was intentionally done, but the effect of the recent legislation was to allow very large incomes arising from land to escape. I suppose it was really an accident rather than anything else, but under the theory which I propound no income would escape, no matter where it arose.

*Mr. Begg.*] You were going to speak of the company taxation?—Company taxation suits me all right as it is. But, all the same, I think it is quite inequitable. I do not think it is equitable to treat a company as an individual. However much it may save my own pocket, it is not a fair thing. I think, therefore, in opposition to my friend Mr. Clark, that as soon as it can possibly be done a change should be made. I do not think it can be done at once. The demand for revenue is too great and the effect of the change too uncertain. It may not be possible to do it at once, but I certainly think, in the words that were used in the report of the Taxation Committee, that the change should be contemplated, and as soon as possible the taxation of companies as entities should be given up and

individual taxation adopted. But while on that point I will go this length: I will admit that there are privileges connected with companies, and I know that some hold very strongly that the taxation of a company as an entity is the correct view. I do not hold that. I am quite prepared to admit that there are a sufficient number of privileges attached to the trading-power of companies to warrant a moderate company-tax being maintained. A very moderate company-tax might be maintained, as is the practice in some other places. I think that is the practice in Australia, is it not? There is a moderate company-tax, which may be conceived as a tax upon the privileges of a company as compared with a private trader. But for the bulk of the taxation of members of companies it should be individual; it should be charged to the individual. And I do not know that the loss would be so great as is sometimes estimated, because an enormous number of people have a certain amount of income from companies and a certain amount of income from private sources—perhaps their private efforts or their salaries or something else—and the aggregation of the two for taxation purposes would bring them into the higher scale upon their whole income. Therefore I do not think that the loss would be so great as has been feared if the change were to be effected. That is my opinion on company taxation. The taxation should be upon the individual. The privilege attaching to the company might be covered by a reasonable company-tax.

*Mr. Shircliffe.*] It would be a privilege tax?—Yes; in the same category as the land-tax. It would be a privilege tax. I do not know whether there are any other privileges which might be taxed, but they are not under our purview at present.

*Mr. Begg.*] You mentioned that the company-tax suited you: do you mean that it suited any one whose income is derived from dividends?—I would not like to go so far as to say that it suits every one, but it suits me, whose income is derived from dividends.

Because the company pays the tax and they get it free of tax?—They pass it on.

But if shareholders get their dividends free of tax, if company taxation were abolished, would not they not only get that dividend but also what now goes to the Government in the shape of tax?—No; competition will regulate that.

You think that a company earns more when it has to pay that tax than it would if it did not pay that tax?—It makes up its mind to earn that tax more. The position is that capital always seeks the best investment. For purposes of revenue you cannot find capital unless you can give it something better than the ordinary investment rate. If you want capital to carry on a business—and every one wants capital to carry on a business, either his own or some one else's—you have got to provide for the capital a rate somewhat better than, say, the price of loan-money, which may be 6 per cent. Unless you can show shareholders that by leaving their money in your business they will get more—say, 7 per cent. as a minimum—then they will not put their money into the business, but will invest their money in mortgages and loans. Then the only corrective asserts itself: as soon as the money market gets so flooded with this money that investors cannot find investments for it, immediately the price of investment-money goes down, and instead of being 6 or 7 per cent. it may go down as low as  $4\frac{1}{2}$  per cent. or even lower. Whenever that stage is reached people will come back and say, "We can make 7 per cent. in business and so we will find the investments for our money in business." Money goes into businesses when businesses can produce more than investments. Money leaves businesses when they will not produce as much or as safely as in investments. That, I think, is obvious. The consequence is that a large company particularly, and even a small company, seeks to encourage the investment of capital by keeping up the rate of its dividends, and this applies more to companies than to private individuals. Private individuals may be leisurely inclined. They may be all right as far as their positions go, and they may not need to worry about making more than, say, 5 per cent.; but the manager or the directors of a company are in the position that unless they can show their shareholders that they can give them something better than the investment rate they will find their shares dropping, and their company will go into liquidation. Consequently, if there is going to be a tax which is the equivalent of 3 per cent. on the income of that company, then they will have to pay better in order to pay shareholders 7 per cent. The shareholders will growl otherwise, and will take their money out. They have to get it, and we are told that it does not pass on. Well, I would like to say that in every case it does pass on. Some people are unfortunate enough not to be able to pass it on, but it does pass on in practically every case. You may say that it does not pass on directly. For instance, a firm does not put down on the end of the invoice it sends you, "Your proportion of the income-tax is so-much," but it takes jolly good care, in reckoning what it can sell its goods for, that income-tax is taken into consideration, and necessarily the cost of the goods is higher. That money has to come from somewhere. The shareholders will not part with it. They want their 7 per cent. The wise manager charges more for his services, the legal profession charge more for their services: in every case men charged more for their services or for the goods they sell. They certainly do pass on the tax. It does not come out of the shareholders' pockets. Remove that tax and immediately the competition of one business with another will bring things back to something better than the investment return because of the increased risk of the business. That continues all the time, and no legislation, nor any human scheme, will avoid it, because it is human nature.

*Mr. Shircliffe.*] We have had evidence this morning from a leading manufacturer and with a wholesale and retail business, and he was most emphatic in his statement that it is impossible to pass on the tax.

*Mr. Hunt:* Only in the retail trade, he said.

*Mr. Shircliffe:* He was very emphatic that as regards the wholesale and retail side of his business it was impossible to pass on the tax, that they bought and sold to the best advantage, and made the profit which the market conditions would give them, and that at the end of the year they had to provide a certain proportion for income-tax: you disagree with that?—There are many people

who, without much calculation, plunge into business, and they say, "Well, there must be a profit in this," and they go ahead to the end of the year without knowing or having any idea of what the result of the year's trading will be.

But this is not a firm with any short experience?—Then, it must be a firm that had been making large profits and not passing their tax on; it may be that other people were content with lower profits than they were making.

How do you suggest that the passing-on is effected: you could not add a percentage to the cost of the goods to cover income-tax?—You do, as a matter of fact. You increase your "overhead" as it is called—your rates and taxes are included in your overhead.

Rates and taxes are a fixed quantity, whereas your income-tax is an unknown quantity until the end of the year?—Theirs must be a very fortunate business then.

You do not think that the force of competition to-day beats prices down to the level at which they would be were there no income-tax?—No. In some cases; take gas companies—

But they are exceptions?—Yes, they are exceptions, and they are easy of illustration. The illustration is easy there. They deliberately put into their charge so-much for income-tax. Coal companies do the same thing, I believe.

*Mr. Weston.*] No?—Well, there are coal companies and coal companies. Any one will realize the truth of what I say, that out of the earnings of a business you must find sufficient to pay that tax, and you must find sufficient to give a satisfying dividend to your shareholders.

I can tell you frankly of one company which, if there had been no war, would have been in a better position than they occupy to-day. Instead of paying 6 per cent. we would have paid 8 per cent., and we would have had at least another £10,000 in reserve?—Well, I am in one company that has been in existence for fourteen years, and it has never paid a dividend yet to its ordinary shareholders.

*Mr. Shirtcliffe.*] What has become of the capital?—It will pay eventually, and as far as the shareholders are concerned, nine times out of ten the money is withdrawn. The new man will hang on for a year or two, and will make his loss and then clear out. You can buy shares in this company for 2s. 6d. These people are speculators, but as a matter of fact money disappears from any investment which fails to produce a return.

*Mr. Weston.*] Cannot you put it this way: income-tax is a tax either on personal exertion or on the use of capital?—On the income from capital.

The income that comes from the use of capital?—No; the income from capital.

Well, capital always wants to get as much as it can, the biggest return, and the return you can get from capital is dependent upon the demand for capital in the country and the supply available?—That is so as far as the investment rate is concerned.

The investment rate also affects every business. Therefore the extent to which a tax upon the use of capital cannot pass on depends upon the law of supply and demand; that is to say, the amount of capital in the country and the demand for it?—Well, no, the rate of income which will be gained by the owners of capital depends upon the supply and demand, but the amount which a business will call upon itself to earn only depends upon it to the extent that it will have a little less to earn in order to satisfy the shareholders. But assume that the price of investment capital came down to 4 per cent., you can easily understand that the shareholders in a business would think themselves doing all right if they were getting dividends of 6 per cent. But if you were taxing these companies which were earning 6 per cent. another 2 per cent. they would immediately say, "We must still give our shareholders 6 per cent.," and they would get it.

Supposing you were taxing all capital alike, if you were taxing capital used for investments you must pay the same tax upon that?—We are discussing taxing income from capital.

We are going to tax income from capital: you tax the man's investment in mortgages the same as you tax his money in a business?—No. You mean that income compared with income, the rate is the same for moneys realized from investments as it is for moneys realized from businesses?

If you say that you can pass on the tax, then you would get a rise in your basic rate; that is to say, the man who was investing in mortgages at 4 per cent. would say, "I want more than that, because I have to pay a higher rate of income-tax than in the past?—So he does.

Taking the basic rate—that is, investment in first-class mortgages—you will find that the increase has been from 1 to 1½ per cent.: is that so or not?—I am not in a position to say what the increase has been, but there are two elements which account for the increase: the one is the sufficiency of the supply of money, and the other is—assuming that the supply approximates to the demand—the necessity to recompense the man. There is the supply and demand and what the lender is going to get out of it. If there be a plethora of money the rate will come down, but the lender always takes into account that he must get ½ per cent. for income-tax.

Whether he succeeds or not depends upon the relation between the supply and the demand for money. If you take the rates for money over a long term, you find that the increase in the rates for Government securities was about 1½ per cent. Borrowers would have to pay 1½ per cent. more than in 1914. That is a little under 30 per cent., which is the rise in the rate of interest. As against that the cost of living rose over 62 per cent. So that the rise in the rate of interest is not in proportion to the rise in the cost of living. So that even if you are getting 6½ per cent. to-day where you were getting 5 per cent. in 1914; your 6½ per cent. to-day is not worth what your 5 per cent. was worth in 1914. That goes to show that tax is not passed on?—It has no connection with it whatever.

*Mr. Hunt.* Can I try to make the point clear? *Mr. Weston* was showing that the same deductions applied to investments as to a business, but that is not so. Take the case of a man with a total capital of £10,000. He invests that £10,000 at 6 per cent. in mortgages and gets £600 a year. From that he has got to pay 5s. 6d. in the pound, or £15 in tax. If you go and ask him to put that money into a business he will say that he wants more than the investment rate. As your business is paying 5s. 10d. he will want 7 per cent. plus 5s. 10d. in the pound?—He wants to be assured of something better than the investment rate.

Approximately 5s. 10d. and 7 per cent. is 10 per cent. : you would have to earn 10 per cent. in the business. Whereas 6 per cent. earned in the investment only pays 6d. in the pound ; the same £10,000 invested in business must pay 5s. 10d. ?—Yes.

*Mr. Weston :* But 10 per cent. from a business to-day is not equivalent to 7 per cent. in 1914.

*Mr. Hunt :* But that does not enter into it.

*Mr. Weston.]* You are not getting the same interest on your money ?—(Witness) There are many of us not getting the same interest for our money, but I do not see that that has anything to do with the question of passing on the tax. It does not matter what the tax is : it may be Customs duty, it may be a charge for services, it may be an increase in your expenses. But it is always passed on unless you are in such circumstances that, unfortunately, you cannot do it. There are such circumstances, but they are comparatively rare.

*Mr. Shirlcliffe.]* Do you think that the income-tax as at present levied is a distinct discouragement to the formation of companies ?—It all depends. Theoretically it is, but when people propose to form a company they take all these things into account, and if they consider they will not get a decent return they do not form the company. Theoretically it is a discouragement. Of course, taxation is a discouragement to all industry.

As a matter of fact, people only form companies under such conditions provided that they satisfy themselves that they can, after paying tax, return a fair rate of interest on the capital invested ?—That is so. I cannot conceive of any one forming a company if they are going to get only 4 per cent.

One would almost think that under the present system by which income-tax is levied there would be practically a cessation of the registration of new companies ?—I do not know that that need be. I do not see why it should be. When people contemplate forming a company the first thing they do is to sit down and calculate the possibilities of that company as an earning institution. If they satisfy themselves that even with the existing tax it will earn a reasonable amount they will form the company.

Then there are possibilities, even under the present system of taxation, of earning a return ?—Yes, but they are limited. They have got to calculate upon the company earning 10 per cent. if they are to get 7 per cent. in dividends.

*Mr. Weston.]* Most companies do ?—Most companies do not.

*Mr. Shirlcliffe.]* It may or it may not surprise you to know that since 1918, when the high taxation commenced, during the five years, there have been over one thousand three hundred private companies registered ?—Yes.

And 476 public companies. In the last year, 1922, in spite of the 5s. 10d. in the pound income-tax, there were 106 public companies registered, with a nominal capital of over £11,000,000. From that it does not seem that the registration of companies is being greatly discouraged ?—I do not think you can draw any sound conclusion from that, because you must assume what might have been registered if there had not been that heavy rate of taxation. That is mere guesswork. But one thing is quite certain—that if you are proposing to establish a company you must sit down and see what that company will give you in the way of a return. If you reckon that company can earn sufficient to pay the tax, plus a reasonable return of the money to the shareholders, then the company will be formed. If you discover that it is impossible to get a sufficient profit in order to pay tax and have a reasonable return, then you do not form the company. If the tax were twice as much, that calculation would still apply, but it would not prevent the formation of companies. There are many concerns where the tax is passed on. If there is a tax upon leather you will find it reflected in the price of your boots.

*Mr. Begg.]* If there is a tax upon bootmakers' profits, does that increase the price of boots ?—Yes. The cost of living has increased, as far as the bootmaker is concerned, and because of that you must pay extra for your boots.

*Mr. Shirlcliffe.]* All that I quoted those figures for was to suggest that in spite of the present system of taxation and the higher system of taxation that prevailed prior to 1919, that question you have suggested as to whether the company could pay the tax and still pay a reasonable dividend has been investigated in the case of over 1,300 private companies and 476 public companies ?—It ought to have been.

We will assume that they were men of business and knew what they were doing ?—If they were wise men they must have considered that the company would earn sufficient to pay the tax and make a profit for themselves.

You remember that in the minority report of the Committee there was this passage : " The Commissioner of Taxes gave evidence that the proposed change in the incidence of company taxation would mean that the rate of income-tax on all taxable incomes of individuals between £300 and £2,000 would have to be at least doubled." You said that the incidence of taxation should be altered as soon as possible. The money has to be raised, you see ?—What I said what this, though I may not be expressing myself in exactly the same words : I could not say but that it might not be possible at present to make the change, but, in the words of the majority report of the Committee, the change should be contemplated, and that an attempt should be made whenever it is possible to revert to the individual system.

Let me put it in this way : If it were found that in order to effect the change the taxation on incomes of individuals between £300 and £2,000 would have to be doubled, you would not suggest that the change should be made ?—Personally, I think it would be just, but I do not think that any Government would venture to do it.

There is the question of ability to pay?—The question of ability to pay comes in. The people would probably rather pay indirectly, through the company taxation. I think Mr. Clark was only estimating when he made that statement. I do not think it was the result of a close investigation. But if it still be true that such would be necessary, well, I do not think that any Government would do it, and it is not within the region of practical politics. But I say, as a matter of equity, as a matter of principle, that the Government ought to contemplate doing it as soon as possible.

*The Chairman.*] You adhere to the view expressed in the majority report, to which you were a party?—Yes, I hold to that view.

DUNEDIN: THURSDAY, 1ST MAY, 1924.

ARTHUR CLOTHIER examined.

*The Chairman.*] I understand that you were for many years in the Valuation Department?—I commenced in the property-tax Office in 1883, and, with the exception of a brief break of some five or six years in my service, I was there continuously until I retired in 1918. For twenty-five years I was in charge of the Otago and Canterbury district, principally Otago. After my retirement I commenced practice on my own personal account as a valuer, and have made my special business the preparation of land-tax and income-tax returns.

You have made a study of land and income tax, have you?—I have made it my hobby.

Have you prepared a written statement setting forth your views?—Yes, sir. It is as follows:—

First, I would call attention to the land-tax imposed on lessees under section 52 of the Land and Income Tax Act, 1923, which reads as follows: "Any person owning any leasehold estate shall be deemed for the purposes of this Part of this Act (though not to the exclusion of the liability of any other person) to be the owner of the fee-simple and shall be assessed and liable for land-tax accordingly. . . . The provisions of this section shall not apply to leasehold estates in any land of the Crown, or in any Native land, or in any land vested in fee-simple in any person who in respect thereto is wholly exempt from land-tax." The effect of this is that any person who leases land from a private individual has the unimproved value of such land added to the unimproved value of his own freehold, and is charged graduated land-tax on the total of the two, less the amount of land-tax, if any, payable in respect of such leased land by the owner thereof (see section 2). The following is an actual example of the working of this section: A owns land of the unimproved value of £9,345, and leases from B, C, D, and E other lands the unimproved value of which is £39,515, and is charged tax on the total, £48,860. This amounts to £690, less the tax paid by B, C, D, and E, £414, so that A has to pay the balance £276. The graduated tax on his own freehold (£9,345) is £55, so that A is actually paying £221 on his leasehold land, the tax on which has already been paid by the owners. The charge in this particular instance is equal to 1s. 4d. per acre on the area A leases. I consider this double taxation to be inequitable, and that the section (which was originally introduced in the Finance Act, 1917), should now be repealed. I may mention here that in the preceding year the tax was £550, and in the year before that it was £350. The difference is due to the difference in the rate. The provisions of the Act so far as land-tax is concerned are, to say the least, very intricate, and I believe that a straight-out land-tax at a flat rate on both town and country lands would give more general satisfaction to the taxpayers as well as being simpler in administration and collection. My experience tends to show that (apart from a laudable desire to pay as little as possible) the taxpayer does not object to pay so long as he feels that his neighbour is doing the same. With regard to income-tax, I do not think there would be much, if any, objection on the part of the farming community to pay a small tax at a flat rate, deductions, of course, being allowed for mortgage interest and other expenses as already provided for in the Act for businesses other than farming. And any objection that does exist might, I think, be largely removed if more stringent measures were taken to enforce compliance with the obligation to make returns. Apparently the minimum penalty provided for in the Act (40s.) does not act as a deterrent, and should, I think, be substantially increased. The cases of non-compliance are numerous, and in some instances flagrant, and afford good grounds of complaint from those who comply with the law. As regards the payment of income-tax by companies, I personally see no reason why in this respect companies should be placed on a different footing from any other commercial firm or individual. The tax itself when distributed over the number of shares in a company can only come to an infinitesimal sum per share, and ample provision exists in the Act for the relief of hardship in the case of small individual shareholders; whilst, on the other hand, it might in many instances prove to the advantage of a large shareholder to have the tax deducted from his dividends rather than to include the dividend in his return. The balance-sheets of companies are usually prepared by officers of reputed knowledge and experience, and, as I have already said, the payment of the tax does not materially affect the individual shareholder, and this method of collection has the additional advantage of being both accurate (the tax being calculated from the balance-sheet) and economical and without friction.

*Mr. Hunt.*] You are an experienced land valuer, are you not?—So far as the valuation of country lands is concerned, I do not profess to be an experienced valuer, but I have had a large amount of experience in the valuation of town lands.

Are you also an experienced business man?—I have earned my own living during the last sixty years.

What at?—Anything honest.

I mean, you have not had much to do with the management of companies?—I was brought up in one of the largest companies in England—the Great Western Railway.

Do they have company-tax there?—No. I am speaking now of forty-five years ago. They did not in those days.

Had you anything to do with the financial management of the company?—I had. I was in the secretary's office there for some fifteen years, and as a young man I had much to do with the finances of an undertaking which is almost as big as the Government of New Zealand.

You say in connection with company taxation that it comes to such an infinitesimal sum per share that it hardly counts?—Speaking generally. You cannot individualize, you know, in these things altogether. There are cases I know in which a small company has been successful and the tax has been very severe. In one instance to my personal knowledge the tax paid by the company in one year was equal to half the capital.

That company was making a very large profit?—The tax was based on the profits.

Take a large company that makes a gross profit of 10 per cent. It would take 3 per cent. of the 10 per cent. to pay the tax at the present rate. That would reduce the profit to 7 per cent. ?—Yes.

Would you call that an infinitesimal sum that would not be felt?—Spreading the tax over each share, the amount of tax paid comes to a very small sum.

But it comes to 3 per cent., assuming a profit of 10 per cent. ?—Yes, on the total investment.

You would not call 3 per cent. an infinitesimal sum, would you?—It is not a large sum.

If I borrowed a sum of money from you at 6 per cent. and only paid you 3 per cent., would you call it infinitesimal?—I might be glad to get even that!

*Mr. Shirlcliffe.*] You quote an instance here, in connection with land-tax, of the effect of aggregating the leasehold with the freehold, and you show, in the instance you quote, that A had to pay £276, instead of £55 which would be the graduated tax on his own freehold?—That is so.

So that he was paying £221 on his leasehold land?—Yes.

I presume he would take up that leasehold land with the knowledge that he had to pay the graduated tax?—No. That land was taken up before the Finance Act of 1917 was passed.

In that respect, of course, it would be a hardship on him owing to subsequent legislation?—Yes.

But if a man were taking up leasehold land to-day he would calculate the rent he was able to pay and the tax he would have to pay?—If he was well advised as to the tax. But the position, so far as this section of the Act is concerned, is this: it is so little known generally. Even the profession know nothing of it. So that as to advising a client you will find, in effect, that there is scarcely one person in a thousand that would take it into consideration.

Then the hardship on the man taking up leasehold property lies in his lack of knowledge of the Act?—Lack of knowledge on the part of his adviser, for which he has to pay.

You mean to say that his advisers, who make this sort of work their job, are not able to advise him on that point—one of the most important points in the Act?—I do not think more than one in a hundred knows of it.

Now, with regard to income-tax: do you favour a graduated income-tax at all?—No, I cannot say that I do. I consider that if a man has a large income he has also large responsibilities, and in other ways he has to perform his duty to the State.

Do you think that a man making £50,000 a year should only pay the same flat rate as a man making £500 taxable income?—So far as I am aware there are very few individuals making large sums of that kind. But take a man making £10,000 a year; he does more in proportion for his income than a man who is only making £1,000.

You think it is fair that the man who is making £10,000 to £20,000 a year should pay only the same flat rate as the man who makes £1,000 a year?—Yes. And there is another thing which impels me to that conclusion, and this is the result of my personal experience amongst taxpayers for many years, both here and in the Old Country too. If you can equalize the tax as far as possible the taxpayer is very much more ready to accept the position. As I indicated in my memorandum, almost the whole trouble over taxation, in this part of the country at all events, is that A's neighbour is getting out of it while A has to pay. That is the reason why I suggest that the penalty for failure to make a return should be very substantially increased.

Keep to the question of the graduated tax just for a moment. I gather that you do not favour the levying of taxation on the principle of ability to pay according to income. You see, a certain amount of money has to be raised for the country's needs, and that is one reason why the graduated tax is kept in force. You are not in favour, I gather, of the man with a large income being made to pay more in proportion than the man who makes a small income, bearing in mind the country's needs?—The country's needs could be met by a very small increase in the rate.

The flat rate?—Yes.

Would not that bear hardly on the man with the small income—much more hardly than on the man with the large income? For example, suppose a flat rate of 2s. in the pound. A man making £1,000 a year would have to pay £100, while a man making £10,000 would have to pay £1,000. It would be much easier for the man making £10,000 to pay £1,000 than it would be for the man making £1,000 to pay £100?—Not always, I think. I had a very wealthy client in my office yesterday who was short of money.

*Mr. Shirlcliffe* (to *Mr. Clark*): With regard to *Mr. Clothier's* suggestion about the penalty, which seems to go in the right direction, is it right that failure to make a return entails a penalty of only 40s.?

*Mr. Clark*: That is the minimum. It goes up to £100.

*Mr. Shirlcliffe*: A solicitor was fined £10 only this week in Christchurch.

*Mr. Clark*: It is in the discretion of the Magistrate.

*Mr. Shirlcliffe* (to witness).] I gathered from your statement that you thought 40s. was the maximum?—No. I used the word minimum.

*Mr. Clark*: If the failure to make a return is wilful, for the purpose of evasion, after the Magistrate has dealt with the case I can impose a penal tax—three times the amount of the tax. And that is frequently done.

*Witness*: In the case of a man who is nearly taxable that provision fails, and it is these people who are nearly taxable and who may become taxable by an inspection of their accounts that I refer to more particularly; and they are a large source of trouble, because they go about boasting that they have made no return.

*Mr. Shirtcliffe.*] But those men are still subject to a penalty if they make no return—a penalty up to £100, although they may not be taxable?—Yes, up to £100; and that is why I suggest an increase of the minimum. There was a case reported in the paper in which a man, a professional man, had consistently refused to make a return for seven or eight or nine years. Finally he was summoned. He pleaded guilty, but instead of imposing a substantial fine—one which this man could well afford to pay—the Magistrate rather condoned the offence and blamed the Department, but said he was bound to inflict a penalty, and fined the man the minimum amount—40s.

Was he taxable?—That I cannot say.

*Mr. Clark*: As a matter of fact he had paid more tax than he was really entitled to pay if he had made returns. He paid through default assessment.

*Witness*: The point I want to emphasize is the absolute necessity for every one in business to make a return.

*Mr. Shirtcliffe.*] With regard to your view concerning company taxation and the question asked by Mr. Hunt, there has been a good deal of discussion as to the effect of the present incidence of taxation of companies, on the small shareholders as compared with the large shareholders. I want to ask you for your view on this question. Small investors take up their shares in companies. They may have a few hundred pounds each. They put that money into companies for the purpose, as they think, of earning a tax-free dividend that they would not be able to earn outside. When the company pays its dividend—say, 7 per cent. if you like—they get the same rate of dividend as the large shareholder. Do you think there is any injustice inflicted on the small shareholder by the tax being paid by the company?—No, sir, for the reason I have stated there—that the small shareholder is amply protected by the present Act. The process is so simple that a child in the Third Standard could do it. All one has to do is to write to the Commissioner and say, so-much tax has been deducted from the dividend, and he will refund the amount. The thing is quite simple.

*Mr. Shirtcliffe (to Mr. Clark)*: How does that operate in the case of a small shareholder?

*Mr. Clark*: The provision is that the dividend, with the tax refunded, must not exceed 6 per cent. on the paid-up capital. That is the limit. The dividend that the shareholder receives, and the refund of tax made to him, combined, must not exceed 6 per cent. on his paid-up capital.

*Mr. Weston*: Guaranteeing him 6 per cent. on his investment?

*Mr. Clark*: That is what it amounts to.

*Mr. Shirtcliffe (to witness).*] Then, you consider that the small shareholder is well protected—he is suffering no injustice?—He is getting very materially the best of it.

*Mr. Begg.*] You have had a lot of experience in valuing land, and you stated that you believe in a flat rate of tax on land?—Yes.

Do you think the fairest way of imposing that tax is on the unimproved value as at present?—Yes.

Have you experienced any difficulty at all in arriving at the unimproved value of rural lands?—I think, Mr. Begg, that your experience is almost as wide as my own. I do not remember a case in which there has not been a difficulty. You have been an objector yourself, and you have been an assessor.

As regards structures, fences, and so on, the value is easily arrived at?—Yes.

But with regard to other improvements they are always more or less invisible, are they not?—Yes, practically.

In fact, in many cases they are not ascertainable?—No. Take bushfelling, for instance. It disappears entirely after thirty or forty years.

Draining?—Draining disappears.

Improvements in pastures?—Yes.

As there are all these difficulties, with the inevitable consequence that it cannot be equitable in every case, that there is a danger of its not being equitable, for an improvement that is invisible very often departs and will not be allowed for?—It is like paint on a house. It is exhausted—gone.

You know only about it if you know what it was like originally. Is not that difficulty liable to increase annually, as time goes on?—I think not. The difficulty has mainly arisen, in my experience, through the want of knowledge on the part of the valuers when taxation on the unimproved value was first introduced, which is not so many years ago, comparatively.

You do not think that that difficulty will increase?—No; I think it will diminish.

Will not the knowledge of what the land was like originally get more and more shadowy as time goes on?—I think sometimes you will find that with old age your memory improves.

But if this system depends upon an individual's memory is it not hopeless, because if this continues it will go on long beyond the extent of one man's life, so memory will not help?—That will be some one else's funeral, not ours. Whether right or wrong, the system of taxation on unimproved value has come, and while it is here with us we can only deal with it as the Act stands. The question of valuation is outside the question of taxation. But, still, the tax is imposed upon the basis of a certain valuation, and it certainly comes under our review.

*The Chairman.*] Yes, it comes within the scope of our inquiry.

*Witness*: I have not the slightest doubt that with the progress being made the system of valuation will improve year by year, as it has done in recent years. The men are getting more experience.

*Mr. Begg.*] The farmers think they are not allowed sufficient for their improvements: is that your experience?—Yes; a farmer thinks that when he puts a spade into the ground he has made an improvement in every case. There is a large amount of necessary expenditure, but very often it is non-productive.



An improvement, in the eyes of the law, may be a detriment in fact?—Yes, particularly in tussock country.

And yet in valuing you allow for improvements which may have been, in fact, injurious?—Sometimes that has occurred.

Is that right?—

*Mr. Clark:* It is a mistake on the part of the valuer.

*Witness:* Even in such cases the same valuer will make the same mistake in the whole of his district, so that one farmer does not suffer as against another.

But he does suffer as compared with a farmer in another district under another valuer?—Yes, that may be so.

The owner has the right to object, but my experience is that people, as a rule, do not object. The evidence put before the assessor is that there are fifty farmers in the district who have not objected to the valuations, and therefore he will weigh that evidence as against the two who have objected?—That is so. The way to deal with that is by an alteration in the Valuation of Land Act, and instead of dealing with the objections sent in, to have a Board to review the whole lot. There is some sort of provision to that effect now in the Valuation of Land Act. The local body can object, and that also gives the right to have many valuations revised. But it is a proviso which is very seldom exercised.

In point of fact, if only structures were regarded as improvements—buildings, fences, sheep-dips, and yards—much greater accuracy would be obtained. If all improvements were ignored except visible structures, would not there be much greater accuracy in the valuations?—In some cases the valuations would be much simplified, because thousands of acres are simply ring-fenced and you would simply value the fencing.

Would it on the whole make it more accurate?—It would make the valuations more level.

You think it is a fair thing that a company should be regarded as an individual for taxation purposes?—Yes.

But not absolutely so?—In what way?

You approve of the small shareholder getting a rebate if he does not get sufficient dividend?—Yes, if the deduction inflicts any hardship upon him. But there is already provision for him.

Getting less money than you would otherwise get is always a hardship; it is only a matter of degree?—

*Mr. Clark:* Receiving less money than you ought to receive would not be a hardship under the section.

But in ordinary English it is only a matter of degree?—(Witness) No; I do not quite agree with you there. Take what I am best acquainted with, the Public Service Superannuation Fund: you have a certain amount taken from your salary every month, and you never see it, and so you do not miss it. If you take a man getting £500 a year and paying 10 per cent. superannuation contribution, he knows that his monthly cheque is based on only £450.

Then you would not agree that getting less than you would otherwise get is not a hardship?—It is very hard when it is taken away.

But if you do not get as much as you would otherwise get, you do not regard it as a hardship?—No.

But I gather from your written evidence that you would advocate a flat rate for companies as for individuals?—Yes. Any deficiency in revenue could be made up by a slight alteration.

*Mr. Hunt.]* On the land-valuation question, Mr. Clothier, I understood you to say to Mr. Begg that you did not find it difficult to value improvements?—Not visible improvements.

But you admit that it is difficult to value invisible improvements?—No.

A man took up 250 acres of heavy, wet, swampy, clay land in its unimproved state. He broke it in by first putting sixty thousand tiles in drains, and put in one mile and a half of timber drains. He crossed that with ploughed drains. He ploughed and subsoiled the whole thing, and put on 3 tons of lime per acre, and top-dressed it for three or four years. How would you arrive at the value of those improvements? You would not be able to see the drains or subsoil?—You could not, because the man had spent in draining more than the land was worth.

You think the land was not worth it when it was done?—No.

As a matter of fact, you are wrong there, because it was worth it. He took some years to do it, and when it was done it was revalued, and the unimproved value went up four times?—That is one of the cases with which it is difficult to deal.

You could not see the tiles or subsoiling, or the lime, or the manure?—It would be like valuing a house from the outside.

You admit that you could not see the improvements in that case?—That is so. The only remedy provided by the Act is to appeal to the Assessment Court.

Could the Assessment Court see the improvements?—They could judge from the evidence given before the Court. It is not necessary for the Court to see everything they decide upon.

*Mr. Shirlcliffe.]* With regard to land-valuation, do you think it would be better if the land-valuation were based on the earning-capacity of the land less the value of the visible improvements? Would that be helpful to valuers and lead to greater accuracy in any direction?—I think not, because so much depends on the individual skill and knowledge of the farmer.

Still, would you as a valuer be able to judge as to the earning-capacity of the land if properly farmed?—Yes, and our valuers are able to do so.

*Mr. Clark:* They take that into consideration now.

*Mr. Shirlcliffe.]* Yes, but the value of the invisible improvements comes into the matter. I am asking the witness whether it would be better to have the valuation based upon the earning-capacity of the land if properly farmed less the value of the visible improvements such as structures

and fences?—(Witness) That is already taken into consideration, and I think, myself, that in the meantime there is no better way of dealing with invisible improvements than the one we have. That provides for an appeal to the Assessment Court, where evidence is given by the objector as to what has been done to the land in years past, and the decision of the Court is given on the weight of the evidence.

It has been pointed out that perhaps two men out of fifty appeal in one district, and that the non-appeal by the other forty-eight is so-much evidence against those two?—The Court is wrongly used in that way. That is why I suggest an alteration in the Act so that the valuation of the whole district may be within the knowledge of the Court. If a man thinks his neighbour's farm is valued too low, let him come to the Court and say so. The present system of spasmodic objections is objectionable.

Do you suggest that if one man in a district appeals that should automatically bring the valuation of the whole district under review?—Yes, or without any objection at all, because the others are also interested.

*Mr. Begg.*] And is not the local body interested: if the land is valued high it suits them, because the revenue will be high, but if the valuations were low it would seriously interfere with the revenue?—

*Mr. Clark:* That is so.

#### DOMINION RUBBER COMPANY.

*Mr. Weston:* Mr. Chairman, could we deal with the question of depreciation raised by the Dominion Rubber Company?

*Mr. Clark:* I would like to point out that that is the result of the alteration in the law exempting income from the land. Before the alterations were made we allowed depreciation of business premises. Now the law provides for 5 per cent.

*Mr. Weston:* In lieu of any allowance for depreciation?

*Mr. Clark:* Yes; and if the law is amended so as to bring in income from the land we shall be able to allow depreciation of premises. We cannot meet that case under the present law.

*Mr. Weston:* Why did you not give exemption on account of the land there: is it because it is not subject to land-tax?

*Mr. Clark:* That is so. There is no land-tax there. I doubt whether they pay income-tax.

*Mr. Weston:* I should think it would be very small there in the Malay Free States.

*Mr. Shirtcliffe:* These people do not tell us what taxation they are paying up there. It seems to me that the hardship, if there is any, must depend upon what taxation they are paying on their property in the Malay Free States.

*Mr. Clark:* There is some income-tax paid in the Straits Settlements.

*Mr. Shirtcliffe:* Do they pay land-tax?

*Mr. Clark:* No, I do not think so.

*Mr. Shirtcliffe:* If that estate were here in New Zealand they would pay land-tax?

*Mr. Clark:* The company would pay land-tax, and it would get an exemption of 5 per cent.

*Mr. Shirtcliffe:* Then, probably the freedom from land-tax means a much greater saving to them than this loss of 5 per cent. for depreciation.

*Mr. Clark:* That would depend upon the amount of income the company made.

*Mr. Begg:* If they are paying no land-tax there, they would have to pay proportionately more for the land.

*Mr. Clark:* They would pay more for the land by reason of the fact that there is no land-tax.

*Mr. Hunt:* Is it only the income that is admitted that they pay on?

*Mr. Clark:* No; on the whole of the income.

*Mr. Shirtcliffe:* What is your view, Mr. Clark? Do you consider that these people are suffering any hardship, bearing in mind the fact that they do not pay land-tax there?

*Mr. Clark:* I think probably the hardship is that the company made a big profit one year, and has made losses ever since.

CHRISTCHURCH, SATURDAY, 3RD MAY, 1924.

GEORGE GOULD examined.

*The Chairman.*] You are a director of Messrs. Pyne, Gould, and Guinness, Mr. Gould?—Yes; but I would sooner not appear in that guise. I am a director of various firms, including Pyne, Gould, and Guinness. In giving this evidence I am not speaking as director of Pyne, Gould, and Guinness.

I understand. You wish to put before us some views in connection with the subject-matter of our inquiry?—I do not propose to give evidence on the general question of income-tax as affecting companies. I propose to address myself to one or two points in connection with land-tax and income-tax as affecting farmers. I think, provided the rate is not excessive, that land-tax is preferable to income-tax for farmers, if only on the grounds of simplicity and cheapness of collection. In assessing farmers' income it is very difficult to separate living-expenses and benefits derived from the farm from working-expenses. I consider that if the principle of graduated land-taxation is adhered to there are some very necessary amendments to the Act required. Section 51, imposing 50 per cent. increase of tax upon unimproved land, is quite unworkable in its present form, except by disregarding it. Section 51 reads as follows: "For the purposes of this section 'unimproved land' means land on which there are not, on the thirty-first day of March immediately preceding the year

of assessment, improvements of a value equal to one pound an acre or equal to one-third of the unimproved value, whichever is the less, and which in the opinion of the Commissioner it is reasonable should have been improved to that extent." That is the definition of unimproved land. Of course, there is a qualifying proviso at the end of that section, but much of our land in Canterbury—light-carrying land—requires little more than fencing to return its proper production, and it may not want even £1 per acre or one-third of its unimproved value spent on it to make it productive. I suggest that it would be better if section 51 were amended to read like this: "'Unimproved land' means land which by reason of its lack of improvement is not productive to its reasonable capacity, having regard to its situation and accessibility, as to which the Commissioner shall have full exercise of his discretion." A man may have a place where the improvements may be of small value; it may have natural boundaries, but still it may be reproductive, and in that case it is evident that it would be very unfair to impose 50 per cent. extra tax. Then, section 59 of the Land and Income Tax Act, 1923, says: "When two or more persons own land in severalty but occupy it jointly, whether as partners or on joint account or otherwise, the same land-tax shall be payable by them and by each of them as if they owned the whole of the said land jointly, in the proportions which the unimproved values of the lands so severally owned bear to one another, and for the purposes of this Part of this Act they shall be deemed to be joint owners of those lands accordingly. Without limiting in any way the meaning of the term 'joint occupation,' two or more persons shall be deemed to occupy lands jointly within the meaning of this section if those lands are occupied, worked, or managed by any one or more of those persons on behalf of all of them or on a joint account, or if those lands are occupied, worked, or managed by any other person as trustee for or otherwise on behalf of all of those persons." I think that section is a good deal disregarded; but I maintain that as long as the various owners in an estate take title to their properties, that limitation should not be imposed on them. I say that section 59, which debar landowners from co-operating with one another for their mutual benefit, is monstrously unfair, and its repeal would not affect the principle of the Act. If a large property is divided into sections amongst the members of a family and owned severally by them, there is no sense in debarring them from working the property jointly and so economizing in working-expenses, provided always that the whole of each individual's interests in land are aggregated for the purpose of assessment. That is the point which I think is essential. I may have a section in one estate which is worked jointly, and I may have company interests in another landed property, and I may have another estate of my own, but as long as my various interests are aggregated for the purpose of assessing my land-tax I think I am entitled to work my land to the best advantage as it pleases me. I can see no sound reason why the benefits of co-operation, which are enjoyed by persons in other walks of life, should be denied to landowners and farmers; in fact, farmers are always being urged to co-operate both here and elsewhere. I have always considered this a very unfair thing. If a man dies and leaves several children, amongst whom his estate is divided, provided each takes his own title to his share, I do not think it is right that they should be debarred in working their areas together for their own mutual benefit. A clear distinction comes between joint ownership and several ownership. There may be several reasons why they may not like to hold property as joint owners. There may be reasons why they should be taxed as if the several sections of an estate belonged to one party; but where each party takes title I think he should be free to work his property or two or three people should be entitled to work their properties together to the best advantage. One might go further and say that section 52, which also makes a freeholder liable for excess land-tax on any other property he leases, should not be inflicted upon a man. If I own a property and lease an adjoining piece of land that indicates that both I and the adjoining owner think we can make more use of it in that way than he can, and I think we should be free to do that. It means that the man with the greater ability—the lessee—will make more out of the land, and I think that it is a question which is worthy of consideration whether that section 52 should not be amended in some way.

If, as suggested, a flat rate for land-tax were imposed instead of a graduated rate for land-tax, then the difficulties which you raise would disappear. Further provision for them would be unnecessary?—Yes. I have thought that, probably for political reasons, the graduated tax would be departed from. There is a further matter to which I wished to refer, although I speak of it with some diffidence—the question of a farmer paying land-tax on the amount of his mortgage. I am aware that this is a difficult question to deal with, but it sticks in every farmer's gullet that he has got to pay land-tax on the whole of his land when the mortgagee is taking one-third or one-half of the income from it. I am inclined to think that mortgages should be deductible for land-tax purposes, provided the tax is based upon the full unimproved value of the land; but I think that the deduction should have a limit. The mortgage should be deductible up to a point. On a property valued at £21,000 the land-tax is £175, or 2d. in the pound. I think that up to that point the man should get full exemption, but I think that the Commissioner could probably not afford to go beyond that. That would mean that up to £21,000 a man would get full exemption for the tax up to the amount of his mortgage, but from that onward up to £100,000 he should still only have the 2d. It would mean that everybody would get an allowance up to a certain amount, more or less—each would get a certain allowance on his mortgage, but the smaller farmer would get the full allowance if he had unimproved value to the full extent of £21,000. I do not think it would be a hardship upon the Commissioner to do that. The land-tax collected is not very huge, and I am sure that most of the farmers would feel that it was equitable.

*Mr. Weston.*] With regard to your suggestion as to exemption in the case of mortgages, the land-owner would only be taxed upon his unimproved value?—On the full unimproved value.

The mortgage is lent not only on the unimproved value but also on the improvements, and it would be scarcely fair to allow a deduction of the whole amount of the mortgage, as part of that mortgage was advanced on improvements which are not taxed?—That might be. I was only thinking of the land mortgages.

Well, take land mortgages, part of such mortgages is advanced on the value of the improvements?—True.

You might very well have a property worth £40,000, with an unimproved value of £20,000, the property being subject to a mortgage of £24,000—in that case there would be total exemption if there were a limit of £21,000?—My idea was that there should be total exemption up to the amount of his mortgage. Well, I know it is a difficult question.

I just mention this point to draw your attention to the effect of what you are asking for?—Yes, quite so.

*Mr. Shirtcliffe.*] With regard to what you said about the 50 per cent. excess tax where land is not improved beyond a certain point because it possibly does not call for improvements, I quite appreciate that there may be cases in your hill-country land in Canterbury where the land does not require to be improved to a great extent. I would like to ask you, Is the 50 per cent. imposed upon such land at present?—I presume in such cases as it is merited, it is. The Commissioner has discretion in the matter.

*Mr. Clark:* Yes, that is so. There is land which the holders would not be required to break up and plough, and where nothing but fences is required: where there are natural boundaries no fences are required.

*Mr. Shirtcliffe:* Then, in such cases you do not require the penalty to be paid?

*Mr. Clark:* No.

*Witness:* Still, it is a big thing in its present form.

*Mr. Clark:* It is hard to give you an exact definition in regard to that. (To witness) You raised the question of accessibility. There may be lands quite easily accessible, but still not payable to improve—tussock land, for instance.

*Witness:* If it is productive it would not matter so much.

*Mr. Clark:* In defining which lands should bear the penalty, and which should not, you run the risk of cutting out something that should be left in.

*Witness:* I say “as to which the Commissioner shall have full exercise of his discretion.”

*Mr. Clark:* That leaves me open to consider all cases.

*Witness:* The principal question I wanted to raise was in regard to joint ownership and ownership in severalty. Where men have got title to their land I do not think they should be debarred from co-operating.

*Mr. Clark:* As long as you have the graduated land-tax that section, and the others dealing with the point, is absolutely necessary.

*Witness:* I think those sections were framed by a man who had “a bee in his bonnet.”

*Mr. Clark:* Well, they have been successful.

*Witness:* As long as a man takes his title and owns his land you have no difficulty in getting hold of his landed interests.

*Mr. Clark:* We have a case where a transfer was made to managers, and some years afterwards it was found that that was a bogus transaction to avoid the payment of tax. The whole thing was being worked as one property. That was outside the family concerned. With a family transaction it is not at all uncommon for a father to give titles to his sons, and for no money to pass.

*Witness:* Do you not think it is unfair that one of those people should not be able to act as manager? Supposing a father dies and leaves land to his sons, and one of them acts as manager?

*Mr. Shirtcliffe:* Have you any discretion in that matter, Mr. Clark?

*Mr. Clark:* No.

*Mr. Shirtcliffe:* In your experience, Mr. Clark, have there been many complaints of hardship under that clause?

*Mr. Clark:* It has only been exercised this year for the first time. You can hardly say it is in full operation yet.

*Mr. Shirtcliffe:* Have you applied that section to such lands as Mr. Gould quotes, Mr. Clark?

*Mr. Clark:* We did in the first instance, but when the facts were submitted to the Department the assessments were amended in many cases.

*Mr. Begg* (to witness).] Is there much of this poor land that is not susceptible to great improvement held on freehold tenure in Canterbury?—Yes. It is capable of slight improvement by surface-sowing.

That is not an improvement that the Tax Department might appreciate?—That is possible. If you took the Commissioner there he would not be able to see the seed.

That improvement is one for which you would very likely not get an allowance?—That is so. As far as I know, I think the Commissioner has exercised his discretion with great discretion and fairness, but the strict reading of the provision appeared to me to require review.

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CHRISTCHURCH: MONDAY, 5TH MAY, 1924.

JOHN DRYDEN HALL examined.

*The Chairman.*] You are a barrister and solicitor of the Supreme Court, and a farmer also?—Yes, sir.

You are president of the North Canterbury Farmers' Union, are you not?—Yes. I am submitting a resolution that was passed by the New Zealand Council of Agriculture, of which I was president last year.

Is that resolution in your statement?—Yes.

Will you please place your views before us by reading your statement?—Yes, sir. It is as follows:—

This statement is presented on behalf of the North Canterbury Branch of the Farmers' Union, and application is made for leave to file a further statement on the grounds that sufficient time has not been allowed to get information and records from a substantial number of farmers to show how they have been affected by the present system of taxation. The North Canterbury Farmers' Union consists mainly of small farmers engaged mostly in the production of cereals, pulse, and seeds, and what is known as "mixed farmers," the mixture consisting mostly of breeding and fattening lambs and growing grain and other crops. In some districts dairying is mixed with grain-growing, but a much larger number of farmers are mixing the production of grain with meat and wool. According to the Agricultural and Pastoral Statistics for 1922-23, the number of farm holdings in North Canterbury was 7,681, and the number of permanent workers engaged on these holdings was 13,000. During the same year on 2,080 holdings farmers were growing wheat, but last year this number has been reduced by nearly one-half. Approximately, however, there are 2,000 farmers in the district who may be classed as agricultural farmers and whose farming operations have been more adversely affected by the increased cost of production on their farms than the purely pastoral men. The value of the produce of the agricultural farmer does not, like meat, wool, and dairy-produce, depend on export values, but is generally a matter settled by our domestic supply and demand, though at the present time this produce is competing with wheat and oats imported from Australia and Canada. The sizes of the different farms vary greatly, but the average area is about 500 acres, which is the area most suitable for employing a six-horse team, that being the generally recognized power unit on this class of farm. As the result of investigations made by the officers of the Department of Agriculture, the cost of the upkeep of such a team to-day, inclusive of the wages of the teamster, is a little more than £500 per annum. Particulars of this cost are given in the December number of the *New Zealand Journal of Agriculture* for 1923. The unimproved value of such a farm would not be less than £8,000, and the land-tax on it would be about £40, while the income-tax on the investment of a corresponding amount in a business would be less than £10, and if the investment was in shares of a company there would be no tax payable at all. If the investor in a business does not make any income, he does not pay any tax, but the farmer has to pay his land-tax whether he makes any income or not. The payment of £40 a year may not seem a very large amount to some people to pay for the privilege of owning land and the possibility of its increasing in value as the country becomes more closely settled, but under conditions which exist to-day, the amount mentioned may mean all the difference between a farmer living in reasonable comfort and working without any adequate reward for his investment and his work. Farmers owning land subject to a mortgage of more than £5,000 have to pay land-tax on the "gross value," and are not entitled to any exemption in respect of such mortgage. Farmers pay rates on the capital value of their land, and this results in their contributing more to common services such as hospital and Harbour Boards than the city ratepayer, who also pays rates on his land, which is only a small part of the value of his whole property. In these cases services are for the people, but payment is out of the land.

*Indirect Taxation.*—The amount paid by the farmer for land-tax is a small thing compared to the taxes he pays indirectly, and which comprise and are the main reason for the increased cost of production on our farms to-day. This cost is more than double what it was before the war. The main items in which this increase is found are—Higher rates of interest, rates, and taxes; higher rates of wages; higher rates for threshing, hauling, and transport; higher prices for fertilizers, binder-twine, and sacks; higher prices for implements, repairs, harness, and other materials. The consequence of this increase in the cost of production is that farmers cannot grow wheat to-day at 5s. 5d. per bushel, whereas up to 1914 they were able to grow enough for the Dominion's requirements at 3s. The contention on the part of the wheat-growers is that this increase in the cost of production is caused by the high graduated income-tax on the banks and large companies, and which, though paid in the first place by these bodies, is passed on to the farmers in the form of higher charges for services and higher prices for materials. Comparative statements are being prepared showing the fluctuation in the rate of the tax, and corresponding changes in the charges made to the farmers, but generally it is the case that up till 1922, when the income-tax got up to 8s. 9d., the increase in the cost of production had risen 100 per cent., and has not come down very much yet, so that it does not appear that a mere reduction in the rate of the income-tax is the only thing that is required to improve matters. The result is that farmers have to give up growing wheat, and this leaves their teams idle, upsets their rotations, and that a substantial number of farmers are in this position: it will require a cycle of liquidation to readjust matters. It is this increased cost of production resulting from high income-tax on the companies being passed on to the farmers that is hurting the farmers far more than the land-tax, and is restricting the energy and stifling the enterprise not only of farmers, but of those engaged in related industries. I should qualify that by saying that the reference to farmers right through is to agricultural farmers. I am representing them now, and they are the people who are in this peculiar position. Now, with regard to the resolution of the Council of Agriculture, I should explain perhaps that that Council is really the most representative organization of farmers in New Zealand. It is a gathering which represents all the agricultural and pastoral associations. As you know, there are the Farmers' Union and the Sheepowners' Federation, but that is the most comprehensive body. It meets annually in Wellington, or has done so, and I wish to submit the resolution that was passed last year as being representative of the feelings of practically all the farming community on that occasion. There was considerable discussion, and I do not think there was any dissentient vote—it was not recorded, anyway. The resolution was: "That the Conference is of opinion that the present method of levying income-tax on companies is unjust and calls for immediate revision, first because it compels companies to increase their charges to cover the tax, and because these taxes are ultimately paid by farmers. The Conference therefore urgently requests the Government to adopt the method in force in other parts of the British

Empire—namely, to charge the companies a flat rate on their undivided profits only, and to include the dividend in the taxable incomes of the receivers.” I have made the statement as brief as I could, and I am very sorry that I have not been able to get the condensed statement of the result of our inquiries with regard to the cost of production. Will you allow me to say a word or two with regard to the matter?

Certainly, whatever you wish to say?—Generally speaking, I want to emphasize that so far as my position is concerned I am representing the class of farmer that is having the worst time of any of them now. A substantial number of those that I represent—something like two thousand wheat-growers—have been producing their wheat for feeding the country under, first of all, a fixed price, fixed by the State, and latterly under prices fixed by a Wheat Board. The Wheat Board is a non-Government organization. It was practically appointed by the various branches of the Farmers’ Union, and it has negotiated with the millers for the price of wheat for the last two years. When I say it is a non-Government organization, I mean it did not originate from the Government; but in all other enterprises the Government has—well, rather a dampening effect sometimes. What happens is that when the Wheat Board goes out to negotiate with the millers, negotiations are affected mainly by the cost of Australian wheat imported here. That is made better for us by the fact that there is a duty on it. That looks all right, and if it were only that it would not matter. But, unfortunately, the governing factor in fixing the price of wheat for this year has been the price of flour. The Australian flour is milled over there at a price which is much less than ours, and can be landed here at £13 per ton, as compared with £15, giving the figures roughly. The result of that is that it is bringing the value of our wheat down from 5s. 3d. to something like 4s. 7d. There has been a Government embargo on the importation of flour, but that is going to be removed.

*Mr. Shirlcliffe.*] Next year?—Next session, I think.

But it will not take effect this year, will it?—This year’s wheat has all gone. There has not been nearly enough to go round this year. We are importing more than half of the quantity required. We cannot tell yet what acreage will be sown. Every farmer is now making up his mind whether he will sow wheat. The main bulk ought to be sown in May. A lot of the wheat was sown last year in the spring, and the operation was so unsuccessful that I do not think it will be renewed. And I ought to qualify also by saying that where land is very fertile so that it will produce on an average over 40 bushels of wheat per acre, it will pay the farmer to grow wheat, and he will grow wheat. But as far as fixing the price is concerned, directly that embargo is removed we shall be in the air. We shall be dependent on the price of Australian wheat, and the community will be dependent on the value of the wheat for the cost of the loaf. So far as those farmers are concerned, they are mostly affected by the increased cost of production. There is no farming operation in this country that is so expensive as wheat-growing. Roughly speaking, it used to be calculated that it cost £1 an acre to put in a crop and £1 an acre to take it out, making the cost up to £3 an acre, which was a generous allowance. Now it costs £7 an acre. That is according to statements prepared by a number of farmers for three years and checked over by the Agricultural College at Lincoln. That estimate has been taken exception to. It has been said that that allowance gives you employment for your team in its spare time. But as an economic proposition that is not sound. If your team has not got full employment it is a very wasteful power unit. A change in the operation is bound to come. I should say that the next twenty years will see the elimination of this wasteful power unit. I just want to emphasize that the wheat-grower is working his land under a more heavy cost than any other class of farming, and is more affected by the indirect taxation in the form of increased cost of everything he has to do and everything he has to buy. When you take away from him the opportunity to grow wheat at a price which is reasonably profitable you dislocate his rotation, which is a very serious thing indeed. All proper and scientific farming means a reasonable rotation, a fair and well-thought-out rotation. It has been upset by the war, but unless they get back to it they must inevitably suffer. The wheat-grower is going to be affected in that way, and he is going to be affected also in this way: that he will be the first to be culled, to use a farming term. It is a drastic and cruel process, but if you are going to deflate, with the present cost of production it is inevitable. A large number of those two thousand men, particularly those who have gone on to the land during recent years, must go out. I do not see that there is any help for it. I do not know what they are to do. If they sell their team, the team is the recognized unit that employs the man. If he is a two-farm man he must have that team to get the maximum producing-ability. If you take that team away you reduce that, and, roughly speaking, it means he has got to cut out his wheat altogether. Either he has got to keep his team and work it to the maximum or else he has got to scrap it, and if he does that there is very little for him to do except switch over on to sheep. He may be able to switch over on to dairying. It will mean a very serious dislocation and a very serious cost, and it will mean that that man has got to buy his experience over a series of years, and that is also a costly operation. So far as the sheep proposition is concerned, it is possible that a man, instead of growing wheat, may keep a number of ewes. That would be practically increasing one department of his own operations that already exists; but that is not altogether a satisfactory one. He has got to go and buy ewes, which are at a very high price now, and putting those ewes on to the land will mean that in the near future it is quite possible that our healthy land, which has produced in the past the best lamb in the world, will be so affected and will become so dirty—I do not mean with weeds but with overstocking with sheep—that there will be a serious reduction. That has started now, and we are told by Mr. Alexander, of Lincoln College, that if we do go in too heavily for sheep we cannot hope to keep up the quality; and if we do not it will be a disaster, not only to the farmers of Canterbury, but to the whole of the farmers of the country. I do not propose to deal in any way with any other branch, because I understand that the sheepowners are coming to place their views before you, and I do not think there is really any material difference between what we think. I want to confine myself mainly to

facts, but if theories are any good at all—well, I have a theory. It is based on the experience of farming here for some time, and it is based a little on the experience of farming in England for two or three years.

*The Chairman.*] We shall be glad to have your theory?—My theory is that you have got to alter this land-tax.

In what way?—I do not wish to wipe it out, but the land-tax is inequitable, because it taxes a man whether he makes a profit or whether he does not, and it taxes him on his debts. The method I suggest is that you shall have a flat rate of land-tax, and you shall make allowance for mortgages, and that the rest of the revenue that is in fairness required from the farming community shall be in accordance with a man's—I see Mr. Clark is quoted as describing it as "faculty." When it got down here it was reported as "facility." That is a most unfortunate thing, because facility on the part of the Commissioner is not a reason at all from our point of view. But to tax the farmer according to his faculty or his ability to pay is a fair thing. You have got to make that up from what he earns, and that is what I think is a fair thing. Tax him on his income.

*Mr. Shircliffe.*] You advocate a flat rate of land-tax and income-tax?—Yes. Mr. Clark will say, and it is absolutely true, that he has a pretty hard row to hoe to get that income. But why not adopt the English method? The farmer is assessed arbitrarily with an income. Generally, it is the renting-value.

*Mr. Clark.*] You have the same objection there as you have to a land-tax, that the farmer would pay whether he was making a profit or not. That is the trouble about that?—Excuse me; you are not quite right. I went into a farm. The rent was £400. It went up in war-time to substantially more. Then I always had the opportunity of showing that I had not made the £400.

*Mr. Clark.*] Yes, there is that?—That is the suggestion I have to make. You will require in the different districts, if you are going to have that arbitrary method, some local adviser.

*Mr. Clark.* Yes; but that would mean that if the farmer made a less profit than the arbitrary assessment he would get a concession; while if he made more the State would not get the balance.

*Witness:* That is my proposition.

*Mr. Clark:* I do not think that is a fair one.

*Witness:* It all depends on what you put your arbitrary assessment at.

*Mr. Clark:* You must put it at an average rate. You cannot put it too high, and you cannot put it too low.

*Witness:* But is not the average rate the fair rate over a series of years?

*Mr. Clark:* You are taking it on the rental value?

*Witness:* It is just the same if you put it on an 8-per-cent. basis or a 6-per-cent. basis, is it not?

*Mr. Clark:* Yes.

*Witness:* I am not attempting to argue. I am only giving you my experience in England. That is what we paid; and, as a matter of fact, that rent was arranged on that farm. I took it over for the last four years of a twenty-years' lease, so it was away back.

*Mr. Clark:* Taking it at the rental value?

*Witness:* And they doubled the assessment during the war. I went in when the tax was on £450, and when I went out it was on nearly £1,200.

*Mr. Clark.*] But you propose that the farmer should be allowed the opportunity of showing his actual profit over a number of years. Why not let him show his actual profit for one year? If he can do it over a number of years, why not for one?—Because he is what he is.

It is a matter of education, is it not?—That is quite right, and he should keep accounts. It would be to his benefit ultimately to have accounts; but I can only anticipate your difficulty in this matter. If he has an immediate reward for keeping his accounts accurately and fairly, such as getting a reduction on this arbitrary assessment, probably he will do it; and when one farmer does it—well, farmers are like a flock of sheep. If the farmers know that Jones has got his income-tax down by keeping these accounts, they will do it.

They know that now, Mr. Hall?—I do not think so, on the whole.

Quite a number of the farmers of North Canterbury have employed accountants?—Would you like to guess at the average, taking our two thousand wheat-growers here or seven thousand farmers in North Canterbury?

*Mr. Clark:* No, I would not.

*Witness:* I do not suppose there are a hundred.

*Mr. Clark:* The thing is growing.

*Witness:* I hope it is.

*Mr. Clark:* If you remember, we had the same difficulty when we first started assessing income-tax on business. We were told distinctly and emphatically that we could not ascertain the income of a business in any year. There was a strong objection raised to the income-tax, when it was instituted, on that ground.

*Witness:* That is all right. It is all the more in favour of my argument. If you can do it, do it. When a business man does not do things he appears before His Honour and he goes to gaol.

*Mr. Clark.*] A farmer is liable to the same penalty, is he not?—I have never heard of its being enforced yet. However, that is the suggestion with regard to the land-tax. It is usual in England to have local assessors. In the Old Country the lands are divided into parishes. When the income is assessed by the Revenue Department it is all referred to the parish, and the assessment would go before the church-warden, who is supposed to say whether it is a fair thing.

*Mr. Clark:* But we have our local Inspectors.

*Witness:* But what is the district? What is the unit of area?

*Mr. Clark:* The provincial district.

*Witness:* It is too big. What do I know about the man down on the Waitaki.

*Mr. Clark :* But you are thinking of the local Commissioners.

*Witness :* No, they call them "assessors." They have local assessors round the town.

*Mr. Clark :* I do not think they make the same complete returns that we do here.

*Witness :* No. I was an assessor there. There is no close supervision. If you know that a man is dealing heavily you cannot tell what he is doing, but if a man has 1,000 acres with 500 acres of it in wheat and wheat is 8s. a quarter, you know he is making something solid.

*Mr. Clark :* But it is more or less guesswork in trades. They are tending to have closer inspection there.

*Mr. Weston.]* I understand that you think that the whole of the increased cost of living is due to the heavy company-taxation?—(Witness) I was not referring to the cost of living but to the cost of production.

But increased costs, you put down the weight of that to the increased taxation?—Yes; but the statement that we are going to give you will be in the form of a graph, which will show the increased cost of production and the increased taxation, and you will find that they go up in sympathy.

What amount do you suppose is collected from the companies in the shape of income-tax?—I have gone into that.

What amount would it be?—I have not got that in my head.

It does not follow that because the proportion of taxation has gone up so-and-so the amount collected from companies in income-tax would be sufficient to account for the whole of the increased cost of production?—No.

You may rather go astray if you go on the system of proportion?—I am not going on that quite. Take fertilizers: the tax on companies dealing with fertilizers went up to 8s. 9d. and the cost of fertilizers went up from £4 15s. per ton to between £8 and £9.

Do you mean to say that the company is paying the difference between £4 15s. and £9 per ton in tax upon each ton of fertilizers?—Not the company. The transport pays increased taxation. I cannot say that it is absolutely a case of cause and effect; it may be a coincidence.

*Mr. Shirtcliffe.]* I wonder if Mr. Hall could put into a short statement his recommendations; it would help us to have them down?—As to land-tax?

Yes, as to land-tax. Is your recommendation simply covered by this: a flat rate of land-tax, an allowance for mortgages, plus the income-tax?—If that will get over the difficulty. If Mr. Clark thinks the farmers will make satisfactory returns of their incomes, you can wipe out that arbitrary assessment of income. If it will help, I will try to work out the English form as it appeals to the farmer. Mr. Clark has not been a farmer or he could do it.

*Mr. Clark :* I have been in touch with them.

*Mr. Shirtcliffe :* You made a strong point of the argument that the increased taxation is passed on, and is wholly accountable for the increased production costs to the farmer. We have had quite a large amount of evidence that income-tax cannot be and is not passed on. Apart from the evidence we have heard, I have had the opportunity of seeing some figures dealing with one case which showed quite clearly that the gross percentage of profit during the war years diminished during the period of high taxation. It actually diminished, thus showing in that individual case, at any rate, the tax could not be passed on?—But you say that is so.

That is so. I saw the actual figures, that the gross profit showed a decrease. What I want to ask you is, Can you bring forward concrete evidence that the costs have been raised owing to the passing-on of the income-tax. That is a very important phase of our investigation. One man may say that the income-tax must be passed on, and another may say that the income-tax cannot be passed on. We want to get as much evidence as possible on that very important point, which has a strong bearing upon the incidence of taxation of the Dominion?—Take the items I mentioned: the high rate of interest does vary in accordance with the taxation on companies. When you get up to 8s. 9d. in the pound the bank rate goes up in sympathy with it.

Take that very case: has the price of money increased since 1914 in proportion to the increase in the income-tax?—The bank rate?

Take the bank rate: in 1914 it was 5½ per cent. and to-day it is 6½ per cent. ?—But in 1922, when the income-tax was 8s. 9d. in the pound, it was 7 per cent.

That was an increase of 1½ per cent. when the income-tax was raised from 1s. 4d. to 8s. 9d.: can you say that even then the tax was passed on?—You are asking me to show a reason why the banks have been almost bleeding the country. I do not know why.

But you have made the statement that the income-tax is passed on. I am anxious to get some concrete evidence that that is so, because we have had a good deal of evidence both ways?—Yes, I quite appreciate that. I am anxious to try to get as much proof as possible, and to show that the increased cost of fertilizers and flour-milling, and so on, does work in sympathy with the variation in the tax.

As regards fertilizers, do you not think that the increased cost to farmers during the war period, which was the period of high taxation, was largely attributable to the increased cost of the raw materials that had to be imported for the manufacture of these superphosphates. We all know that if you wanted to import your rock or basic slag you had to pay very much more during the war years—especially during the later war years—than in 1914?—It was transport conditions that caused that.

Transport conditions, and the prime costs at the port of shipment also went up, so that you cannot say that the increased cost of the fertilizers was the result of our income-tax?—No; it is very hard to say that if you put it that way; but I can present such a strong case where the increased cost is due to items like those which have varied in sympathy with the tax as to enable a fairly sound conclusion to be drawn.

After all, it is only a general assumption?—It may be a general assumption, but you have to consider the number of the individual cases.



But it would be fair to take in all other factors that have contributed to the increased cost, and they might prove to have had a greater effect upon the increased cost than the income-tax had. Have you studied the rate of interest that is current in Australia as compared with that in New Zealand?—Do you mean the bank rate, no. I only know what I have to pay to-day.

I believe I am quite right in saying that it is quite as high or higher than in Australia?—I understand that the banks in Australia and New Zealand are so nearly related that they work in sympathy with one another. We are dependent on Australia's finance to a certain extent. When Australia is out to get a £19,000,000 loan and Mr. Massey goes out to get a £5,000,000 loan, the demand for money must affect us.

But they have a lower rate of taxation on companies there, and you would almost think that the rate of interest would be lower also?—But they have the same banks.

Well, our New Zealand banks do not operate to any great extent in Australia, in the way of advances and so forth, except to a small extent. They are purely New Zealand concerns as regards their operations except for exchange purposes. You would imagine the interest rate would be higher here, if your argument is correct, than it is in Australia?—What is it?

I am inclined to think that the rate in Australia is slightly higher than it is here. I only ask this question in order to try to suggest to you that this statement of yours requires a good deal of qualification?—The main statement was not mine; it was in the form of a resolution.

Well, I think that requires a good deal of qualification. There are many other factors that require consideration in regard to the increased cost of production?—We are approaching a period, as far as concerns the financial affairs of farmers, which is an extremely critical one. We have the moratorium ending at the end of the year, and then the farmers will have to rearrange their finance. If the value of their land has gone down they will be asked to make substantial reductions in their first mortgages, and that will be impossible in a great many cases.

Do you think your suggested alteration in the land-tax will afford them anything like sufficient relief?—I do not think you can appreciate what a difference a reduction of £40 or £50 will mean to a man on the land.

Unfortunately, I am interested in a farm, and so I can?—But you are not on the farm, and you do not know anything of the anxiety of the man on the farm. That is why I say it reflects on their energy. I am sure that any farmer who is intimately acquainted with this question will tell you the same thing. You cannot realize the farmer's anxiety. You probably see farmers in your office occasionally, but you do not realize what their feelings are. If a man on the land has not a certain amount of confidence in his prospects it makes a great deal of difference to the amount of energy he puts into his work.

But is the change in taxation going to be sufficient to relieve him of that anxiety?—It is certainly going to help him.

*Mr. Begg.*] You believe that farmers' incomes should be assessed at a conventional rate?—I have never heard of that expression: I said "an arbitrary rate." Mr. Clark would have some power to deal with the assessments.

But you believe that the Commissioner could not arrive with reasonable accuracy at a farmer's income?—If Mr. Clark is able to get all the returns he could.

But do you believe it is possible to get accurate returns?—I am rather inclined to think it is, but it will take some time.

*The Chairman:* But Mr. Clark is satisfied that it can be done.

*Witness:* But Mr. Clark is getting returns from only 2 or 3 per cent. of the farmers.

*Mr. Clark:* More than that.

*Witness:* But I mean a good businesslike return. But I am inclined to admit that if Mr. Clark can get good businesslike returns from farmers it will be unnecessary to insist on the arbitrary assessment of incomes.

*Mr. Begg.*] You are of opinion that if wheat was at 7s. per bushel and large quantities were being grown by farmers, Mr. Clark would know that the farmers were making good incomes?—I mentioned that.

Do you consider that the sale of wheat at that price would represent a profit, taking into consideration the possible expenditure and the actual cost of ploughing?—No.

Is it possible to ascertain how much of that is profit and how much is capital?—I do not know. I was twenty-five years in an office running trust accounts, and we all had different ways of running the accounts. I do not know how it is generally done.

Have you known farms ruined by cropping?—Yes.

You know that there are large areas in the world abandoned after being cropped for many years?—That is so.

Would not all the returns from those farms that were abandoned figure as income?—Well, there would be a sort of diminishing scale.

But it would be assessed as income until the farm was abandoned. Would it not be capital and not income, and cannot the reverse process be carried out?—You cannot go on increasing—

Yes, you can go on increasing. You can bury your income in the land and it could not be ascertained?—Yes, that is so; it is going on to-day.

Then one cannot quite exhaust the whole fertility of the land. If a man's returns diminish to the point of his expenditure, while another man buries his profit, do you still consider it possible for the Commissioner to get at the incomes from farms?—Yes; it is done in England.

Would it not be safer to say that it has been attempted in England, rather than it has been done?—I know it has been attempted. I would not like to say what has been done.

*Mr. Weston.*] On the question of the wheat-farmer, the position of the wheat-grower in North Canterbury is not peculiar to him?—The wheat-growing area of New Zealand is North Canterbury plus a small portion of North Otago.

But the position of the wheat-grower here is parallel to that of the wheat-grower in the United States—he is in trouble too?—He is in trouble from the other reason, overproduction.

But is not that the position here? Is not your position that you cannot get the prices you would like simply owing to the amount of production of wheat throughout the world? It is the Australian competition that is worrying you?—I do not see your point.

If there were no wheat available from Australia, available at a price less than you can sell it here?—?—Supposing it went up to 10s.

Supposing we were dependent upon you for New Zealand's wheat-supply, you could ask what price you liked; but your difficulty is that Australia can produce wheat and sell it in New Zealand at a good deal less than you can afford to grow it in North Canterbury?—It is not actually that. It is what she does with the flour that makes all the difference.

But is not that to some extent due to the class of wheat produced there being more suitable for milling?—No; it is due to the higher value of the offals in Australia. They pay more for their bran and pollard than we can get. The actual condition that exists in America is the same.

Wheat is selling in London at about 15s. a quarter: what can you sell a quarter for here?—Well, the general thing is 6s. a bushel, or 48s. a quarter. Then we have transport.

What would the transport amount to?—It depends upon the income-tax on the shipping companies.

I should be sorry to think that your evidence is to be judged on a statement like that?—I think it does.

JOHN BELL CONDLIFFE examined.

*The Chairman.*] You are Professor of Economics at Canterbury College?—Yes.

You have made a study of taxation in New Zealand?—Yes, in some aspects.

Perhaps you will be good enough to read to the Commission the statement which you have prepared?—Yes.

This statement has been hurriedly put together in response to the request of His Honour that I should give evidence before the Commission. If more time had been available I should have had copies made of the diagrams which are submitted with this statement.

1. *Revenue and Expenditure.*—I understand the Commission has been set up to consider the land and income taxation of the Dominion. It is, in my opinion, impossible to form a just opinion upon any particular part of the tax system of a country without considering the tax system as a whole, and still less without reference to the public expenditure in which that country is involved. The narrow terms of reference given to the Committee are open to serious objection.

2. *Risks involved in the Reduction of Taxation.*—Diagrams A and B indicate the great extension of income-taxation during the war and post-war period in New Zealand. Naturally this taxation has become burdensome and inconvenient, particularly to joint-stock enterprises, and, as the burden has increased, latent anomalies have become irksome. Business men naturally urge the necessity of lower taxation, and I expect the Commission will recommend, as the Committee of 1922 recommended, further reductions. From the point of view of the public finances, and of the community in general, I urge that such reductions in taxation should be made only as the result of decreased governmental expenditure, and not in anticipation of such decrease. Much governmental expenditure is incapable of retrenchment, the service of the public debt, for example, calls for constantly increasing amounts of revenue, and there are many directions in which the Government is constantly being pressed to increase public expenditure. There are grave risks in reducing taxation prematurely in a time like the present of temporary economic recovery. It would need only a slight stringency induced by an unfavourable relation between exports and imports such as occurs periodically to cause serious embarrassment to the public finances if taxation had been reduced before the expenditure which is the cause of taxation had been cut down. I am prepared, if required, to submit evidence to support my view that the present economic recovery is likely to be temporary, and may quickly be followed by financial stringency.

3. *Prospective Fall in Income-tax, even without Lower Rates.*—A large part of the increased yield of income-tax during the war and post-war period was the result of other factors than the higher rates of tax. Mr. H. L. Wise, B.Com., has made a calculation for me of the extent to which the income-tax receipts were increased between the years 1913–14 and 1920–21 by the following factors: (a) Higher levels of prices; (b) new classes of taxpayers; (c) enhanced income due to war conditions; (d) higher rates of tax; (e) shifting of incomes to classes where higher rates of tax were applicable. The calculation gives the following result: The assessable income for 1913–14 was £14,430,779, yielding in taxation £554,271. (a.) The rise in the price-level, independent of other factors, would have increased income to the sum of £25,423,178, yielding at the same rates of tax £976,497. (b.) The incomes of taxpayers (chiefly farmers) who had not before paid income-tax are given as £9,352,777, which would have yielded £359,230. (c.) There remains a sum of £13,830,432 increased income due to post war conditions, yielding £531,212.

If these amounts are added together we reach the 1920–21 total of assessable incomes, £48,606,887, which would have yielded, if tax rates had been unchanged, only £1,866,939. A calculation of the increase in the rates of tax, properly weighted for the total incomes of the respective categories, both of companies and individuals gives the following increases due to—(d.) Higher rates, £5,081,808. (e.) Upward shift of incomes, £780,380. These calculations were made independently, but the combined result, £7,729,127, is within 4 per cent. of the actual total of revenue collected in 1920–21. The new taxpayers have already been relieved of liability for tax; the passing of war conditions has already reduced assessable incomes and will do so further; while any tendency of war conditions has not only cause further reduction of incomes, but will make incomes liable on the average to lower rates of tax. *Irrespective of any reduction in rates, therefore, the yield of income-tax is likely to be*

*considerably lower in the future.* I submit that the pressing financial problem of the moment is not so much the reduction of taxation as the control of public expenditure. Payers of income-tax appearing before this Commission can clearly make a good case for reduction, but reduction of direct taxation at the present time is likely to prove embarrassing in the near future, and the temptation will then be strong to retrieve the financial situation by increasing indirect taxes such as the Customs duties. Such an extension would be popular with certain industrial groups, and it would be an easy and quick means of raising revenue; but it would be inequitable, and would cause economic loss to the Dominion as a whole.

4. *The Incidence of Company-taxation.*—As argued above, I do not consider that the financial and economic situation warrants considerable reductions in taxation at the present time; but I have been asked to express an opinion upon the incidence of company-taxation as opposed to the taxation of individual incomes. The administrative advantages of company-taxation are obvious and considerable. Moreover, any drastic and sudden change of the basis of taxation would cause great inconvenience to the Department, probably loss to the revenue, and disturbance to the business community. A business community adjusts its organization to a tax system and discounts its incidence. Sudden change is, therefore, never advisable. At the same time, the assessment of taxation upon companies as if they were persons is in many respects inequitable and anomalous. These anomalies and injustices should be rectified as early as possible, and the general policy should be to tax individuals rather than corporations. The assessment of taxation upon the income of an individual is a direct tax that can only under rare circumstances be shifted. But the taxation of profits earned by companies can in many cases be shifted either backward to suppliers or forward to consumers. (a.) Where companies have a monopoly, as in the case of illuminating-gas, taxation is simply treated as an item in the cost of production, and since there is no competition the immediate effect is that it is passed on in higher prices. The ultimate result may be that higher prices cause a reduction in demand, which forces the company to bear a part of the tax. (b.) In the case of an industry which must be carried on in a large way, where the units of production are necessarily all upon the same level as regards taxation, the greater part or all of the tax will be passed on or passed back according to the relative bargaining-power of the consumers or the suppliers. This case is illustrated by freezing companies, shipping companies, insurance companies, banks, &c., in New Zealand. There is keen competition in some cases between the various firms, but they all start from the same level of costs, and are not undercut by firms which have lower tax-costs. Where the demand is elastic, and there are alternative markets, the services rendered by these firms may be forced into less profitable channels. This seems to have happened with funds for investment. Where there is an understanding between the firms the passing-on of the tax is even clearer, whereas in shipping and banking this understanding approaches monopoly, the case becomes the same as that considered in (a). The argument is not affected by the fact that taxation is levied upon banks according to an arbitrary scale; nor by the fact that the overcapitalization of the freezing industry at the present time results in the weaker concerns setting a level of prices which proves uneconomical to the whole industry. Since the prices of our exports are fixed in a competitive world market, there is little possibility of such companies passing the tax forward in higher prices. But they are able to and do pass the tax backward in the shape of higher charges to the farming community. The high costs of farming production are due in part to the operation of this tax. In the same way, the manufacture of goods for export is seriously handicapped by the manufacturing-costs being loaded with heavier taxation than has to be faced by overseas competitors. The company-tax will always be an insuperable obstacle to the manufacture of wool-tops for export, to take a concrete example. (c.) A more difficult problem is the incidence of the company-tax where there is competition between large and small companies and private traders. Into this category fall most of the retail (but not the wholesale) distributing firms in such lines as drapery. If competition were acting freely between the various firms, the prices of goods would be fixed by the costs of the firm that was just able to survive in business, and taxation which caused an increase in the costs of certain firms and not of others would have to be borne in large part out of the profits of those firms. The general impression of the business man that he always passes on a tax of this description fails to take into account the reactions of any raising of prices upon the consumer. If the taxed firm attempts to raise prices, there will be a tendency for demand to shift to those firms that need not raise prices because they have not the same taxes to pay. The taxed firm may, in the alternative, seek means of reducing its costs rather than raising its prices. This case is clearest when a big enterprise such as the quasi-co-operative companies in New Zealand has to compete through its many departments with many smaller businesses which pay lower rates of tax than it must pay on the departments as a whole. In this case the tax is a heavy burden on profits, and the effect is discounted or amortized by a fall in the value of its shares. In this case the tax is paid mainly by the owners of shares at the time the tax was introduced, but if the burden is very heavy the ultimate effect may be to force the enterprise out of existence. The Lorenz curves produced show that there is a tendency for this effect to be produced in New Zealand. The advantage given by lower tax rates to the smaller concerns does not necessarily mean that they make larger profits to the full extent of the tax. Their businesses will be extended, and other small enterprises will be started, so that the margin of efficiency will be lowered, and a greater proportion of the business will be done by relatively less efficient forms of enterprise. Competition, however, does not always act efficiently or promptly. In the case of drapery firms, for example, in the retail trade it is the big well-known firms that set prices to a large extent. If customers always knew where prices were lowest, could gauge quality as well as price, were independent of advertisements, and were keen enough to seek the cheapest goods, and if the sellers were in perfectly free competition with one another, the theoretical result should be that the tax would lie upon the profits of the firm. I have indicated cases where it does so lie; but in a great proportion

of cases the big stores have such advantages in their situation, a clientele in the habit of shopping at particular places, large advertisement and window displays, &c., that they are, as a matter of fact, able to pass on a considerable proportion of the taxation in the shape of higher prices. Another important factor is the use of retail credit, which, in effect, ties customers to a firm. In the case of co-operative associations this has undoubtedly been one of the main factors that has enabled them to compete even as well as they have done against the difficult circumstances of the past few years. Clients are simply not able to transfer their custom. To sum up, the incidence of the present company-tax varies from industry to industry. A large part of it is borne by the farming community in the shape of higher charges for essential services. A large part of it has been passed on to consumers in the shape of higher prices which have increased the cost of living, and thereby stimulated demands for higher wages, thus starting a vicious circle. Some part of it has been borne by shareholders, and this has been capitalized by a fall in the value of their securities. Different classes of consumers are affected in varying degree, the worst effect being on farmers and receivers of fixed incomes. Wage-earners also suffer, because wages lag behind the cost of living.

5. The reasoning upon which the foregoing analysis is based could be supported by authoritative pronouncements concerning the operation of the corporation-tax in the United States, and by the fact that the corporation-tax in Great Britain has now been abolished. Since a joint-stock company has certain privileges such as the limitation of liability, it is, I think, reasonable to argue that as an entity it should pay some taxation to the State. The case would be met by a flat rate of taxation upon the profits, divided and undivided, of companies, or, if the financial situation warranted it, upon undivided profits. Individual shareholders could then be assessed upon their personal incomes as in Great Britain. This would sweep away the worst injustices of the present system; competition between large and small companies would be on even terms, since the effect of graduation would be removed. The present graduated tax is based upon a false analogy between the ability of an individual and the ability of a legal entity to pay taxation. It results, in so far as the tax rests upon shareholders, in degressive instead of progressive taxation and perpetrates many injustices, besides allowing wealthy men to distribute their investments in such a way as to escape a large part of the taxation they ought to bear. Under a flat rate much of the tax would continue to be passed on as it is now. Where companies compete with private firms the tax would tend to lie where it was placed, but the burden may be regarded as the price paid for the privileges of incorporation.

*Mr. Weston.*] You say that banks pass on the whole of the taxation, and I suppose you are speaking with reference to the banks of the Dominion?—Yes.

In England this system of company-taxation does not obtain?—No.

What would you say has been the average rise in the rate of interest in England? Take Government securities, for instance. That is a fair test?—Any answer I could give would be a sheer guess.

Have you considered that point, how far rates of interest have risen in England?—I do not see the connection—

Your argument is that practically the whole of the rise in the cost of living in this country is due to our system of company-taxation?—Oh, no. All I say is that the system of company-taxation has contributed to the rise in the cost of living.

One of the main causes of it would be, would it not, the rise in the rate of interest?—I do not think it would be a main cause. I think it would probably be a contributing cause.

You say it is a contributing cause only?—Yes.

To what extent would you say that the rise in the rate of interest in New Zealand is due to company-taxation?—To a very small extent, I should think, answering offhand.

Take, for instance, the rise in bank overdrafts from a minimum rate of  $5\frac{1}{2}$  to  $6\frac{1}{2}$  per cent. The cause of that rise could be attributed only slightly to company-taxation?—Yes. All that I would argue about company-taxation is that the bank does pass it on by increasing the charges for its various services, and it performs several.

The only banks' services are exchange and rates of interest. Those are all their charges that have been raised?—I think that a very large part of a bank's profits come out of exchange, as a matter of fact.

Would you say that increased exchange rates were due simply to company-taxation?—Not simply to company-taxation.

Would you say that company-taxation had anything to do with exchange rates?—To this extent: the banks have to make a profit over and above company-taxation, and those costs and charges that they have to meet are borne in mind and taken into account when the rates of exchange are fixed.

Take South Africa. In a matter like this I presume that you have gone carefully into your facts. Have you considered the working of the exchanges in connection with South Africa and London?—No, I have not considered them in detail.

You have not compared the New Zealand rates with the rates of exchange in other countries which are in a somewhat similar position?—No, not exactly.

Would you be astonished to know that the rates of exchange between South Africa and Great Britain are practically the same as those between New Zealand and Great Britain?—Not at all.

And in South Africa there is no company-tax?—That is so, but I do not see that that invalidates my argument at all.

You find the same rates of exchange ruling in South Africa as here?—Not exactly the same.

Practically the same?—Practically the same. All that I argued was that company-taxation had a tendency to increase bank charges.

Would you be prepared to express an opinion on the extent of that tendency?—I have said already that it is a slight extent.

If you will take the rates of interest on various forms of investment in Great Britain and compare them with the pre-war rates, you will find that the rise in interest in Great Britain is practically the same as the rise in the rate of interest in New Zealand?—Quite.

So that in England you see, where there is no company-taxation, you have the same rise as you have in New Zealand, where there is company-taxation. Does that not go to show that company-taxation does not affect the rise in New Zealand? I think the rise is almost identical. Take New Zealand securities, for instance—the price of our securities in London and the price here?—It is almost exactly the same.

You will find that the rise in the rate of interest throughout the world for similar classes of undertaking—that is to say, where you have not got to make an allowance for insurance of risk—is practically the same. It is practically the same in Australia, Great Britain, and here?—Does that indicate that the rate of interest on overdraft for merchants and the rate of interest on mortgage here is the same as in Great Britain or has changed in the same way?

What I say is that the proportion of the rise is the same in the three places?—I have not sufficient facts to say whether it is exactly the same.

Do you think you could look into that?—I do not know whether I could do it. I do not think I have all the relevant material.

Supposing that the facts as I state them are correct, would not that rather go to show that the extent to which company-taxation has affected money rates in this Dominion is very small indeed?—It would, yes. There is another point, if I may say so, in connection with the banks. The banks, while not perhaps a close monopoly, have something perhaps in the nature of a monopoly, and they may already, in the ordinary way of monopoly profits, be making almost as much as the market will stand, consonant with the business interests of the community; and therefore they may pay a part of the tax from that point of view, according to the ordinary theory of monopoly value and the taxation of it.

*Mr. Begg.*] You said that in your opinion company-taxation is a contributing factor in the high cost of living?—Yes.

That is a factor that is more or less under our control?—Yes.

Are the other factors contributing to the cost of living under our control?—The other factors in the rise in the cost of living?

The existing high cost of it?—Of course, they all arise from the economic organization of the country. If you make a change in the economic organization of the country you change the cost of living.

The incidence of company-taxation could be altered if the country wanted to do it, and in that way it would partly reduce the cost of living, in your opinion?—Yes, but not to any very great extent.

Other factors, I take it, are almost beyond our control, as, for instance, the cost of our imports?—Yes.

And also the cost of our exports; that is automatic too, is it not?—Yes; but, of course, wages and matters of that kind are largely regulated and under control.

You could not give us any idea as to how far, in your opinion, these different factors affect the cost of living?—No, I should not like to venture an opinion.

*Mr. Shirlcliffe.*] On the question of the incidence of taxation as between large and small shareholders in companies, I suppose we may take it that a small investor—a man with, say, £1,000—puts his money into a company for the purpose of obtaining a dividend that he could not possibly get in any other way. He looks for some higher return than he could get by handling that £1,000 himself?—Yes.

He puts his money into the company and he gets, say, a 10-per-cent. dividend. He is enabled to do that by combining his small capital with the very much larger investments of the big shareholders, and it is really their larger investments that enable him to get his dividend, because they form the bulk of the working capital?—Is that the case?

I am supposing a case. I suppose that that really does apply to a good many companies. He gets the same rate of dividend—say, it is 10 per cent.—as the biggest shareholder in the company. He gets a dividend at a higher rate than he could obtain himself. Do you see that he is suffering any injustice in obtaining the same rate of dividend on his £1,000 as the big shareholder who perhaps has £20,000 in the company? I know of actual cases where there are such large and small shareholders. Do you feel that the small shareholder is suffering any injustice?—Yes, I think he is. In the first place, your case, while it may occur in practice, is supposititious. One could easily produce a case where a great number of shareholders put small amounts of capital together, and by combining they are able to get the advantage of large-scale operation. I have already said in my statement that I think that for the privilege the law gives them they should pay some taxation. But what I object to is the graduation upon the company as an individual, instead of upon the individual person.

I was wanting to get your view. It is said by some that the small shareholder is at a great disadvantage as compared with the large shareholder, because he is paying the highest graduated rate in the same way as the big shareholder; but, on the other hand, some people say that the small shareholder can have nothing to complain about because he gets the same rate of dividend as the big shareholder, a rate of dividend presumably that he could not get if he handled his money himself?—Then, the operation of the tax clearly means, I think, as one can see from the diagram that I have produced, that the opportunities for investments of that kind are going to become fewer. The operation of the tax is pressing hardly upon companies of that type, and therefore it means that the channels for investment by the small investor are going to be less.

You know that the registration of companies is going on very steadily. During the past five years there have been one thousand three hundred private companies and nearly five hundred public companies registered?—Yes.

It does not look as if the registration of companies for the purpose of carrying on business was diminishing?—It depends upon the type of company, of course—upon the size and the rate of taxation to which they are subject—does it not?

But on the face of it it does not seem that the registration of companies is being discouraged?—I do not like to make a statement from what appears on the face. I think it is a dangerous position to take up. I should like to go into the figures further.

*Mr. Hunt.*] One point arises out of your discussion with Mr. Weston about the banks. The profits of the banks arise chiefly from exchange and interest, do they not?—Yes.

The profit on interest is not governed by the rate of interest charged by the banks, is it? Is it not governed by the margin between the deposit rate and the lending rate?—Yes, mainly. Of course, one also should bear in mind the fact that the banks are able to swell the advances to a certain extent irrespective of the deposits, and that is where the profit comes from.

*Mr. Weston.*] You mean by note-issue?—No; by extra credit based on note-issue, even more than note-issue.

*Mr. Hunt.*] Is it not true that the margin is wider now than it was in pre-war days?—I believe that is the case, but I am not absolutely certain of it offhand.

With regard to exchange, the chief exchange business the banks get is between here and London?—Yes.

You cannot compare the exchange on a draft from here to London with the pre-war rate; you have got to take the round trip into account, have you not?—Yes, both ways.

The earnings of the banks on the round trip are much greater now than they were in pre-war days?—Yes.

So they have widened their margin?—Yes, they have widened their margin. The Committee which was set up by the Imperial Conference to go into that question reported to that effect.

*Mr. Weston.*] With regard to your graphs, I do not follow this one. You have taken your figures for them up to—when? 1920–21?—Yes.

Is not that rather a bad period to take, because that was the height of the boom?—Yes.

Things were absolutely abnormal then, were they not?—Yes. I may explain that these graphs were not prepared for the Commission. They were prepared by my honours student for his thesis for examination; therefore they are not part of a “put-up” game. In the second place, I think there is some justice in taking the position in 1920–21 to show what experiences the companies did pass through in the boom period. But I will undertake to have the figures for the last available year put on to the graph to see for my own information what has happened.

(Witness explained the graphs to the Commission.)

*Mr. Weston.*] Under the heading of the risks involved in the reduction of taxation you say that you are prepared to submit evidence to support your view that the present economic recovery is likely to be temporary, and may quickly be followed by financial stringency. You rather anticipate an era of slowly falling prices both for primary products and industrial products as well, and I suppose you anticipate very much greater competition from continental and other outside manufacturing interests?—Mainly with British manufacturing interests.

And British competition will be stimulated by European competition?—Yes, as economic matters improve competition will be stimulated.

I agree with you?—Thank you.

DAVID BATES examined.

*The Chairman.*] You are a solicitor, Mr. Bates?—Yes, and a farmer as well.

And you are a member of the North Canterbury Farmers' Union?—Yes, and I happened to be appointed one of a sub-committee to collect evidence to place before you, but our time has been so limited that we have not had an opportunity of meeting. Therefore the evidence I give here is given on my own notion, and not as a member of the Farmers' Union.

Yes, very well. Will you just read the statement you have prepared?—Yes, it is as follows:—

Taxation is pressing very heavily on the farming community. Owners of land are subjected to taxes and levies upon their property not borne by other sections of the community: They pay—(1.) Land-tax irrespective of their income—often when their income is less than the minimum taxable amount. (2.) Graduated land-tax—no allowance is made for registered mortgages. (3.) Rates to local bodies, Road Boards, and County Councils, Rabbit Boards, Power Boards, River Boards, water-race taxes, and hospital and charitable-aid rates. (4.) Stamp duties on transactions on the sale or exchange of land and often on sales of stock, and (a war levy) stamp duty on mortgages. Land-tax at the present time is particularly harsh in its incidence. It taxes a man whether he has any income or not. Some farmers have paid land-tax when their income return showed a debit. Owing to the increase in values since 1913 the land-tax paid has increased by over £900,000. In 1913 38,232 taxpayers paid £728,636 land-tax; in 1922 54,715 taxpayers paid £1,637,816 land-tax—increase, £909,180. This increase has been due principally to the increased unimproved valuations of the land. In 1913 the unimproved value of the land was (in millions), £152,000,000; in 1921 the unimproved value was (in millions), £317,000,000. The unimproved values in very many instances are too high, more than the saleable values of the properties, and sales have been made and land is now being offered for sale at less than the land-tax value. But in the past, in a measure owing to these high values, sales at unstable prices have been made, inducing the lending of too much money, and mortgagees have now taken possession. Further, owing to high interest charges and taxes a number of owners have left their farms or the farms are in the hands of the mortgagees and practically idle awaiting purchasers. This increase of valuations and taxation has taken place with practically no increase in wealth (as far as their stock is concerned) on the part of farmers. For instance, take the number of sheep and cattle in 1912 and compare them with sheep and cattle in 1922: 1912—

23,750,153 sheep; 2,020,171 cattle: 1922—22,222,259 sheep; 3,323,223 cattle. And the land-owners are much the poorer—their mortgages have increased. The total amount outstanding on mortgage in 1913 was £97,816,375; in 1922 was £231,140,104; and in 1923 was £242,591,933. Interest on nearly two millions is at 8 per cent., on over three millions is at 7 per cent. The rate varies up to 20 per cent.

*Bankruptcies.*—1918, 164; 1919, 141; 1920, 144; 1921, 336; 1922, 690. This takes no note of private liquidations, which in the case of farmers are considerable.

*Occupations of Bankrupts in 1922.*—Professional, 12; domestic, 25; commercial, 153; transport, 45; industrial, 188; agriculture, 218; other primary pursuits, 5; dependents, 7; indefinite, 37; total, 690.

*Some Increases in the Cost of Production.*—(1.) Prices of all articles used by farmers increased. For instance: Double-furrow plough—1913, £21 10s.; 1917, £34 15s.; 1919, £40; 1920, £46; 1923, £35. R.P. timber—1913, 22s. 6d.; 1920, 46s.; 1923, 43s. 3d. (2.) Railway freights since 1913 have gone up 40 per cent. The 1913 tariff is used by the Railway Department with a calculated 40-per-cent. increase. (3.) Wages have increased quite 50 per cent. (4.) Rates of interest have increased. Bank overdraft rate in 1913 was 5½ per cent.; now it is 7 per cent. and upwards, and overdrafts are difficult to secure at that. Interest on mortgages has increased from 5 per cent. to 6½ per cent., 8 per cent., 10 per cent., and even more. (5.) Farmers have difficulty in securing loans on their land, there being such competitive demands for accumulated funds as—(a.) Loans raised by local bodies; (b) loans on debentures to trading concerns (tax-free); (c) loans to Government; (d) share investments are taking the place of land as gilt-edged securities. (6.) Increase of stamp duty paid on transfers—5s. per £100—and the stamp duty of 5s. per £100 on all mortgages. The amount of mortgages registered and duty paid—in 1920, over £55,000,000—duty paid, over £137,500; in 1921, over £40,000,000—duty paid, over £100,000; in 1922, over £34,000,000—duty paid, over £85,000. The increased stamp duty paid in the case of transfers would be equivalent to or over the duty paid on mortgages. (7.) By the process of deflation of currency the relative indebtedness of mortgagors is automatically increased.

*Suggestions for improving Conditions of Farmers respecting Taxation and to encourage Production.*—(1.) Reimpose the income-tax instead of the land-tax. (2.) As an alternative, suspend the operation of the graduated land-tax until there is no more deflation. (An owner cannot sell readily, and if at all, then at a loss, and often at less than land-tax values.) (3.) If the land-tax is retained, amend the law to enable an owner of land to deduct the full amount of his registered mortgages irrespective of the amount of land held. (4.) Abolish the stamp duty payable on mortgages or agreements to mortgage, and reduce the stamp duty on transfers back to the former rate. (5.) No suggestion for adjustment of taxation can be of any lasting benefit unless the economic understructure is fully recognized and a due appreciation given to the effects of inflation and deflation of currency.

*Suggested New Sources of Taxation.*—(1.) All services and industries competing with private enterprise, whether carried on by the State or by local authorities, should pay their share of taxation into the consolidated revenue as well as local taxation. (2.) By the incidence of deflation all debts are automatically increased, and I suggest the appointment of expert witnesses to examine the matter of deflation of currency. I believe there are avenues of taxation suggested by economists that can be explored, and methods of taxation that can be adopted, which not only will avoid the ill effects of deflation, but will turn the process of deflation to a national service, reduce our national debt, and cast the burden of taxation upon those best able to bear it.

*Mr. Weston.]* Mr. Bates, under "Suggested New Sources of Taxation" you say, "I believe there are avenues of taxation suggested by economists that can be explored, and methods of taxation that can be adopted, which not only will avoid the ill effects of deflation, but will turn the process of deflation to a national service, reduce our national debt, and cast the burden of taxation upon those best able to bear it." Can you mention one of those avenues?—I do not pose as an economist.

But can you mention even one such avenue of taxation?—Professor Condliffe has stated that a large portion of the revenue of the banks comes from exchange. As far as I have been able to study, the exchange in pre-war time was used for the transfer of credits, but now credits cannot be transferred by the importation of gold. It comes to this: when we have the balance of trade—say we have £50,000,000 worth sent away and £40,000,000 sent out here, then we have a credit balance in London, and the difficulty is to get that out. Therefore they charge a very considerable amount so as to reduce that credit which would come to clients in New Zealand—that is, the primary producers—and that operates detrimentally to the farmers and primary producers. At the same time they give a premium to anybody wanting to send Home money. That is an anomaly. I noticed just recently that there have been double the number of motor-cars imported during the last three months as compared with the number imported during the corresponding period of last year. Well, that balance of trade is inducing that extravagance. We can make no advantage of it—neither the country nor the farmers can get any advantage for the wealth we export Home. It becomes a credit at the other end, and we are induced to spend it extravagantly. My suggestion is that when exchanges exceed the ordinary amount of payment for services, then the country should receive the benefit.

How do you suggest that should be done?—That is not for me to suggest. As a rule, they only get ½ per cent. when gold can be exported and imported. I have paid as much as £2 per £100 in arranging credits. An organization to which I belong has paid as much as £8 per centum in exchanging money between here and India.

You must be mistaken, surely. I do not think it ever got up to that, even at the very worst period. I think you are exaggerating?—No, I can substantiate that.

That was due to the price of silver?—Partly due to the increased price of silver; but that would not account for that enormous charge. Further than this, the services for exchange at the present

time, when there is no export or import of gold, is simple, and does not mean more than a book entry, plus the exercise of capable and competent judgment as far as trade relations are concerned. It is only a book entry; that is all the service that a bank gives.

It is more than that. London is the one centre in the world where all money that is available for liquid and short-dated investment is accumulated?—Yes.

All banks have agencies in London. All those moneys are placed there and kept there for short-dated investment. The result is that they can only make a very small rate, because there is such competition for short-dated investments. The result is that a bank forced to get its money in London is getting a smaller investment than if it had its funds in the Dominion. That is why the bank is compelled to charge you a higher rate of exchange?—That is right. They have cut off from the balance of trade sufficient to finance the primary producers and others here who want money. Before that crisis came in 1920 there was £18,000,000 of accumulated credits there. That was only by exchanges. That was enormous.

You hear the farmers complaining that the exchange is against them, but the exchange was in favour of the farmers until 1921, when the market was so much against the importer. The farmer got the full benefit of that, so that it cuts both ways?—But our condition is a serious one, and we have to consider it, and I say it would be a national service if you could secure that benefit to the country without injuring the profits made by the banks. We know that during the war and up to the present time their dividends have been very high—up to 17½ per cent.—and I think if Mr. Hunt examined their balance-sheets he could see where they could double that in the reduction of their assets.

*Mr. Shirlcliffe.*] On that question of exchange, of course in pre-war times, when we were able to export gold, exchange rates were very largely stabilized both ways?—Yes.

The difference between remitting money to London and drawing money on London was not so great; we did not have the same violent fluctuations as we have had since?—Yes.

But owing, no doubt, to the impossibility of transferring gold to equalize balances, the banks are necessarily forced to alter their exchange rates according to the fluctuations in the balance of trade?—That is quite right.

So that on the round trip they probably do not get more than they did in pre-war days?—

*Mr. Hunt:* Oh, yes.

*Mr. Shirlcliffe:* You may have the figures.

*Mr. Hunt:* I have worked them out quite recently and can give them to you.

*Mr. Shirlcliffe.*] You get a discount from the bank to-day if you want to remit money. The fluctuation of the exchange rates must depend upon the balance of trade?—(Witness) Yes, sir. But therefore I say that our prosperity secured by increased exports militates against the primary producers. The more we get for our stuff the bigger is the rate of exchange.

Except that, taking the national point of view, the loss that is made in drawing on London is to a large extent compensated by the low rate of transmitting to London?—Yes; but they do not affect the same individuals.

Yes, but I said, “taking the national viewpoint.” The loss that is made by exporters owing to the operation of the exchange is compensated very largely by the extra saving to importers through the lower cost of remitting money to London?—Yes.

To come to your written evidence, are you right in saying that farmers do not get any allowance for their registered mortgages?—On the graduated tax they do not get any allowance.

But there is an allowance up to £4,000 on mortgages which disappears at £8,000?—Yes.

Are you right, Mr. Bates, when you compare the stock of 1912 with that of 1922? You have a decreased number of sheep of 1,000,000 and a surplus of 1,300,000 cattle. Would not the increased number of cattle compensate for the reduced number of sheep?—No, because the cattle have been reduced in value very considerably. You can cut that in two. The value of the cattle has been reduced very considerably.

*Mr. Begg.*] You would not say you could cut it in half?—No, but they have decreased very considerably.

Then you say, “Further, owing to the high interest charges and taxes a number of owners have left their farms or the farms are in the hands of the mortgagees and practically idle awaiting purchasers.” As regards the last year or two, do you think that is mainly attributable not to the high interest charges, but to the high prices which the farmers paid for the land?—Yes.

You would qualify that statement to that extent?—Yes; it is the aggregate of interest they have to pay which is driving them out of their farms.

It is the aggregate of interest in each individual case?—Yes.

Then, again, in your schedule of bankruptcies it is not possible to say what the percentage of bankruptcies is in each industry, but apparently one would judge that the percentage of farmers becoming bankrupt in 1922 is no higher than the percentage of commercial or industrial houses. Taking the percentage of the total, the percentage of farmers would probably be less?—I suppose I am not wrong in saying that there is at least as many more who have liquidated privately.

But the same thing would probably apply to private business undertakings?—Yes.

At any rate, you do not attribute the increase in the number of bankruptcies so much to the operation of the land-tax as to the losses that have been made in trading by commercial and industrial houses and the losses that have been made by farmers in paying excessive prices for their lands?—The tax they pay is an incident of their increased expenditure.

But you would not attribute this increased number of bankruptcies, except to a negligible extent, to the income-tax?—You could not do that. It is one of the causes, but I could not go further than that.



There does seem to be a tendency, then, for the farmers' requirements to come down in price now?—Yes. I am glad to see that.

You made a point that the interest on mortgages has increased from 5 per cent. to 6½ per cent., 8 per cent., 10 per cent., and even more; but you would not suggest, would you, that on mortgages with a satisfactory margin there is any great difficulty in obtaining money at 6½ and 7 per cent.?—Yes, there is difficulty in doing that. Let me give you a case. I will not give the figures very definitely, because it might be known who this man is. He paid £18,000 deposit, and the balance owing was £28,000. Well, he cannot borrow that money. He is asked by the mortgagee who sold the property to reduce his indebtedness by £8,000, to bring the amount down to £20,000, and he cannot possibly borrow it or get the money on second mortgage.

May that not be a property for which a very high price was paid, and now, farm lands having depreciated, he cannot finance?—No; he has not paid too much for that land. He is making an income out of it.

*The Chairman.*] There is a margin of £18,000 on it?—Yes.

*Mr. Shirlcliffe.*] How long is it since he bought it?—I do not know that. It was probably during the war period.

Probably when land was more or less inflated as compared with to-day?—Yes, it would be.

So that probably the land itself has depreciated in value, rendering it more difficult for him to arrange his finance?—I cannot see that. The owner of that land reckons it is worth what he gave for it.

We might say then, might we not, that the farmers' difficulty in securing loans to-day is largely attributable to the uncertain value of the land?—No; the uncertainty of credits. There is no money for them. That is the difficulty.

*Mr. Begg.*] You suggest that by the incidence of deflation all debts are automatically increased, and you go on. I take it that the scheme you suggest would be intended to spread the effects of that deflation between the mortgagor and the mortgagee, instead of their all coming upon the one party?—Yes.

But did not the farmers get all the benefit of the inflation when it occurred?—This is the difficulty: the farmers who got the benefit of that inflation are now living in retirement in the cities, and those people who are taking the brunt of it are the men who are working the farms now. Those people who have taken mortgages to secure the balance of the purchase-money are not only getting the big price for the land, but they are going to maintain their position by the increase in the purchasing-value of their money.

But there are a large number of the original owners still on the land?—There is £242,000,000 owing on mortgage now, and there was rather more than £97,000,000 before the war. Those increased millions of mortgages are held—a large proportion of them—by men who have sold.

In other words, the buyers paid too much for the land?—That may be so; but that was not the point.

It must be so, must it not?—That is so; but that was not the point.

They paid too much and they owe too much now. I suppose you would not contend that any legislation of any kind whatever can ever protect a fool from the result of his folly—in a general way?—You must remember that farmers, as a rule, do not understand economic conditions, and they had no information or signal given to them when the banking Acts were suspended. They did not understand the effect of that. And how many traders knew the effect of the suspension of the banking Acts? It meant an inflation of the currency and high prices of everything. You cannot expect a farmer who is working from twelve to eighteen hours a day to understand that, and if you put it before him he could not understand it. What the farmer does is this: he says to himself, "Brown gave so much for his farm. Well, this land is just as good." He can discriminate as to the difference between the farm he wants to buy and the farm that is purchased by somebody else, and he takes it for granted that if Brown gave £40 an acre for a farm he can do so. The economic conditions underlying the matter, such as the inflation of values—you cannot expect a farmer to take any notice of that.

Then, I take it that in a general way, except in very normal, placid times, a farmer should not be allowed to buy land or sell it? I mean, he cannot be trusted?—The farmers were not the cause of the inflation. It was the Government that was the cause. There should have been some one to advise the farmers about these matters, probably.

The trouble is that you can hardly pick out individual farmers. Farmers as a class got the benefit of the inflation, and now they are seeking to escape the penalties of deflation. Now, about the trouble with bank exchanges. The farmers' credits pile up in London, and it is difficult and expensive to get them realized here. Is not Government borrowing a very large factor in that? Say there is a credit of £6,000,000 or £8,000,000 piled up in London. The Government, by borrowing £4,000,000 at that time, increases the balance in London to be transferred by another £4,000,000. Is not that a considerable factor in increasing the producers' difficulties in getting remittances?—It depends from whom the Government borrows. In the case of legitimate borrowing by Government, if they borrow from those who control those credits in London, automatically they would transfer the credits here. The Bank of New Zealand might have £10,000,000 of credits in London and lend to the New Zealand Government the £10,000,000. They would give it to the Government there to spend.

That is, if it was all lent out of those funds belonging to New Zealand that were accumulated in London the position would remain the same; but, as we know, that is not the case. The money is borrowed from London sources, principally?—Yes.

Does that not automatically increase the producers' difficulties in getting his remittances out here?—Yes, of course it does. The proper way to borrow then, would be at this end, to balance it up.

That is not done ?—No.

The practice of borrowing in London is increasing the producers' difficulties ?—Yes. It just depends how the balance of trade is. I am not posing as an expert. I am an interested student in these matters, and I am pleased to discuss them with you. There is one thing I should like to mention, though it may be outside the scope of this inquiry. I should like you to get expert evidence on this matter. I refer to the question of reducing the value of our sovereign. In 1816, after the Napoleonic wars, when we had a period of inflation, that proposal was adopted. They reduced the value of the sovereign.

*The Chairman.*] I am afraid that is outside the scope of the Commission.

*Witness :* That would get over a lot of difficulties.

JAMES CARR, Farmer, Methven, Chairman of Methven Branch of the Farmers' Union, examined.

I have been asked to state that the opinion of the farmers in our district is that our taxation is rather unjust and heavy, with reference especially to the land-tax on mortgages. We feel that when we have no income we should not be called upon to pay taxation, which has been the case with many of us. I can quote a case here that is typical of many in our district. It is a farm that was bought in 1912 at £20 an acre, without improvements except fences. Improvements were added which are now valued at £1,260. The capital value has increased considerably. The value of the farm in 1912 was £14 10s. per acre, taking the average, and now the capital value is £22 an acre. So the taxation has increased considerably. The owner of this farm, on the unimproved value to-day, has only an equity of £1,120 in it.

*Mr. Hunt.*] On the unimproved value ?—On the unimproved value. Of course, on the improved value he has £2,380. Yet in the last four years he has been called upon to pay in land-tax the sum of £355 2s. 7d. When he took possession his first land-tax payment amounted to £1 10s. That was in 1913. In 1914 it rose to £5 18s. 6d., and in successive years it went to these figures : £8 17s. 9d. ; then £70 13s. 3d. for three years. In 1920 it went up to £100 8s. ; in 1921 it was £92 12s. 7d. ; in 1922, £84 18s. 2d. ; and last year it was £77 3s. 10d.—making a total of £599 6s. 4d. paid in the eleven years. Yet that man only possesses an equity of £2,380 on the latest valuation.

*Mr. Shirtcliffe.*] What is the size of that farm ?—595 acres.

*The Chairman.*] What form of taxation for the farmer do you suggest ?—If the land-tax is retained the farmer should get concessions for his mortgages. He should pay on his equity only in the property, or have an income-tax without the land-tax. The income-tax has two good points, to my mind. The farmer only pays when he makes an income, and it is an education to him. It makes him keep books that he would not otherwise keep, and it thus shows him his position. But it has a defect—two defects, to my mind. Many farmers have not had sufficient education to enable them to keep books, and they find it very difficult indeed to compile an income-tax return, or even to give proper figures to an accountant to enable him to compile the return. Take a man who is milking cows, for instance, as I am doing. We have to be up at 5 o'clock in the morning, and we do not finish until 7 at night. One does not feel disposed then to go in and write up many of the figures of your transactions. No man feels disposed to work out complicated figures. Many of them are not kept. I know that farmers have a great fear of Mr. Clark and his accountants who come down and visit them, because they cannot put a proper set of figures in front of the officials. And then there comes another difficulty. A man may make a fair profit, of, say, £1,000 this year, and he may lose £1,000 in two successive years. He pays the income-tax on the £1,000, but he gets no redress for the two years' loss on farming.

*Mr. Weston :* He will under the new system.

*Mr. Clark :* You can carry forward the losses now.

*Witness :* I do not think the farmers are aware of that. I am not.

*Mr. Clark :* It is only coming into operation this year.

*Witness :* If we could be assured that we could get some adjustment of that kind, I think the majority of the farmers would prefer the income-tax to the present land-tax. I may state another case that was given to me yesterday, that of a young man who had a farm before the war. He served for five years, and he came back and bought one at £41 an acre. He put the £5,000 that he had into that. In twelve months, I think, his equity in that farm was gone altogether. He has not a penny of it. His mortgage still remains, and he is called upon to pay, I think, something like £130 in land-tax every year. He is simply working to pay interest, and he has no equity in the farm.

*Mr. Shirtcliffe.*] What is the man paying now in land-tax in the first instance you quoted ?—£77 3s. 10d. I may say for Mr. Clark's benefit that that man's income-tax was not more than £25 in the good years. His best year was an income of £600-odd.

During the war ?—Since the war. So you can see that that man is paying more than he ought to pay for the government of the country. Another thing with respect to the land-tax : the man with a large family who pays indirect taxation gets no redress whatever. Two of my neighbours are men with large families, having eleven children under eighteen years of age. You can imagine what their taxation is indirectly, and yet they have to pay land-tax just the same. Under the income-tax they had some redress, but they have not under the land-tax. Another form of taxation, though I do not know whether you are empowered to deal with it, is the tax that we pay through local bodies to the Hospital and Charitable Aid Board.

*The Chairman.*] No ; that is outside the order of reference.

*Witness :* That is all I have to say.

GEORGE WILLIAM LEADLEY, Farmer, Ashburton, and President of the Mid-Canterbury Section of the Farmers' Union, examined.

*The Chairman.*] Have you put your views on the subject of taxation into writing?—No, sir. Owing to our infrequent mail-service I did not get notice until Friday.

What do you wish to say?—I have no very serious personal grievance to ventilate. My difficulties are inconsiderable when compared with those of some of the men who have approached me, and I appear here to-day more as the representative of quite a number of farmers who have asked me to come here. These are men who have told me of their difficulties, men who are face to face with the difficulties of the situation that has arisen and are feeling very keenly on those matters. What I have to say does not altogether affect myself or apply to myself, but I wanted to deal with it in a general way—not to theorize, but to give the actual experiences of men who are face to face with the position as it exists to-day. I find in conversation with those gentlemen that their objection is to the mortgage-tax.

What do you mean by that—that there is a limit to the exemption in respect of taxation?—No; the tax on mortgages.

There is no tax on mortgages now?—Is there not? How long ago did that take effect?

*Mr. Clark:* In 1916. I think that what Mr. Leadley is referring to, Your Honour, is the disallowance of the deduction of mortgages in the land-tax assessment.

*Witness:* That is what I mean. I did not mean a direct tax on mortgages.

*Mr. Clark:* It is loosely referred to as a mortgage-tax.

*Witness:* I mean that the farmer has to pay taxation on the whole of the capital value of his land irrespective of his debts.

*The Chairman.*] Only when it exceeds a certain sum?—Yes. That is what I was trying to get at. I am sorry I did not make myself clear. The objection which men make is that in cases where a man's equity in his land does not amount to more than 10 per cent. he has to pay on the full value.

*Mr. Weston.*] Is it not wrong that a man like that should buy property to that extent?—Possibly it is.

Should he not be content with a smaller farm, or lease one?—That is one of the chief objections which I find men have to-day. I have had letters and personal instances given to me showing that men are finding great difficulty in meeting the land-tax, and they consider they are being unfairly dealt with in having to pay taxation on the full taxable value of their land when their personal interest in the land is such a small one. Another matter which has been brought before me is that the point at which the graduated tax commences should be raised. It commences now at £5,000, and men are asking that the point when the graduated scale commences should be raised, for this reason: When the graduated tax was first introduced it was introduced ostensibly for the purpose of bursting-up estates. It was a finger of warning, we were told by the gentlemen who were responsible for it, held up to the large landholder. That condition of affairs does not exist to-day as it did at that time; and owing to the increased cost of land a man may be a very small holder in area and yet come under the graduation. Farms have been sold in my district in the last few years—farms without any buildings on them—at from £42 10s. to £74 per acre.

*Mr. Shirtcliffe.*] Too high.—Decidedly; but I suppose the man who bought the farm thought there was something in it. That is a fact. This year, since harvest, a farm in my neighbourhood has been sold at the extravagant price of £42 10s. per acre. It has not a stick on it, and a man buying land at those rates soon comes under the graduated tax. There is a strong complaint amongst the farmers against this. The smaller men are feeling the pinch of the graduated taxation, and are asking that that be remedied. With regard to the reimposition of the income-tax, I note that some of the evidence given before the Commission has been in the direction of asking for the reimposition of the income-tax on farmers. Well, I am in a position to say that that is not the desire of any considerable number of farmers. They are opposed to income-tax on land together with the land-tax. Their objection is that the conditions and requirements of the returns are so complicated. Here I have a copy of the return furnished to each farmer, and on the front page there are twenty-one items as to what he must not do. He is told to read through this list, and there are twenty-one things for which he must not make any deduction. Then he is referred to Part D of the form.

*The Chairman.*] It is hardly worth while going into those details?—But there is one point I want to refer to in Part D which refers to the estimated value of the products of the farm used. I undertake to say that very few of the farmers take any notice of that. It means that if your wife gathers a basket of eggs or of apples you must enter that in the form as having been used on the farm. Nobody does it.

*Mr. Clark:* We estimate it. We have the same trouble with hotelkeepers and restaurant-keepers.

*Witness:* That is one of the objectionable features. Another objectionable feature is the somewhat inquisitorial manner in which the assessments on these returns were made when the income-tax was in existence. My individual grievance against the system is that when I have sent in my returns they have not been recognized. On one occasion I sent in a return. I did not receive any acknowledgment of it, and no intimation that the return was in order or sufficient. About four or five months after the return was furnished a demand was made upon me for £1,000 tax.

*The Chairman.*] Did you pay it?—I wrote to the Department and told them I had sent in the return and that I thought there was a grievous error in their calculation. The reply was to the effect that I should refer my documents to a chartered accountant. I did so, and after investigation and further communications with the Department the demand was reduced to below £20. That is not an isolated case. Others have been served in the same way, and I think that is rather a rough-and-ready way of doing things. Farmers generally are not good accountants and not good hands at keeping books, and I believe that many a farmer has had a demand made on him which is in excess of the proper amount, but rather than make any noise about it he has paid up. I know cases where that has been done, and where it has been proved to be an excessive charge.

*Mr. Clark.*] How long ago did that incident happen?—It was the last year of the collection of the tax from the farmers, about two or three years ago.

*Mr. Clark.*] That was when you were assessed for £1,000?—Yes. After including the deductions to which I was entitled the amount of tax which I had to pay was £20.

*Mr. Clark.*] There must have been something unsatisfactory in the return?—There was nothing said about the return.

*Mr. Weston:* Mr. Clark, you could easily have that case turned up.

*Mr. Clark:* Yes.

*Witness:* Finally, I want to say that the small farmers in our district strongly urge that the taxation on mortgages should be reduced, or some other method devised to divide it between the mortgagee and the landowner, and that the income-tax should not be reimposed.

WILLIAM HENRY NICHOLSON examined.

*The Chairman.*] You are the secretary of the Sheepowners' Federation, Mr. Nicholson?—Yes, and I may say for your information that I have had thirty years' experience in our high country.

As a sheep-farmer?—Yes. I was managing a large property for over twenty years.

You have prepared a statement showing the views of the Sheepowners' Federation in regard to taxation matters?—Yes.

Will you read your statement to us?—Yes. I may say that it is somewhat on the lines of that which I previously prepared and placed before the Taxation Committee of 1922, but this statement has been brought up to date as far as possible, though the same arguments apply now. My statement is as follows:—

I beg to place before you the views of the Executive of the New Zealand Sheepowners' Federation with reference to the present system of taxation as it affects the man who has his capital invested in land for the purposes of primary production. The effect of the land-tax as at present levied is that capital invested in land is the only capital which is forced to pay taxation towards the cost of government irrespective of whether an income is earned from the land in which that capital is invested or not. Under the present system of land-taxation the Government have, in effect, taken a compulsory first mortgage over the land at so-much per cent. interest, and at each increase in valuation the percentage of tax on the primary product produced from that land as a result of the manual labour of the producer is increased in proportion. The result of this continued appreciation of unimproved values has resulted in the land-tax becoming in many cases a burden far too heavy for the land to bear under ordinary circumstances as regards the prices realized for the products therefrom. An additional burden has to be borne by the land owing to the necessity of paying a higher rate of mortgage interest than would be the case if the mortgagee was not also required to pay taxation by way of income-tax on the interest he received from the man on the land. This means that the land must earn not only the interest on the mortgage, but also the income-tax paid on the amount received by the mortgagee from the farmer. The costs of production, including taxation, have increased to such an extent in recent years as to overrun the interest-earning capacity of the land, and had not the present phenomenal prices for wool been received by the sheepowner he could not possibly have carried on operations successfully under the present system and under ordinary marketing-conditions. It must be remembered that when it is stated that land-tax is also paid by companies and town interests that the amount of capital on which land-tax is paid in each individual case in proportion to the total capital involved is comparatively small. For instance, a farmer would invest up to 80 per cent. of the total of his capital in the land on which he would be required to pay land-tax, the other 20 per cent. representing stock and improvements, whereas in the case of the factory the value of the amount would be in an inverse ratio to the total of the capital represented in the assets of the town firm or factory, the bulk being absorbed in the stock and plant. It will readily be conceded that as between the two investments of capital that the individual landowner is placed at a distinct disadvantage as compared with the investor in company shares, &c. If the same principle as that involved in the land-tax were applied to all forms of capital and property, which, after all, is a form of capital, then my executive feel that the burden would be distributed more evenly and fairly than is the case at present. Failing the application of this principle to all capital however invested, my executive would suggest that all incomes, however derived, should pay taxation on an equal footing with graduations if advisable. This would do away with the possibility of the farmer being called upon to provide not only interest on his mortgages, but also income-tax on the interest paid by him, and during those seasons when, through possibly no fault of his own, the farmer had to face a loss in his operations, of his being called upon to add still further to his losses by paying out a slice from his capital to the Government in land-tax. The present incidence will not stand the test of continued depression on the world's markets or lowered prices for primary products, as was amply demonstrated during the slump period. As showing the almost impossible task set the sheepowner to-day, who has to meet interest charges, production costs, and taxation, the following calculations may be of interest. Take the case of a man with a sheep-run the unimproved value of which is £100,000, the improved value £120,000, as assessed by the Government valuers. The owner purchasing at the Government improved value, £120,000, pays down £60,000 of his own capital, leaving £60,000 on mortgage. After purchase he has to provide stock and plant, which on a place of this size it would be fair to put down at £20,000 additional. The position, then, is this, from a capital cost viewpoint only, at, say, 5 per cent. (unimproved value £100,000, purchase price at Government valuation £120,000):—

	£	s.	d.	at	£	s.	d.
Owner's capital paid down .. .. .	60,000	0	0	at 5 per cent.	3,000	0	0
First mortgage held by Government represented by land-tax on unimproved value—viz., £2,479 3s. 4d., capitalized at 5 per cent. .. .. .	49,583	6	8	at 5 per cent.	2,479	3	4
Mortgage held by mortgagee erroneously called first mortgage but which is in reality a second mortgage on account of purchase-money unpaid .. .. .	60,000	0	0	at 5 per cent.	3,000	0	0
Additional capital required for stock and plant .. .. .	20,000	0	0	at 5 per cent.	1,000	0	0
	<u>£189,583</u>	<u>6</u>	<u>8</u>		<u>£9,479</u>	<u>3</u>	<u>4</u>

Before cost of working can be allowed for, and even on such a low basis as 5 per cent., this property must make sales to the extent of over £9,479 3s. 4d. out of stock and plant valued at £20,000, while still leaving the stock and plant without depreciation, and with no allowance for improvement in the way of renewals of pastures, scrub-cutting, materials, food for staff, wages, costs of management, and losses of stock. When we remember that, in addition to taxation having doubled and in some cases quadrupled, the wages paid have also been increased by approximately 100 per cent. since 1914 (see table of increases attached No. 1), the impossibility of the producer being able to continue to carry on operations with any hope of success under average conditions must be obvious. The land-tax payable by the holder of land the unimproved value of which is £100,000 (irrespective of whether an income is earned from the land or not) equals the income-tax paid by more than forty-one individual investors receiving an income of £1,000 per annum each. In other words, this one man's land-tax equals the income-tax payable on over £41,000 of income, while the capital which has earned this income is left untouched.

My executive wish me to especially stress the point that the land-tax as at present levied is a capital-tax pure and simple, and is imposed on one section of the community only, and they respectfully urge, if a capital tax is found to be unavoidable in order to provide means for meeting the expenses of government, that all capital, however employed, should be made to bear its share at least equally with that used in working the land for production, so that some measure of relief may be given to the primary producers. If some alteration is not made in this direction, then it can be only a matter of time before large areas of land which have in pre-war days been in profitable occupation must go back to nature, or aggregation take place on a large scale, with a consequent reduction in output. The great majority of farmers are under a heavy load of mortgage to-day. The result of the reduced interest-earning power of land through the excessive amount of mortgage placed on it by the Government (as represented by the land-tax) is clearly shown by the changed attitude of financial houses when dealing with applications from farmers for money on first mortgage on land of which the following letter is an example.

Insurance Co. of N.Z., Ltd.,

Dunedin, 28th February, 1922.

DEAR SIR,—

Our Canterbury manager has forwarded us your letter of the 27th instant, with reference to a loan of £6,000 on fifteen hundred acres of land at Waiau, the property of Mr. ———

Owing to the high rate of income-tax, in our case 8s. 9d. in the pound, we regret to say that we have been compelled to cease lending money on mortgage. Such investments will give us a return of only £3 13s. 2d. per cent. net, whereas by investing in municipal debentures at 6½ per cent. our net return is £5 13s. 9d. The policy of the directors in the past was to invest the greater portion of our surplus funds in broad acres, with a view to helping the farmer and developing the Dominion. Unfortunately, such a policy is now a thing of the past.

Thank you for bringing the investment under our notice.

Yours faithfully,

GENERAL MANAGER."

The real position is that the margin of security that formerly existed in favour of the ordinary first mortgage has now, on account of the Government having increased its mortgage on the land, been reduced to an extent which necessitates a higher rate of interest being paid for mortgage-money, and this in turn makes it still harder for the primary producer to pay his way. Unfortunately for the country generally, and for the landholder in particular, there is no possibility of his passing on any extra charges, as the prices of our primary products are almost without exception dependent on the world's market values. This is not the case in commercial enterprises. During the period of the strike one of our members had occasion to hire a lorry to take some lambs from his place to North Canterbury. He ordered some cement to make a back load for the lorry, and the firm told him that there was a surcharge of £1 per ton on the cement on account of having to cart the cement over the hill from Lyttelton. But as a matter of fact I know that there was no cement carted over the hill from Lyttelton. That is what is done by the commercial people. The position of the primary producer is infinitely worse than that of any of the various dividend-earning companies throughout New Zealand, as the landholder is forced to pay out from his capital, while the companies are only required to pay on profits, and if none are made, then no tax is asked for. My executive feel assured that this Committee will realize that the first consideration must be how best to give relief to the primary producer. Unless this is done, and done quickly, the effect on the Dominion generally must be disastrous, as if production for export is restricted, then it naturally follows that the amount of foreign capital coming into the Dominion must be reduced in proportion. The foreign money received for our primary products (which in our case is almost our only source of income) represents in the ultimate analysis the only money wherewith all classes of the community pay their taxes. From the sheepowners' point of view there can be no sound basis of justification outside war conditions for saying that the unimproved value of the land in the Dominion has risen since 1913 by £60,000,000, as is shown by the Valuation Department's figures, and on which land-taxation is assessed. This is approximately 50 per cent. increase, and cannot be justified under present conditions. With prices of our primary products at an average, and making due allowance for the increased cost of operation, the unimproved values of farming and grazing land should be lower rather than higher than in 1913: 1913—Unimproved value of land in the Dominion, £152,273,929. 1920—Unimproved value of land in the Dominion, £212,148,731. 1921—Unimproved value of land in the Dominion, £227,574,242. 1922—Unimproved value of land in the Dominion, £229,925,874.

My executive, in view of the enormous increases in working-costs and materials since 1913, to which must be added 40 per cent. increase in railway freights, would suggest that every endeavour be made to give relief to the landholder, and as a means thereto would further submit that such relief may be given and the load be more equitably distributed by the substitution of an income-tax pure and simple, to be levied on a graduated scale on all incomes. In this case it might be necessary to fix the value of stock at a mean level, and that might be arranged slightly below the average, so as not to allow manipulation by the farmer to beat the Department. Second, if no other means of taxation proves possible than that existing at present, that all capital, however employed, should be taxed equally so that a modicum of relief can be given the man on the land. Third, that a property-tax be levied on all property owned in the Dominion, as the capital cost of expensive establishments should be considered as idle capital, and the value of the luxury enjoyed by the owner should be

treated as part of his income and taxed as such—say, value £10,000 at  $3\frac{1}{2}$  per cent.; this would be £375 to be added to taxable income. Fourth, that a sales-tax be substituted with a view to providing the amount now levied as land-tax. This, in the opinion of my executive, would be a much more equitable method of spreading taxation, as all sections of the community would pay towards the cost of government in direct proportion to its spending-power; and we would respectfully urge that this tax be substituted for the present system if possible. (This is now operating in Canada.)

NOTE.—The power to levy land-tax as at present may possibly be necessary to enable the Commissioner to apply the same in cases where land is held idly and not being improved or producing, to provide against capital being invested in land with a view to getting unearned-increment value created by efforts of surrounding settlers, or railways and road-improvements, &c.

My executive consider that either of these alternatives would result in a more equitable distribution of the load of taxation, and would assuredly relieve the man on the land to a large extent. My executive wish to especially draw attention to the injustice to sheepowners in various localities throughout New Zealand accruing from the uneven dates at which valuations have been made for taxation purposes in the past. Some districts have been frequently revalued since pre-war days, thus the 50-per-cent. average rise over the whole Dominion represents far more to some districts than others. It is manifestly unfair that one farmer should be taxed on unimproved values assessed in, say, 1920, while a neighbouring farmer with possibly equally good land but in another county may only be asked to pay on pre-war assessments. Speaking generally, if sheep-runs throughout the Dominion were sold at the Government valuation and the money invested at 5 per cent. the seller would be infinitely better off than by working his farm under present assessments. It is further suggested that a system which has become law in Australia, introducing the averaging principle by providing that the income-tax on primary producers shall be based upon the average income of five-yearly periods, might be adopted here with advantage to the landholder; also the right to set off loss incurred in one direction by the same person against income from another source.

TAXATION PAID BY LANDHOLDERS AS COMPARED WITH ORDINARY INVESTORS.

Even if no income is earned the landholder pays on an unimproved value of—	£	s.	d.	Tax on capital paid by ordinary investor if no income is earned.	The ordinary investor if income is earned of, say, 5 per cent. pays income-tax on—	£	s.	d.
£100,000 land-tax .. ..	2,749	3	4		£100,000 .. ..	1,208	6	8
Local rates at $\frac{1}{4}$ d. .. ..	312	10	0		Less 20 per cent. .. ..	241	13	4
	<u>£2,791</u>	<u>13</u>	<u>4</u>	Nil.		<u>£966</u>	<u>13</u>	<u>4</u>
£75,000 land-tax .. ..	1,469	15	0		£75,000 .. ..	710	18	9
Local rates at $\frac{1}{4}$ d. .. ..	234	7	6		Less 20 per cent. .. ..	142	3	9
	<u>£1,703</u>	<u>2</u>	<u>6</u>	Nil.		<u>£568</u>	<u>15</u>	<u>0</u>
£50,000 land-tax .. ..	718	15	0		£50,000 .. ..	343	15	0
Local rates at $\frac{1}{4}$ d. .. ..	156	5	0		Less 20 per cent. .. ..	68	15	0
	<u>£875</u>	<u>0</u>	<u>0</u>	Nil.		<u>£275</u>	<u>0</u>	<u>0</u>
£40,000 land-tax .. ..	491	13	4		£40,000 .. ..	233	6	8
Local rates at $\frac{1}{4}$ d. .. ..	125	0	0		Less 20 per cent. .. ..	46	13	4
	<u>£616</u>	<u>13</u>	<u>4</u>	Nil.		<u>£186</u>	<u>13</u>	<u>4</u>
£30,000 land-tax .. ..	306	5	0		£30,000 .. ..	143	15	0
Local rates at $\frac{1}{4}$ d. .. ..	93	15	0		Less 20 per cent. .. ..	28	15	0
	<u>£400</u>	<u>0</u>	<u>0</u>	Nil.		<u>£115</u>	<u>0</u>	<u>0</u>
£25,000 land-tax .. ..	229	3	4		£25,000 .. ..	106	15	5
Local rates at $\frac{1}{4}$ d. .. ..	78	2	6		Less 20 per cent. .. ..	21	7	0
	<u>£307</u>	<u>5</u>	<u>10</u>	Nil.		<u>£85</u>	<u>8</u>	<u>5</u>
£20,000 land-tax .. ..	162	10	0		£20,000 .. ..	75	0	0
Local rates at $\frac{1}{4}$ d. .. ..	62	10	0		Less 20 per cent. .. ..	15	0	0
	<u>£225</u>	<u>0</u>	<u>0</u>	Nil.		<u>£60</u>	<u>0</u>	<u>0</u>
£15,000 land-tax .. ..	106	5	4		£15,000 .. ..	35	0	0
Local rates at $\frac{1}{4}$ d. .. ..	46	17	6		Less 20 per cent. .. ..	7	0	0
	<u>£153</u>	<u>2</u>	<u>10</u>	Nil.		<u>£28</u>	<u>0</u>	<u>0</u>
£10,000 land-tax .. ..	60	8	4		£10,000 .. ..	10	0	0
Local rates at $\frac{1}{4}$ d. .. ..	31	5	0		Less 20 per cent. .. ..	2	0	0
	<u>£91</u>	<u>13</u>	<u>4</u>	Nil.		<u>£8</u>	<u>0</u>	<u>0</u>
£7,500 land-tax .. ..	41	8	2		£7,500 .. ..	3	15	0
Local rates at $\frac{1}{4}$ d. .. ..	23	8	9		Less 20 per cent. .. ..	0	15	0
	<u>£64</u>	<u>16</u>	<u>11</u>	Nil.		<u>£3</u>	<u>0</u>	<u>0</u>
£5,000 land-tax .. ..	25	0	0					
Local rates at $\frac{1}{4}$ d. .. ..	15	12	6					
	<u>£40</u>	<u>12</u>	<u>6</u>	Nil.	Nil.			
£3,000 land-tax .. ..	13	15	0					
Local rates at $\frac{1}{4}$ d. .. ..	9	7	6					
	<u>£23</u>	<u>2</u>	<u>6</u>	Nil.	Nil.			

From a perusal of the preceding comparative table the injustice of the present method must be apparent. For instance, the producer, with his wife and family, may work for twelve months and find that in spite of all his efforts he has only been able to make both ends meet (or possibly he may have made a substantial loss), yet he is still asked to pay land-tax and rates, as shown in the table. In other words, he is forced to pay from his capital towards the expenses of government, irrespective of whether he has made an income or not. This, obviously, can only continue for a limited period, being admittedly economically unsound. The ordinary investor is only asked to pay on income returned by his capital, if any, and should his income be below the assessable amount—viz., £300—he pays no taxation whatever, and his capital is left intact, although he may possibly be living a comparatively useless life as compared with the work done by the producer and his family. It will be remembered that the unimproved value of the land does not represent the total of the capital required. To this must be added the capital cost of improvements, buildings, fences, stock, &c., before the land can be made to produce. From the landholders' point of view, it appears to be only reasonable to ask that equal treatment should be given to all capital, and that the ordinary investor should bear his share of the cost of government in the same relation to the capital invested by him as is now demanded from the man who has his capital invested in land. It may be argued, as was the case in Mr. Seddon's time, that the reason for this land-tax was to encourage settlement and the bursting-up of estates, but that bursting-up policy has passed the commercially practicable stage, especially on purely grazing-country, and under the present taxation system there is no inducement for any one to purchase land with a view to settlement—in fact, the reverse is the case, as there are instances on every hand to-day of farms being thrown back on the mortgagees' hands, it being impossible in some cases for the places to pay taxation and cost of operation out of returns made, even without any allowance being made for interest on capital, or a living-wage for the owner and his family.

NO. 1.—RETURNS SHOWING INCREASES IN LAND-TAX PAID BY SHEEPOWNERS IN 1922 COMPARED WITH PRE-WAR.  
*Canterbury.*

Return No.		1913-14.			1921-22.			Increase.		
		£	s.	d.	£	s.	d.	£	s.	d.
1.	Land-tax .. .. .	150	0	0	279	15	1	129	15	1
	Local rates .. .. .	203	18	11	343	18	10	139	19	11
	Total labour account .. .. .	4,034	17	0	5,753	0	0	1,718	3	0
		£4,388	15	11	£6,376	13	11	£1,987	18	0
2.	Land-tax .. .. .	72	17	3	234	7	10	161	10	7
	Local rates .. .. .	53	9	6	64	5	5	10	15	11
	Total labour account .. .. .	923	9	3	1,259	19	10	336	10	7
		£1,049	16	0	£1,558	13	1	£508	17	1
3.	Land-tax .. .. .	241	0	0	623	0	0	382	0	0
	Local rates .. .. .	105	0	0	178	0	0	73	0	0
	Total labour account .. .. .	620	0	0	1,050	0	0	430	0	0
		£966	0	0	£1,851	0	0	£885	0	0
4.	Land-tax .. .. .	1,015	19	0	1,413	15	6	297	16	6
	Local rates .. .. .	195	9	1	210	18	8	15	9	7
	Total labour account .. .. .	1,072	11	5	1,717	0	10	644	9	5
		£2,283	19	6	£3,341	15	0	£1,057	15	6
5.	Land-tax .. .. .	177	0	0	885	0	0	708	0	0
	Local rates .. .. .	77	0	0	277	0	0	200	0	0
	Total labour account .. .. .	300	0	0	600	0	0	300	0	0
		£554	0	0	£1,762	0	0	£1,208	0	0
6.	Land-tax .. .. .	300	0	0	600	0	0	300	0	0
	Local rates .. .. .	114	10	0	150	0	0	35	10	0
	Total labour account .. .. .	330	0	0	570	0	0	240	0	0
		£774	10	0	£1,320	0	0	£575	10	0
7.	Land-tax .. .. .	408	17	6	735	2	1	326	4	7
	Local rates .. .. .	228	8	2	259	0	6	30	12	4
	Total labour account .. .. .	1,837	12	9	2,319	7	4	481	14	7
		£2,474	18	5	£3,313	9	11	£838	11	6
8.	Land-tax .. .. .	57	2	0	317	10	0	260	8	0
	Local rates .. .. .	75	0	0	107	16	3	32	16	3
	Total labour account .. .. .	316	8	4	440	0	0	123	11	8
		£448	10	4	£865	6	9	£416	16	5
9.	Land-tax .. .. .	3,017	18	6	4,979	2	3	1,958	3	9
	Local rates .. .. .	381	12	8	719	8	2	337	15	6
	Total labour account .. .. .	2,243	14	10	3,538	13	3	1,294	18	5
		£5,643	6	0	£9,234	3	8	£3,590	17	8
10.	Land-tax .. .. .	58	11	8	349	18	9	291	7	1
	Local rates .. .. .	54	11	2	129	11	8	76	0	6
	Total labour account .. .. .	246	13	3	363	18	8	117	5	5
		£359	16	1	£843	9	1	£483	13	0

					<i>Otago and Southland.</i>								
Return No.					1913-14.			1921-22.			Increase.		
					£	s.	d.	£	s.	d.	£	s.	d.
11.	Land-tax	..	..	..	38	2	7	272	14	6	234	11	11
	Local rates	..	..	..	63	10	1	120	17	8	57	7	7
	Total labour account	..	..	..	694	16	2	1,233	6	6	538	10	4
					£796	8	10	£1,626	18	8	£830	9	10
12.	Land-tax	..	..	..	54	13	9	225	13	7	170	19	10
	Local rates	..	..	..	77	11	2	143	3	3	65	12	1
	Total labour account	..	..	..	662	1	1	1,100	9	9	438	8	8
					£794	6	0	£1,469	6	7	£675	0	7
13.	Land-tax	..	..	..	402	7	4	634	3	1	231	15	9
	Local rates	..	..	..	169	0	10	297	1	11	128	1	1
	Total labour account	..	..	..	904	16	0	1,261	19	1	357	3	1
					£1,476	4	2	£2,193	4	1	£716	19	11
14.	Land-tax	..	..	..	150	13	3	311	7	6	160	14	3
	Local rates	..	..	..	197	0	7	221	11	4	24	10	9
	Total labour account	..	..	..	631	8	8	815	19	7	184	10	11
					£979	2	6	£1,348	18	5	£369	15	11
15.	Land-tax	..	..	..	67	6	3	567	8	9	500	2	6
	Local rates	..	..	..	158	19	3	417	8	4	258	9	1
	Total labour account	..	..	..	607	7	6	1,018	16	9	411	9	3
					£833	13	0	£2,003	13	10	£1,170	0	10
16.	Land-tax	..	..	..	147	7	8	267	5	10	119	18	2
	Local rates	..	..	..	117	19	2	166	5	5	48	6	3
	Total labour account	..	..	..	1,227	1	7	1,674	2	9	447	1	2
					£1,402	8	5	£2,107	14	0	£615	5	7

					<i>Hawke's Bay.</i>								
Return No.					1913-14.			1921-22.			Increase.		
					£	s.	d.	£	s.	d.	£	s.	d.
17.	Land-tax	..	..	..	59	14	3	349	9	6	289	15	3
	Local rates	..	..	..	136	0	4	166	1	1	30	0	0
	Total labour account	..	..	..	1,138	7	6	1,395	17	1	257	9	7
					£1,334	2	1	£1,911	7	8	£577	5	7
18.	Land-tax	..	..	..	197	3	0	548	2	8	350	10	8
	Local rates	..	..	..	254	0	9	421	2	9	167	2	0
	Total labour account	..	..	..	..	..	..	..	..	..	..	..	..
					£451	3	9	£969	5	5	£518	1	8
19.	Land-tax	..	..	..	158	0	0	352	0	0	194	0	0
	Local rates	..	..	..	75	0	0	143	18	8	68	18	8
	Total labour account	..	..	..	450	1	8	660	0	0	209	18	4
					£683	1	8	£1,155	18	8	£472	17	0
20.	Land-tax	..	..	..	53	10	6	304	7	3	250	16	9
	Local rates	..	..	..	124	0	0	209	12	10	85	12	10
	Total labour account	..	..	..	316	2	6	604	0	0	287	17	6
					£493	13	0	£1,118	0	1	£624	7	1
21.	Land-tax	..	..	..	90	4	9	234	7	3	114	2	6
	Local rates	..	..	..	98	3	4	310	1	1	211	17	8
	Total labour account	..	..	..	1,220	0	0	1,968	12	6	748	12	6
					£1,408	8	2	£2,513	0	10	£1,104	12	8
22.	Land-tax	..	..	..	514	15	5	910	16	3	397	0	10
	Local rates	..	..	..	563	11	6	719	10	0	155	18	6
	Total labour account	..	..	..	3,430	8	3	4,682	1	11	1,251	13	8
					£4,507	15	2	£6,312	8	2	£1,804	13	0



## A SOUTH CANTERBURY FARMER'S CASE IN DETAIL.

	Land-tax.			Local Rates.			Wool Returns.			
	£	s.	d.	£	s.	d.	£	s.	d.	
1914 .. .. .	100	14	8	108	2	11	1914 ..	1,445	0	8
1915 .. .. .	125	3	6	108	2	11				
1916 .. .. .	154	11	6	116	13	11				
1917 .. .. .	180	16	4	111	10	8				
1918 .. .. .	320	12	8	111	10	8				
1919 .. .. .	320	12	9	111	10	8				
1920 .. .. .	516	18	6	142	7	3				
1921-22 .. ..	585	6	1	188	1	6				

Land-tax increase since 1914, £478. Rates increase, £80. Labour-cost increase, 100 per cent.

	£	s.	d.
Total rates and taxes, 1921-22, on all property taxed as above .. .. .	773	7	7
Wool returns, 1921-22 .. .. .	701	17	6
Deficit on account rates and taxes alone .. .. .	£11	10	1

The trouble with land-tax as at present assessed and as it effects the producer is that valuations were made during boom periods, and if land-tax is to be continued, then my executive considers that a revaluation is urgently needed in most districts. A return to the system in vogue during the war period—that is, the imposition of income-tax in addition to land-tax on the farmer—can only result in lowered production and would be an unbearable tax on the producing industry. Land-tax assessed on speculative values is too heavy a burden to carry, and valuations for taxation purposes should be strictly on the basis of the producing-capacity of the land being valued. My executive are of opinion that a man using his land properly should not be called upon to pay land-tax at all, but should pay in an equal ratio with other members of the community on income earned from his land. Unearned increment could not then be brought into the question of valuations, the productive capacity of the land being the real basis of value. The only variation in this value would be brought about by fluctuations of market prices for primary products, and this difficulty could be met by taking over a number of years for valuation purposes. There is no doubt that subdivision of estates has been carried to excess in many cases by the Government to the detriment of the country generally, and to the particular piece of country subdivided especially. This applies more especially with regard to grazing properties which present no opportunity of improvement by cultivation. I may mention my own experience on a large property with which I was personally connected. It was cut up by the Government, and when it was handed over by the Government it was carrying 26,000 sheep, one of the best flocks in the Dominion, which clipped 450 bales of wool, and it also ran over three thousand head of surplus stock each year, and sent away from four hundred to six hundred of fat cattle. That estate was cut up for closer settlement, and to-day it is running only 14,500 sheep and 650 cattle, and the sheep are of a nondescript character, and the wool is only one-third of the value of the clip from the 26,000 sheep previously carried; but there are millions of rabbits on the place to-day. There was a Commission sent down by the Department to investigate the proposal for taking it over about four years before it was cut up. They rode over the place for four days, and they saw only four rabbits.

*Mr. Shirtcliffe.*] What was the locality of that place?—North Canterbury, the Glenweye Estate. It was run by the late Mr. Duncan Rutherford.

*Mr. Hunt.*] It was a pastoral leasehold?—There is only 9,000 acres of freehold, and the rest is hilly back country. Will you now allow me to make some comments on the statements placed before the Commission by previous witnesses? Mr. Seifert, of the Wellington Flax-milling Company, said that the Department charges income-tax when income is made by companies, and when no income is made the Department is not interested. I wish to point out that with the producer the Department's interest continues even when losses are made, and there is no let up. Then, Mr. Fels, on behalf of his company, objects to the land held by one company in various districts being grouped for taxation purposes, but this is done in all cases where a farmer owns land under similar conditions, and so does not apply to companies alone.

*The Chairman.*] But his complaint was with regard to leaseholds being aggregated?—That is a different matter. It was not reported properly then. The flat rate of land-tax suggested by Mr. Fels will not meet the case, as the basic objection is still there—that is, taxation of one form of capital investment only. My executive does not agree with Mr. Gow that land is a fair subject for taxation as against other property on account of it carrying privileges. The only privilege apparent is that of having your time fully occupied sixteen hours a day and a problematical result of your exertions at the end of the year. If, as he says, the only justification for land-taxation is on account of the privilege of ownership, then there is no justification whatever for it. Mr. Gow agrees with my executive that the true system is a man's ability to pay according to his income.

*Mr. Shirtcliffe.*] I suppose, in spite of all these disadvantages which you say have been experienced during the past ten years, the farmer has done pretty well?—I could not go back through the war period, of course. I was actively engaged during most of the war period, and I was not in my present position, but taking the time from the slump onwards the bulk of the sheepowners have not recovered to the position they were in prior to the slump.

But prior to the slump they were in a very good position?—I am not aware of that.

But prior to the slump they were getting extremely good prices for their wool?—But, as you know, the bulk of the farmers are not good book-keepers, and though they got 6d. a pound more for their wool than they had ever been getting before I doubt whether on their bank balances after they had squared up at the end of the year they were very much ahead on account of the increased cost of production. If you look at those figures in the table on page 10 you will find that it gives you

the tax paid: North Canterbury, increase in land-tax, local rates, and labour account—these figures are taken from as representative a set of sheepowners as I could rake up. There is a fairly large one at the start; that is a leasehold property. His land-tax is £150, and his total labour account was £4,034 17s. in 1913-14. His total increase was £1,987 18s., which requires a lot of making-up.

But you need to take into account the increase in wool-prices. You have put before us the concrete figures showing the increase in taxation, but you do not attempt to show us his increased returns owing to higher prices for wool. These figures by themselves show clearly enough the increase in taxation, but they do not show the other point?—They are drawn up with that object. I showed the increase of taxation.

But all sections of the community have had to pay increased taxation?—Quite so.

Commercial undertakings have had to pay increased taxation, probably quite in proportion to those figures for farmers which you have submitted?—Quite so.

So I suggest that to give to the Commission a proper comprehension of the position as affecting sheepowners these figures should be added to by figures to show what the net results were in these particular instances?—You mean that it would require complete balance-sheets.

If a farmer could pay the increased taxation and still make as good a rate of profit as before the war he was not suffering any great hardship?—I agree with that, but that was not the case. There is an individual case on page 12 of my statement, showing the land-tax and the increase from 1914 to 1921. It also shows the man's wool returns for 1914 as £1,445, and for 1921-22 only £761, or one-half of what he got in 1914. His taxation had increased from £214 in 1914 to £773 in 1922.

But 1922 was a slump year?—But if you doubled those figures you do not bring that man up to where he was in 1914, with his increased taxation on top of it.

From 1914 onwards that man must have had a pretty good time—during 1916, 1917, and onwards till 1920?—You could average that up right through. His 1914 clip would be sold in 1915. You could check each year through; with the increase of taxation a man was not really as well off before the slump as he was under average conditions.

But surely, with the same amount of wool, in subsequent years to 1915 he would really get much more than £1,445?—But that is the 1914-15 clip. That would give you an idea that if you carried it through on the basis shown in my statement, that man has had one-half his wool clip taken in increased taxation.

HENRY DYKE ACLAND examined.

*The Chairman.*] You are President of the Sheepowners' Federation, Mr. Acland?—Yes.

I understand you have prepared a memorandum setting forth the views of the federation in regard to taxation?—No; this represents my own views. Mr. Nicholson has already given the Commission the view of the Federation. This statement is based on my experience as president of the Federation, and also on my professional experience. My statement is as follows:—

My experience, both as president of the Sheepowners' Federation and professionally, goes to show that the graduated land-tax has been a very onerous burden on farmers generally. This has been especially so in recent years, when farmers as a body have been losing money. It has made it extremely difficult for them as a class to obtain credit. In the case of mortgaged land it means double taxation for a particular form of capital. Its effect has been to make the Commissioner of Taxes first mortgagee, and the erroneously called first mortgagee is in the position of a second mortgagee who has given a personal guarantee to the first mortgagee, the Commissioner of Taxes, to pay the tax. I know of several cases where the Commissioner has exercised this right. I know of a case where, if the Commissioner enforces his right at the present time, it means that the farmer in question—who only has a small block—will be sold up. To be fair a capital-tax such as the land-tax should extend to every form of capital or else be abolished. Personally, I believe the fairest tax is the income-tax. If a capital-tax such as the land-tax were imposed upon companies and other forms of capital I believe it would have the effect of putting most of them out of business. I entirely concur with what Mr. G. Gould said with reference to joint ownership, and I can, if necessary, give, confidentially, cases of the injustice of the system of graduated tax in respect of joint ownership. In regard to the tax upon companies I do not believe that this is passed on as often as people suppose, and it is paid for in many cases out of what are called "hidden reserves." The company-tax also has this advantage: that it is likely to prevent the growth of very large financial corporations, which in America have tended to become predatory. If the company-tax is removed all individuals on salary, and professional men, merchants, and traders generally, will probably have to submit to a very much larger taxation than they pay at the present time, and company-taxation is collected on the profits made by capital. It has been contended that persons who have saved money and invested it should not be liable to income-tax unless their income exceeds £300 per annum. It seems to me that such investors get all the benefits of a civilized society and protection for themselves and their capital, and that such undoubtedly should contribute to the revenue. Furthermore, if companies are exempted from taxation they will simply be added to the list of what I have on a former occasion called "the aristocracy of capital" existing in New Zealand, which is, firstly, the Government tax-free war loan, and, secondly, local-body debentures. I believe also that the exemption of companies will make it more difficult than ever for farmers to obtain finance.

Your suggestion is that there should be no exemption from income-tax?—No; there must be an exemption. Take the case of a man who has saved a certain amount of money, and who at the present time has £300 a year coming in from company dividends: if that were exempted he would pay nothing at all. On the other hand, you might have this position: a man with, we will say, £12,000 puts half of it in his own name and half in the name of his wife, and they have £600 a year between them. They have a house, but pay no tax. On the other hand, again, you have a bank-manager or a small trader working very hard and earning the same amount of money, and he has got

to pay a considerable sum in income-tax, as against the other man who is supported by the community and pays nothing. I submit that that is wrong, and that the people who obtain money from investments should pay something, however small their returns are. They should give something for their protection.

*Mr. Shirlcliffe.*] I see that on page 2 of your statement you refer to "the aristocracy of capital," and say "If companies are exempted from taxation they will simply be added to the list of what I have on a former occasion called 'the aristocracy of capital' existing in New Zealand, which is, firstly, the Government tax-free loan, and, secondly, local-body debentures": do you suggest that the tax on local-body or company debentures should synchronize with the tax on money raised by any other means?—There has been a statutory promise given as to past moneys. I do not think that that should be broken, but with regard to future moneys they should be put on the same level as any other class of income. Let me illustrate it. Why should a gas company or an electrical company have to pay a higher rate in one case where it is privately owned, whereas if it is floated by a local body they get off on a lower basis? Why should they?

Precisely; but would you limit that to debentures issued in the future? Would you consider it a breach of faith if the tax on past issues of debentures were raised?—Certainly. I think it might be held to be a breach of faith. One wants to be extremely careful.

Of course, there was a statutory contract when the Government issued tax-free war loans, but did not people invest in debentures with the knowledge that the tax might be varied from year to year?—Undoubtedly.

Could it be considered that interest on all those debentures were put on the same footing as money from other sources? Would that be a breach of faith on the part of the Government of the country?—I am not quite sure about the wording of the statute, but I am inclined to think that it would not be.

*The Chairman.*] The Legislature does not undertake, by passing an Act, that it will not alter it next year?—But it did so in regard to the tax-free war loans.

Yes?—I have never heard of a case where the Government has reduced the taxation that the owners of the debentures have objected.

*Mr. Begg.*] You mentioned the case of a man and his wife having £600 a year from investments and by splitting it between the two they could escape taxation: would you favour husband and wife's income being lumped for taxation purposes?—No. I think that is putting another burden on to the married man, and he has plenty to carry at present.

How would you meet the case?—It is very difficult to know how to do it in that case; but I think that in the instance I mentioned, where the whole of the money is derived from investments, there ought to be a tax placed upon money derived from capital—what you might call unearned money.

They should not get a £300 exemption?—I do not think they should.

What exemption would you suggest for what we call unearned income?—I have not considered the amount, but I think it should pay something.

*The Chairman.*] What is the lowest amount, Mr. Clark, on which it would be worth your while to collect income-tax?

*Mr. Clark.* I could collect as low as £1, I think.

*The Chairman.* What income would that be on at present rates?

*Mr. Clark.* An income of £20.

*Mr. Shirlcliffe.*] Would it pay to collect it?—There would not be much trouble.

*Mr. Begg (to witness).*] You think that unearned income ought to be taxed and should not get the exemptions that earned income does?—I certainly think it should pay. It does pay at the present time through companies.

In your last paragraph you say, "I believe also that the exemption of companies will make it more difficult than ever for farmers to obtain finance": would you mind telling us how you arrive at that?—If companies' shares were exempted it would make them very much more attractive to investors. They would probably pay larger dividends, and there would be less money available for investment on mortgage for farmers.

You think that such a large number of new companies would come into existence?—I do not say that, but I think the present companies would become very much more attractive, and I think it would give a very large bonus to people who hold shares at present.

*The Chairman.*] Any change would mean giving a bonus to the present holders, would it not?—Yes, it would give a bonus to the present shareholders. They would only be taxed according to their individual rate.

*Mr. Begg.*] I am not clear how the mere fact that the present shareholders' property would increase in value would absorb any more of the available capital?—I think you would find that people would be inclined to go for company shares more than they do now.

*The Chairman.*] You do not make it clear how the exemption would make it more difficult for farmers to obtain finance?—I think that people would be much more inclined to invest in companies than they would be to lend money on mortgage, and I think it would probably tend to the creation of new companies. One does not want to go into the general question of the effect of collective capital. That is a modern creation of the last sixty or seventy years, and we do not yet know what effect it is going to have on society generally.

*Mr. Shirlcliffe.*] I think I understand what Mr. Acland is suggesting—that is, that there would be much greater speculation in company shares?—I think there would be.

And money would be withdrawn from ordinary channels of investment in order to speculate in shares?—Yes. Anything that gives greater preference to the form of company investment tends to create monopolies, and you get these enormous monopolies that we are getting now. Take steamer s

The bulk of the steamers that trade on this side of the world are controlled by one or two boards of directors in London. My point is that you eliminate competition, and those bodies tend to become predatory on the public sooner or later.

*Mr. Begg.*] With regard to what you call the aristocracy of capital, you say that removing the tax from companies would add them to the list of what you have called the aristocracy of capital existing in this country, "which is, firstly, the Government tax-free war loan, and, secondly, local-body debentures." But are the cases parallel?—I think so. It would certainly enable bodies of men to deal with enormous blocks of money—as they do in America now—money which possibly they do not own. That is what has happened in America with some of those large insurance companies. Men have manipulated the funds for their own benefit, and they have plundered the public in different ways. I think that something of the kind might happen here.

But the Government tax-free loan pays no tax?—No.

The local-body debentures up to this year paid half a crown?—Yes.

But company profits under either system would be taxed? Company profits would be taxed under any system, would they not?—Not if you had the present system of exemptions. It would make it very much easier for the promoters of companies to obtain money.

But the profits of companies would be taxed on the same scale as other property is taxed?—Yes, if the money was all taken in for individuals ultimately. Those individuals who had large interests, of course, would pay on their company shares; but a great many would not. On the other hand, I feel that it would give a tremendous hold to the people controlling those companies. It would give them a great deal of economic power, which I do not think would be good for the community as a whole.

If individual taxation were adopted, would not the effect be that wealthy men would not find company shares so attractive as they are at present?—I do not know about that. I think they would get their dividends, would they not?

At present they get their dividend, and their total income is not graduated up as high as it would otherwise be. If they got the dividend and they were taxed on it, their graduation would be increased considerably. Would not that tend to make company shares less attractive?—I do not think it would.

*Mr. Hunt.*] Did I understand you to say that all unearned income should be taxed? You meant that all dividends from companies should be taxed. If a man had, say, £6,000 and he lent it on mortgage at 5 per cent. and that was his only income, would you tax that £300 interest?—I think there ought to be some form of taxation on a man of that kind. I certainly think that capital ought to contribute something towards the protection that it gets in the community.

Whether it is invested in companies or anything else?—Yes.

Do you believe in the graduated system of taxation?—Theoretically I think it is probably bad, but as a matter of practical politics and a question of raising revenue I think it is a thing that you will never get rid of. I think the economist will tell you that it is unsound.

The graduated system means that the man with a large income pays more than the man with a small income on each pound, does it not?—Yes.

And do you think there is any right in that?—I think you can argue it either way. I think probably you get back to this: that the best system of taxation is to consider ability to pay. That is what you really come back to. Who is the man who can best afford to pay?

What do you call ability? Do you mean the surplus that a man has other than his living-expenses?—Yes. I think that a bachelor who has an income of £1,000 a year is in a very much better position to pay income-tax than is possibly a married man with, say, ten children and £1,500 a year.

If a graduated system is in force do you think it should apply all round? If a graduated system of income-tax is in force, should it apply to everybody that has a large income?—I think it should.

Can you see any difference in the graduation of tax paid by the shareholders in a company? I mean, do large shareholders pay more than small ones?—Of course, they both pay the same.

So there is no graduation in the shareholders of companies?—No, unless you did this: I have heard it argued that one way would be to have a fixed rate of taxation on company profits, and then make the shareholders account for this money again as individuals and tax them again.

Would you think that better than the present system?—No. I think that the present system on the whole works fairly well.

You admit that there is no graduation in the different shareholders of companies?—There is not at the present day.

You know that of the present income-tax revenue about 70 per cent. comes from companies?—I do; in other words, a great part of it comes from capital and not from personal exertion.

So that on, roughly speaking, 70 per cent. of the income-tax collected there is no graduation?—Oh, yes, there is.

There is no graduation as far as individuals are concerned?—There is graduation according to companies, but not according to individuals.

But there is no graduation according to individuals in that 70 per cent.?—There probably is, for this reason: that in respect to a lot of the private companies, when they are formed they are owned by two or three individuals, and they pay a smaller rate, probably, than some of the larger companies. There probably is graduation there.

Not on individuals, but on companies?—It works out on individuals.

Is it not true that private companies are generally owned by wealthier people than big companies?—Not necessarily.

But it is very often the case?—With a view to attempting to evade taxation a man may form himself into half a dozen different companies. I do not know that that is availed of to any great extent.

Do you see any reason why a company should be graduated?—It is an easy and practicable way of collecting revenue.

Yes; but an easy way is not always a fair way, is it?—I think on the whole it has worked very fairly in New Zealand.

We will take one small company with £10,000 capital earning 30 per cent. dividends, and another company with half a million capital earning 3 per cent. Do you think the one earning 30 per cent. is correctly taxed at a low rate?—In the 30 per cent. case the shareholders own the shares, and they pay large fees to their directors, and do what they can to bring their dividend down. That is often the case in small companies.

Small companies can be manipulated, then, for evading taxation?—Yes, and the big company has to pay something on all that capital, and I think that is fair that it should.

BERTIE ERNEST HAWKES WHITCOMBE, Managing Director, Whitcombe and Tombs (Limited), examined.

*The Chairman.*] You have written a letter to us setting forth a grievance that your company has in connection with the graduated land-tax?—Yes, sir.

Your complaint is practically the same as that which was brought forward by Mr. Fols in Dunedin?—Yes.

Will you read the letter, please?—It is as follows:—

The Secretary, Income-tax Commission, Christchurch.

DEAR SIR,—

5th May, 1924.

At the present time I venture to think that the graduated land-tax levied on industrial companies falls unjustly upon them, as it hinders the expansion of industry, and consequently the fullest number of hands will not be employed.

Our directors have frequently contemplated acquiring more land for the expansion of our printing-works in the different centres, but have been prevented by the fact that under the present system of graduated land-tax, originally intended for breaking up big estates, every increase to the capital value of our land lifts our present holdings into a higher scale under the graduated tax.

I suggest that land employed for industrial purposes should be charged a flat rate, as the present graduated tax is a serious handicap to industry in New Zealand.

I would also like to draw attention to another hardship, which is that we are charged on land which does not belong to us, but is leased in conjunction with our business. We are called upon to pay on leasehold property in Christchurch, Wellington, and Dunedin, and the incidence of the tax is detrimental to any company endeavouring to expand and employ more workers. We have to pay the difference between the tax charged to the owner and the graduated tax, as the value of the land is added to our freehold, and the whole amount then comes under a higher graduated scale. When one considers that hundreds of hands are employed on city properties on which warehouses and factories are built, as against tens employed on farm lands of the same value, the injustice of the taxation becomes apparent. The farmer pays no income-tax, but the industrial undertaking pays both land and income taxes.

Certain industries must be carried out on a large scale, otherwise they cannot compete with those of older countries where massed production is carried on.

Yours faithfully,

B. E. H. WHITCOMBE, Managing Director.

CHARLES OGILVIE, Manager of Beath and Co. (Limited), Christchurch, examined.

*The Chairman.*] You have written a letter on behalf of your company setting forth some views in connection with the subject of taxation?—Yes, sir.

Will you read that to us, please?—It is as follows:—

The Secretary, Taxation Committee, Christchurch.

DEAR SIR,—

5th May, 1924.

We have been in business for sixty-four years. For some fourteen years now we have kept very accurate statistics regarding our business, and, among other things, we have a very complete table showing the different items of expenses in percentages against our sales turnover.

We believe that in offering your Commission the use of this statistical book it would give them a very clear idea of how taxes affect businesses such as ours. This book could only be given to the Commission on the strict understanding that its contents be confidential and not for publication.

During the past few days we have gone to some trouble to get out graphs showing exactly how the taxation has grown out of all proportion to all other charges. This, too, you will notice is on a sales basis, therefore it is very closely related to the cost of living. As the graphs have been prepared by Professor Condliffe you can rely on their accuracy.

You will notice, too, that the wage-chart has followed very closely to that of taxation, and we would suggest that increased taxation means increased wages, therefore increased cost of living.

It can be clearly shown that our gross profits in pre-war years are more than in war years. It can also be clearly shown that our net profits during war years are considerably less than pre-war years on the per cent. of sales. It can be shown, too, that as the taxation increases the net profit of the turnover per cent. decreases.

It is not my intention to go into figures closely, as I presume your Commission will take advantage of our offer to view these figures and draw their own conclusions.

It is interesting to note, in passing, that the taxation paid exceeds in some years the actual dividends paid to our shareholders. During the three years the income-tax and land-tax were at their highest, the actual taxes paid exceeded the total profit remaining. You will note particularly years 1920, 1921, 1922. In 1923 we got some relief, but even still the taxation was very high.

You will notice in 1923 the public were well served in that the gross profits were at least 5 per cent. less in the turnover than pre-war years. This, again, was only possible because of heavy increases in business.

It is interesting to note what a small proportion rent is when compared with taxation generally.

You will also note that other expenses have been reduced, on per cent. of turnover, with one exception—taxation. We would point out that this, of course, could only happen with a rapidly extending business.

It will be quite clear to the Commission that the great increase in sales has made it possible for us to pay the taxation, and at the same time pay a reasonable dividend to our shareholders. The Commission will notice, too, that for a number of years we have not been able to add anything to our reserves.

We have a staff of between three and four hundred, which means a considerable wage-bill, and during 1921–22 for every £1,000 we paid away in salary and wages we paid between £400 and £500 in taxation.

The point we would make is that notwithstanding all these handicaps we have been able to reduce our profits, in per cent. to turnover, only because the business is growing. Our ambition would be to reduce them further with the view of further extending our business, lowering prices generally, and, therefore, further lowering the cost of living.

We would make it clear that lower income-tax in many cases should mean lower charges all round for services rendered to us. It should eventually mean lower wages with a bigger purchasing-power.

*Land-tax.*—We should explain that the total area of land owned by Beath and Co. (Limited) is 160 ft. by 140 ft., and on this small area we have paid £1,874 in land-tax. We submit this tax was intended to deal with large areas in rural districts.

In recent years we have leased a small property at a rental value of £250 per year. The value of this was added to our freehold, and in consequence we paid additional land-tax.

The taxation we have set out in special tables and could supply a copy to each member of the Commission on the strict understanding that it is confidential and not for publication.

To sum up, we reduced the running-costs of our business last year from 6 to 8 per cent. on turnover as against pre-war years. Out of this saving and the economical running of our business we have been able to carry the taxes. You will notice, however, that during the past three years we have been able to carry nothing whatever to our reserve, while our net profits on turnover have been as low as 3.1 per cent. The average during war years did not exceed something round about 5 per cent. on turnover. This goes to show that war profits did not exist as far as we are concerned. It also shows that the public have had excellent service, which, no doubt, is responsible for the rapid growth of our business.

We have contemplated for some years a big building scheme, and because of heavy taxation it has been laid aside from year to year. Our six-story building is well known in Cashel Street. For three or four years we have paid in taxation annually a sum rather more than its total cost. It must therefore be quite clear that we have become more or less tax-collectors, and would be very glad indeed of any further relief we could obtain from this position.

It is a matter of common knowledge that our warehouse is much too small for our business. We could immediately do with a warehouse four times its size. We would build a warehouse ten times its size by introducing another £100,000 capital, but with taxation such as it is this scheme is not practicable. If our land-tax was removed completely and our income-tax reduced by half we believe we could immediately control a further £100,000 capital and within two or three years double our present business. That could mean we would collect the same amount in taxes, though, of course, on a much bigger turnover. We would still be able to reduce our profits, therefore giving the public better service. We would incidentally be able to employ about a hundred men for about two years building our new warehouse, and when it was built we should employ two or three hundred extra hands. We make this statement in all seriousness, as we have a plan out now for a very big building, and would go on confidently if taxation were within our capacity to pay. We would suggest, too, that profits passed to reserve in a business such as ours should be treated on a lower scale of income-tax with the view of conserving capital in all businesses. The ultimate gain would be steady dividends and steady income-tax, so both the shareholders and the Government would eventually reap the benefit.

Yours faithfully,  
C. OGILVIE.

You refer to graphs in your letter: have you got them?—I have them here. [Witness produced and explained the graphs to the Commission; also the book referred to.]

*Mr. Shirtcliffe.*] You are paying at present 5s. 10d. in the pound in income-tax—the maximum rate?—Yes.

And you say the weight of the tax is so heavy that it is preventing your expanding your business further than you have done?—Yes.

Are you able to suggest to the Commission a rate of tax that the company could pay without interfering with the reasonable expansion of its business?—I have done that in my letter—at the end of it.

*The Chairman.*] You suggest a flat rate?—I said what we could do if the land-tax were abolished and the income-tax were halved.

*Mr. Shirtcliffe.*] You must bear in mind, must you not, that the same amount of taxation has got to be raised?—I have covered that.

I did not grasp it. You suggest that the land-tax should be removed and the income-tax cut in half. That would mean that we should not collect the same amount in taxes?—We claim that if we put up this building our business would develop suddenly to twice its volume, and the taxation would be paid on the larger volume, though it would be less on the turnover.

That might apply to your individual case, but it probably would not apply to the country generally, and the revenue has got to be raised. If you are suggesting an income-tax of 2s. 11d. in the pound and no land-tax, the Government will have to look to other sources of taxation in order to make up the necessary amount?—Even at half the tax it would be three times pre-war, would it not?

The necessities of the Government are more than three times pre-war?—Are they?

Yes, I think so?—Is the national debt three times pre-war.

Yes, just about. It is more than double?—If we offer to pay three times as much we are doing our bit towards it.

*Mr. Begg.*] The conclusion you arrive at at the end of page 2 of your letter is your considered opinion, I take it—"We would make it clear that lower income-tax in many cases would mean lower charges all round for services rendered to us"?—Yes. I think that is true.

That is, other people are handing on the income-tax to you?—Yes.

You are quite satisfied that that is the case?—Yes, I think that is inevitable.

*Mr. Shirtcliffe.*] Do you add the income-tax on to your customers?—I do not say we have not to some extent. It has been a two-edged sword. We have carried some of it, because in these days we cannot put money into reserves.

I cannot quite see how you can have passed on income-tax when, during the period of highest taxation, your gross profit as compared with pre-war was lower?—It depends whether you are discussing it in percentages or in aggregate.

In percentage?—In percentage, of course, we have not.

*Mr. Begg.*] Would the position be that though you sold at a smaller margin of profit owing to a greatly increased turnover, if you had not had the tax to pay you would have been able to carry on on a still finer margin?—That is the whole point we stress.

CHRISTCHURCH: TUESDAY, 6th MAY, 1924.

RICHARD MORTON, Sheep-farmer, Taitapu, examined.

*The Chairman.*] You have prepared a memorandum, Mr. Morton, setting forth your views in connection with the question of taxation?—Yes.

These are your personal views?—Yes. These are my views as to how taxation affects me as a sheep-farmer:—

*Taxation, 1924.*—(1) Levied on capital; (2) levied on income; (3) levied on Customs duty, stamps, &c. (Policy of Government not discussable.)

*Evils of Levy on Capital.*—Destruction of industry; detrimental to thrift; final extinction of capital. Examples: Russia, Persia, Turkey, former Egypt, and Eastern Governments generally. Land-tax as a class tax is an evil example of the capital-tax levied on the primary industry of the country. Remedy, if capital is to be taxed, is in a property-tax—i.e., all property, since capital invested in property is so invested for the same reason that of a remunerative return. Invention of unimproved values to suit land-tax methods is merely an aggravation of the evil of land-tax, since the man who improves his land and in doing so enhances the capital value of his land automatically advances the unimproved value thereof, since the unimproved value is the capital value less improvements—even some improvements are after a time disallowed. Originally devised to break up estates, land-tax may be said to have done so to the surprise and chagrin of those who are responsible for its inception. Incapable of being equitably assessed throughout New Zealand at one period of time by the same assessor, the method of assessment by districts at various periods of time by numerous assessors and under any accident of circumstance produces a result full of unevenness, representing the various personal equations of the valuers affected by the varying periods of prosperity or depression ever recurring in connection with the farming industry. One district may be valued at the period of the deepest depression, while other possibly even adjacent lands may remain as valued at some other period of time when the opposite conditions prevailed. *Vide*, the discrepancy in the valuations recently made of Crown settlers' land now under revision after three valuations. In the residential areas intended to benefit the poorer classes the taxation of land on unimproved value has tended to force the subdivision of land into minute areas, enabling the more wealthy resident to obtain all the benefits of sanitation, roads, water, and other conveniences for a large and expensive residence at a cost of contribution by way of rates and taxes that an adjoining but less wealthy neighbour pays for a cottage which probably represents his whole capital. In city properties the poorer landlord unable to erect a many storied expensive building on his land is at the disadvantage of having to pay the same taxation as one who invests capital on his property in buildings on which he escapes taxation—i.e., land-tax. Investment in property in buildings such as shops, warehouses, mills, factories, hotels, &c., all represent capital invested for remunerative purposes, and as such should be as much liable to taxation as capital invested in land for the farming or pastoral industry, which actually supports the business carried on in the factories and business premises. Mortgages should be deducted in assessing a capital-tax. The lender paying direct on his capital or by levy on the income derived therefrom.

*Table showing Comparison as to Effect of Land-tax as levied on Pastoral Land and on City Property.*

	Valuation.		Land-tax.					
	Capital.	Unimproved.	1922.		1923.			
	£	£	£	s.	d.	£	s.	d.
Sheep-farm .. .. .	69,220	59,090	1,057	10	1	961	7	5
City property: Business premises and shops	78,375	51,365	828	5	5	729	1	6

Then, you have a table showing the comparison as to the effect of land-tax as levied on pastoral land and on city property?—Yes; these are two examples which I have quoted, the one is my own case, and the other is that of my brother. I have a sheep-farm of a capital value of £69,220. In 1923 I paid in land-tax £961. My brother has a city property with a capital value of £78,375, about £9,000 more than the capital value of my place, and in 1923 he only paid £729 land-tax, about £220 less than I did.

*Mr. Weston.*] Then, he will pay income-tax too, does he not?—I do not think so.

You see, he lets his city property?—Yes.

Then, he will have to make a return of his rents?—Well, those are the figures I got from him. I asked him what he paid. But I think there is an impression that the town man and the country man pays practically the same land-tax.

*Mr. Hunt.*] Your unimproved value is higher than his?—Yes; but my capital value is £69,220 and his is £78,375.

*Mr. Weston.*] He has a merchants' block here and he has to make a return of rents derived from that building, so that he would have to pay his income-tax on that. If he gives you his income-tax plus the land-tax that he pays you will find that you get off better than he does?—

*Mr. Clark:* Unless he is getting very poor rents.

*Mr. Shirtcliffe.*] How does that affect your argument, Mr. Morton? How does the fact that your brother has to pay income-tax—perhaps as much as the land-tax—affect your argument?—I do not know whether he pays income-tax. If Mr. Clark says he does pay income-tax I suppose he does.

*Mr. Clark :* I do not know that he does, but he should.

*Mr. Shirlcliffe.]* Then the comparison is incomplete without that information?—I was looking at it from the land-tax point of view because it has been stated that the man in the city pays the same as the man in the country.

*Mr. Weston.]* Probably your point is correct to this extent: that the proportion that the unimproved value bears to the capital value in the city property is less than in the country property. The value of the buildings on city properties exceeds the unimproved value, whereas the improvements on a farm would not amount to more than 20 or 30 per cent. of the capital value. You are probably correct to that extent, but, on the other hand, the man who has the property in the city has to pay his income-tax on his rentals.

*Mr. Shirlcliffe :* In these two cases you have quoted the margin between the capital and unimproved value on the farm is only £10,000, whereas the margin between the same values on the city property is £70,000.

*Mr. Weston :* In the one case it is, roughly, 14 per cent., and in the other it is nearly 33 per cent. There is no doubt that your point is correct to that extent: that in the case of city properties the improvements are of very much greater value than in the country, but as against that the business man pays income-tax too.

*Mr. Hunt :* The city man carries on a business and has to pay income-tax, whereas it is not so in the country?—Yes, if he makes a profit.

*Mr. Weston :* He is allowed to deduct only 5 per cent. of the capital value. Your brother would be entitled to deduct £3,900 from his total rents. I should say that, roughly speaking, he would get a minimum return of 8 per cent. for rentals on the £78,000. That would come to nearly £6,000, and with the 5 per cent. deduction on £78,000, he would have to pay income-tax on about £2,900.

*Mr. Shirlcliffe :* Less his exemptions.

*Mr. Weston :* But he would probably have income from other sources as well, and so he would not get much exemption.

*Mr. Weston.]* The income-tax on £2,900 is something like £253, so that you are at a slight disadvantage as compared with your brother, but the disadvantage would not be so great as you have pointed out in your statement, and if he got a return of 10 per cent. you would be very much better off than he?—But practically he has got an assured income, and I have to take my chance with the world's markets. But he may have bad tenants every now and then.

#### EBENEZER HAY examined.

*The Chairman.]* You are a sheep-farmer, Mr. Hay, are you not?—Yes; at Pigeon Bay, and I have also a property in the Marlborough Sounds.

You have some views on the subject of taxation: will you please tell us what they are?—I am very much against the land-tax, because I think that land is the only form of capital that is taxed, and I think a much fairer way would be to tax farmers on their income. One of the worst features of the land-tax is this: if a farmer makes nothing during his year's working—which has happened recently—he has to find money to pay his land-tax, and sometimes he has to borrow it. Whereas if he is taxed on his income, when he makes an income he is able to pay the tax. If he does not make an income off his land he has no tax to pay. I have had heavy land-tax to pay, and I would have had to borrow the money to pay it if I had not had other sources of income. Fortunately, I had, and so I did not need to go to the bank to borrow money with which to pay my land-tax.

We have been told that farmers are not able to make up income-tax returns?—I think they are. We used not to do it a few years ago, but I get an accountant to make up mine now, and I think every farmer could get an accountant to make up his return. If he is farming in a small way it would not cost him much, and I think it would be a benefit to him, in that he himself would know how he was doing.

It would force him to ascertain his position?—Yes, and I think that would be a very good thing for him. Another objection I have to the land-tax is that it is partly a tax on improvements. The Department will probably say No, but I know of such cases. You might have two farms adjoining of the same size and quality of land. One might be highly improved, with good fences and cleared of weeds, while the other may be neglected in every way. The valuer comes along, and the good, highly improved farm catches his eye, and he puts a high valuation on it, and so the owner of that farm finds himself paying tax on his improvements. That is my opinion on the matter. I have seen quite a few cases of that in my own district.

*Mr. Shirlcliffe.]* What about his neighbour: does not he pay on the same valuation?—Well, the poor-looking, neglected farm does not take the valuer's eye, and he probably values that farm at £2 or £3 per acre less than the highly improved farm.

One man is penalized for his improvements?—Yes, because his land is valued at a higher rate than his neighbour's farm. I think you must admit that that has taken place.

Put it the other way, Mr. Hay: the other man is being let off because of his neglect?—Quite so. Then, to my mind, the system of valuing land is wrong. I think I am right in saying that there are certain districts in New Zealand which during the last ten years have been revalued two or three times, while other districts have not been revalued once during that period. The result has been that the districts that have been revalued and raised according to the value by which the land has risen have paid more in taxation than the districts that have not been revalued. Now, I have two properties, one on Banks Peninsula—which is the favourite hunting-ground of valuers and which has been revalued three times during the last ten years—and my other property is in the Sounds. The latter property I bought ten years ago, and it has not been revalued since. I do not think that is fair. It means that the people on Banks Peninsula are paying land-tax at a far higher and unfair rate as compared with the people in the Sounds district. That is another evil of land-tax.



*Mr. Weston.]* The Sounds district has gone back, has it not—that is my advice?—That is no argument why it should escape revaluation.

The reason why it has not been revalued is that, if anything, the unimproved values ought to be reduced rather than increased?—I do not think that applies to every place.

But, taking it as a whole, if there were a revaluation in the Sounds there might be a decrease?—But there are some places that could have stood an increase.

*The Chairman.]* What about your property?—My property has not gone back; it has improved.

You are not paying all the land-tax you ought to have paid on it, then?—Perhaps not; but I am paying too much on my place in Pigeon Bay.

*Mr. Clark.]* Has the unimproved value increased? The value of your property in the Sounds has increased by reason of the improvements effected by you?—Yes.

That should not necessarily increase the unimproved value?—No; but the same thing has increased the valuation of my property in Pigeon Bay.

But that is a wrong principle of valuation?—But that sort of thing is always done.

*Mr. Shirlcliffe.]* What should constitute the unimproved value—the value of the land in its virgin state?—We should say so.

What view do the valuers take?—Well, I think they take this view: supposing a block of land remained in bush unimproved while all the rest of the land round about had been settled, cleared, and improved, what would be the value of the unimproved land with the surrounding land all producing? That is not quite the same as the original value of the land before any one settled there. It is the unimproved value of the land with settlement all round it. That means an increase on the actual unimproved value of the land.

*Mr. Begg.]* Does it necessarily mean that? Your unimproved block covered with heavy timber—is it not conceivable that it might be worth more than improved farms round about it?—It does not matter what the timber asset is; the other land has a producing-value.

It has got an immediate value and subsequently a producing-value?—

*Mr. Clark:* A small block of timber would have very little value. The expense of putting a mill into it would not be warranted.

*Mr. Shirlcliffe.]* When a valuer comes to value your property does he start with the capital value and then deduct the value of the improvements that he can estimate?—(Witness) I have never been able to find that out. I do not know how it is done.

*The Chairman.]* Each valuer has his own personal view on the matter?—Yes. I know that there was a property adjoining mine at Pidgeon Bay, but not improved as mine was, and the owner escaped with £2 or £3 an acre less valuation.

*Mr. Begg.]* But could any valuer assess that, except a local man like yourself: will that not always occur?—Yes, that will always occur, and that is the iniquity of the land-tax.

It is sure to happen that a badly-farmed place will get off with a lower valuation than a well-farmed property?—Yes, and that means a tax on improvements.

*Mr. Weston.]* But the more thrifty and able the man the heavier you saddle him with tax?—Yes, that is what you are doing now with the land-tax.

*Mr. Shirlcliffe.]* Does not that apply generally? Is not a man who makes a large income taxed for his thrift?—Yes, you cannot avoid it. Take the professional man who makes a large income: he is taxed upon his ability.

Would you ask us to abandon the land-tax entirely?—Yes.

You do not even suggest a flat rate?—No; I cannot see why that special form of capital should be taxed. Take two men, each of whom has £10,000 to invest: the first puts his money into a farm, and the second puts his into a business. The man on the farm is immediately taxed. The other man may put his money into shares, shipping, or anything like that. He only pays tax on his income, but the farmer on the land has to pay land-tax whether he makes an income or not.

But the land-tax can be looked upon in the light of a privilege tax or a tax for use?—No; I look upon it as a class tax. It is the only form of capital singled out to be taxed.

You do not think there is any privilege in holding land in large or small areas, the use of which other people cannot have?—All the privilege a man gets is having to work sixteen hours a day on it.

*Mr. Begg.]* Can you suggest any check against any man holding land and allowing it to lie idle: would you suggest any form of tax to check that?—I do not know that I am qualified to express an opinion upon that sort of thing, but surely our legislators could devise some means of preventing that. I do not think there is a great deal of it done in these days. I agree that that sort of thing should be stopped.

*Mr. Clark:* There is a block of land in Christchurch near the centre of the city. A man in the early days put £100 into the Canterbury Association and he got that block. He never spent a penny on the land, but in rents and the sale of the land he drew several hundreds of thousands of pounds. What would you do with a case like that? I am giving you an actual instance.

*Witness:* That may not be impossible, but you will find it is a rare case.

*Mr. Clark:* No, I think there are such cases in every city in New Zealand.

*Witness:* Of course, that man paid rates on his land.

*Mr. Clark:* No; his tenants paid the rates; he let the land on long leases. An aggravated case could only happen in a city; it could not occur in a farming district. There are, however, cases in the country districts.

*Witness:* I should think they would be very few.

*Mr. Clark:* I know there are cases in the country. I do not know how many. It applies more particularly in the cities, where the increase in values is greater.

*Witness:* It is hard to prevent that sort of thing. That is what taxing on unimproved values was devised to check. The man who held the block in Christchurch had a good deal of luck: if he had got land twenty miles from Christchurch it would not have paid him.

*Mr. Shirtcliffe.*] Would you suggest that there should be no tax levied to prevent the reaggregation of large areas?—Yes. No doubt that is the object of the land-tax, and especially the object of the graduated land-tax, but I have always thought there are other means for preventing aggregation other than the piling of the tax on the land, because in the few cases where it prevents aggregation it comes as an imposition on the landowners.

Can you suggest other means?—No. I am not a legislator or a law-maker, but I do think that surely our legislators can do that. I do not see that it is impossible. Perhaps you could limit the area of first-class land and second-class land and third-class land that a man can hold. That is one way of doing it.

That can only be done by value, can it not?—It could be done by area, could it not?

How would that affect city lands?—I am thinking of country lands.

*Mr. Begg.*] You think there would be no great difficulty in ascertaining a farmer's income?—That is so.

You do not know that they have never considered it feasible?—I do not see why it should not be. Every other man has to return his income.

*Mr. Weston.*] Do you think it would encourage farmers to employ an accountant to make up their income returns if an exemption were granted of a fee up to a certain amount—an accountant's fee for keeping the accounts?

*Mr. Clark.* I do not think that would be worth considering.

*Witness.* I used to think once that if I had to return the income of all my land and investments it would be a big job. I have handed it over to an accountant, and I am much better pleased that it is being done, because I know my position now, and I did not before.

*Mr. Begg.*] Some farms are being exhausted, are they not, while others are being built up and improved?—Yes.

In the case where the farm is being exhausted, the annual return of income probably has included in it a good deal of capital, has it not?—Yes.

And the reverse could easily occur—that is, a farmer can steadily improve his land and show a small income, banking upon his land?—Yes.

In face of the facility with which that can be done, is it not difficult to ascertain the real income?—Yes, it probably is in those cases. Still, the Department has a check on that sort of thing.

*Mr. Begg.*] How can they check it? In the one case they do not want to check it. Where they are getting part of the capital included, I take it they would not bother to check it, would they, *Mr. Clark.*?

*Mr. Clark.* No; they would see it.

*Mr. Begg.*] That would be the farmer's own lookout; but in the other case how could they detect it? If you thought it was to your advantage to sink a large part of the income of that land in improving that land, you could do that, could you not?—(Witness) If you are putting your money into improvements of that sort you are benefiting the country, and even though you are escaping a certain amount of taxation you are paying it out in other ways.

You are benefiting the country?—You are benefiting the country as a whole. You are making the place better. You are giving employment. Of course, there is a limit to that. A man cannot go on doing that.

But he can do it for a considerable time?—He can do it for a time.

He can, by hiding his income, convert it into capital and escape taxation, can he not?—Yes; but I think you are putting an extreme case.

Yes; but there is that tendency, is there not?—Certainly that can be done. Of course, companies can do the same, can they not? They can hide their income to a certain extent.

*Mr. Begg.* They find it very difficult to hide income from the Tax Commissioner.

*Mr. Clark.* Except in the case of the grazier, and I think we shall meet his case in time. The farmer would have to make his income before he could put it into his land. The grazier holding land in the back country might reduce his stock and allow his grass to seed; but the ordinary farmer would have to make an income before he could improve his land by the application of fertilizers.

*Mr. Begg.*] The contrary is the case. As a matter of fact, the farmer usually puts the fertilizer in before he gets the income.

*Mr. Clark.* But he must have made the income in the previous year to have it to spend.

*Witness.* I think the most moderate farmer would only go a certain extent in that direction.

*Mr. Begg.*] You go through a district and you find good, bad, and indifferent farmers. It is only a matter of degree; some farms are being ruined?—Yes.

Some are being slowly depreciated, some are slowly appreciating, and some are rapidly appreciating?—Some farmers are making money and some are not, and those who are not have to borrow money to pay the land-tax.

I wished to make the point with regard to the man having to make the profits before putting them into the land. I would suggest that a farmer frequently has actually borrowed money to improve his farm before he gets a crop: is not that the case?—Yes.

He has to improve his land before he gets his income at all. He has to spend money on doing something to that land before he can get any income?—There is one other aspect of the land-tax that I should just like to mention. I look upon it that by means of the land-tax the Government has a first mortgage on my place, capitalizing the tax at 5 per cent. It is a pretty big mortgage, too, and it comes before anything else.

*Mr. Hunt.*] You may say that the County Council has a second mortgage, and the Hospital Board a third?—Yes.

*Mr. Clark.* Might I put it in another way, that the Crown is the owner of the land, and the nominal owner is really a tenant.

*Witness:* I think it would be the finest thing for New Zealand if the land-tax were wiped out. I have been a farmer all my life, and I think it would be to the benefit of the country. The land would be better looked after and better improved. There is no encouragement now to improve your place and make it look well, because you are taxed on it.

HENRY WORRALL, Mill-manager for Messrs. D. H. Brown and Son (Limited), Flour-millers and Produce-merchants, examined.

*The Chairman:* You have views on the question of company-taxation, Mr. Worrall?—Well, Your Honour, I did not wish to take up the time of the Commission, but it seemed to me that quite a number of people who wish to have company-taxation changed have put their views before you, and I thought it only fair that some of those who do not wish to have it changed should also appear before you.

You have put your views in writing: will you please read your statement to us?—Yes, sir. It is as follows:—

My reason for desiring to give evidence before this Taxation Commission is not that I consider that I have anything new to offer on this complex subject, but because I think it may help the Commission to have as many expressions of opinion as possible from taxpayers. Company-taxation is the only subject upon which I desire to give evidence, and I wish to urge that the existing method of company-taxation be adhered to—that is, that companies be taxed on their profits as distinct entities. Briefly, my reasons are as follows: The present method appears in practice to be quite satisfactory. The amount of the tax, and not the basis on which it is levied, appears rather to be the cause of the present dissatisfaction in regard to company-taxation. According to the Commissioner for Inland Revenue, 94 per cent. of the capital employed in trade and industry is in company form, and only 6 per cent. in private hands. This surely proves that there is nothing very radically wrong with our present taxation methods so far as companies are concerned. It is admitted that the present method gives rise to inequalities, but as every other suggested alternative has the same drawback it would appear to be better to keep to the system which has been tried. Should taxation of a company on its profits made be discontinued and taxation of dividends be substituted, it would be necessary either to reduce the limit for income-tax to a very low figure or to increase the present rates on private incomes to an extent that would stifle all progress. To increase the present rates would stop all hope of business expansion, and would apparently defeat its own end, as capital would have no incentive to take risks, would be over-cautious, and consequently smaller incomes, with correspondingly smaller income-taxes, would be received and paid. On the other hand, to broaden the field of income-taxation would cause a great deal of hardship, and the cost of collecting the tax would be enormously increased. Immediately the limit of income-taxation comes, say, below £300 a year—that is, on to the bare living-wage—personal hardship to a large number of taxpayers must inevitably ensue, as the amount necessary to be made up by the release of companies from income-taxation and the added cost of collection would be very great. It seems to me as it is impossible to ensure by any suggested system of taxation an equality of responsibility amongst taxpayers below the £300 limit, it must be equally impossible to obtain an equitable system of income-taxation for such taxpayers. It appears to me that the present system takes care of this matter in as equitable way as any other suggested method. Speaking generally, the company shareholder with a small income has been able to purchase his shares by the fact that his income has at some time exceeded his requirements, and this is the only man from whom, should the tax-limit be reduced, income-tax could be collected without undue hardship. It is collected to-day through the company-taxation without his feeling it. Normally the market price of a company's shares is determined by the dividends the particular company pays, and these dividends are paid out of the company's net profits after paying income-tax. It is obvious from the huge amount of capital invested in companies that the latter must be paying by way of dividend a fair return on the capital employed, and must be able to compete in this respect with capital employed in other ways. It necessarily follows that any drastic change in the incidence of company-taxation would be extremely likely to upset this balance, and may lead to very serious consequences. There are a number of other effects which any change of this nature would cause, such as a sudden and undesirable change in the values of various classes of companies' shares, the difficulty of estimating the basis of new taxation in order to collect the required amount, and the large number of practical difficulties which any change would cause. To sum up, the present basis of company-taxation, while admittedly not perfect, appears to be reasonably fair and equitable; much more so than any suggested alternative, and on these grounds I would urge that the present system be retained.

*Mr. Hunt:* Do you believe in a system of graduated taxation?—Yes.

Why?—Because it is fair that a person or a company with a large income should pay in proportion. I consider, incidentally, that the present graduated tax is rather too steep.

You think that a person with a large income should pay more on each pound than a person with a small income?—Yes.

Can you see any difference in the graduation of shareholders in companies? If I am a small shareholder in a company drawing £100 a year and you are a big shareholder drawing £10,000 a year, do you pay any more in the pound than I do?—No.

There is no graduation then?—There is no graduation in that respect.

You admit that there is no graduation in the incomes received by shareholders from the companies?—That is so.

Do you know the proportion of the total income-tax collected that comes from companies?—It is rather more than half, I believe.

It has run, during the last two years, between 66 per cent. and 72 per cent.—say, an average of 70 per cent. There would be no graduation, then, in the incomes of individuals in connection with 70 per cent. of the tax collected?—No, that is correct.

Does not that make your approval of the graduated system rather fall to the ground?—I do not know that it does, because a company is not a private individual. It is a separate entity.

But the income that the shareholders get from companies is not graduated, is it?—No.

As that applies to 70 per cent. of the total tax collected, there is no graduation as far as individuals are concerned on 70 per cent. of our income-tax revenue?—That is correct.

Does not that rather upset your graduated system?—It does. At the same time, the income from private sources is a different thing from company shares. The company is a separate concern altogether, and you get your graduated tax on the company—not necessarily on the shareholder.

Still, the company belongs to the shareholders, does it not?—It does belong to the shareholders in one sense. But it is an absolute, distinct entity.

Who does the company belong to if not to the shareholders?—It belongs to the shareholders for the time being, but not necessarily altogether.

It belongs to the shareholders always, does it not?—Yes.

And all those shareholders get their income on exactly the same footing?—Yes.

There is no graduation of income?—There is graduation of income on the company itself.

But it does not affect the shareholders?—No; but you cannot have everything 100 per cent. perfect. You get your graduation on the company's income.

Do you think there should be a graduation as between different companies? Do you think that a company with a large income should pay a higher rate of tax than a company with a small income?—That also would not be reasonable, because a lot would depend upon the circumstances of the case—for instance, the amount of capital employed to earn that income.

But the graduation takes no notice of the amount of capital; it only takes notice of the amount of income?—Yes.

Do you think that that is right?—It is not perfect, but I think it is as near right as any other method you can suggest.

Take a company with £10,000 capital making a profit of 30 per cent. That is £3,000 a year. That company will pay a tax of about 3s. in the pound. Another company might have a capital of half a million and only make 3 per cent., yet it is taxed at the rate of 5s. 10d. Do you think that that is right?—If the circumstances are as you say and there is no other additional circumstance, it is not right.

Do you know anything about the English system?—No.

You know that it is a taxation of individuals?—Yes.

You have not studied that at all?—Only very casually. They have to claim rebates there.

They had a small corporation-tax there. Did you know that?—I heard that they had a small corporation-tax, and that the shareholder whose income was not sufficiently large to come under the income-tax regulations could get a refund. Is that correct?

In England the company pays a flat rate of tax, and the shareholder who has a small income can get a refund. But they had what they called a corporation profits tax, under which the company paid direct, as in New Zealand, but it was only a comparatively small thing. Did you know that?—As I said in my statement, I do not profess to be an expert on income-tax matters at all.

*Mr. Weston.*] You appear as one of the public who pay, and you desire to say that probably there are a large number of others like yourself who are content with the present system?—Yes. We admit that the present system is not perfect, but we consider it is as reasonable as any other system could be.

Your view is that in all matters of taxation and government you cannot get machinery that will act like clockwork?—Yes.

*Mr. Hunt.*] You admit that you have not studied other systems?—I have read of other systems, such as the flat tax.

I mean, have you read of the system that applies in other countries?—I have read of other suggested systems for New Zealand.

But you have not studied the English system or the Australian system?—No. I have not studied income-tax matters very much, beyond the suggested alterations in the New Zealand tax.

*Mr. Shirlcliffe.*] You believe in the graduation of tax as between companies, as between profit-earning units, I gather?—Yes.

That is, if one company earns a large profit of over £10,000 and another company earns £2,000, there should be a graduation between them?—I think you should take into consideration the amount of capital necessary to earn that income.

But as between the shareholders in the company you think the graduation has been already covered by the graduation of the tax on the profit actually earned?—Yes.

Take the case of a small investor with £1,000 as representing his savings. He invests that in company shares, because, probably, he argues, his liability is limited and he gets efficient management, and, above all, probably he expects to get a dividend better than he could make himself if he handled the £1,000 himself. His small amount of capital is combined with, perhaps, large blocks of capital belonging to other shareholders. He gets the same rate of dividend on his capital, his £1,000, as the large shareholder gets on his £10,000 or £20,000. Do you think the small shareholder is suffering any injustice?—I do not. I think that company shareholders, when they put their money into a company, know just what the advantages and disadvantages are, and they are entitled to the same dividend as a large shareholder, and I think they suffer no disability if they do not get more.

Now, with regard to the ownership of companies, this may happen, may it not: a company may exist—and I have not the slightest doubt that many companies do exist—of which 51 per cent. or more is owned by one proprietary interest?—Yes.

Can it be said that the shareholders as a body own that company? A company may be controlled by one man owning a majority of the shares. Can you say in a case like that that the company is owned by the shareholders?—No. As I said before, a company is a distinct entity, and I do not consider that the shareholders do own it.

*Mr. Begg.*] You say that a company is a distinct entity. In some essential respects it differs from an individual, does it not?—Yes.

For instance, you believe in a £300 exemption for individuals?—I did not say that I believe in it. I just mentioned it as an exemption.

From your evidence you seem to think that a right thing?—Yes.

Why should there be any exemption?—If you come down on to a living-wage, the income-tax you can obtain from that person is so small that it is not worth collecting.

But it is a fair thing to exempt that amount—£300?—As a business proposition, anyhow, it is fair, because a small amount is not worth collecting.

Do you believe in a £300 exemption for a company too?—No; I see no reason for it.

*Mr. Weston:* It has not a body to feed.

*Mr. Begg.*] In that respect it differs. You have said, Mr. Worrall, that you believe in the graduated system of tax. Is that graduated on individuals because they require a great deal of their income to live on, but as it goes up they can spare a larger amount per pound for the State?—I take it that the reason for the graduated income-tax is simply to get as equitable a way as possible for taking more from a man with a large income than from a man with a small income.

As one company has no more subsistence needs than another, why should the tax be graduated upon them?—For the same reason that for the necessities of government you have to take as much as you require and you adjust it to fall on those best able to bear it, and the assumption is that a company with a large income can spare it far better than a company with a small income.

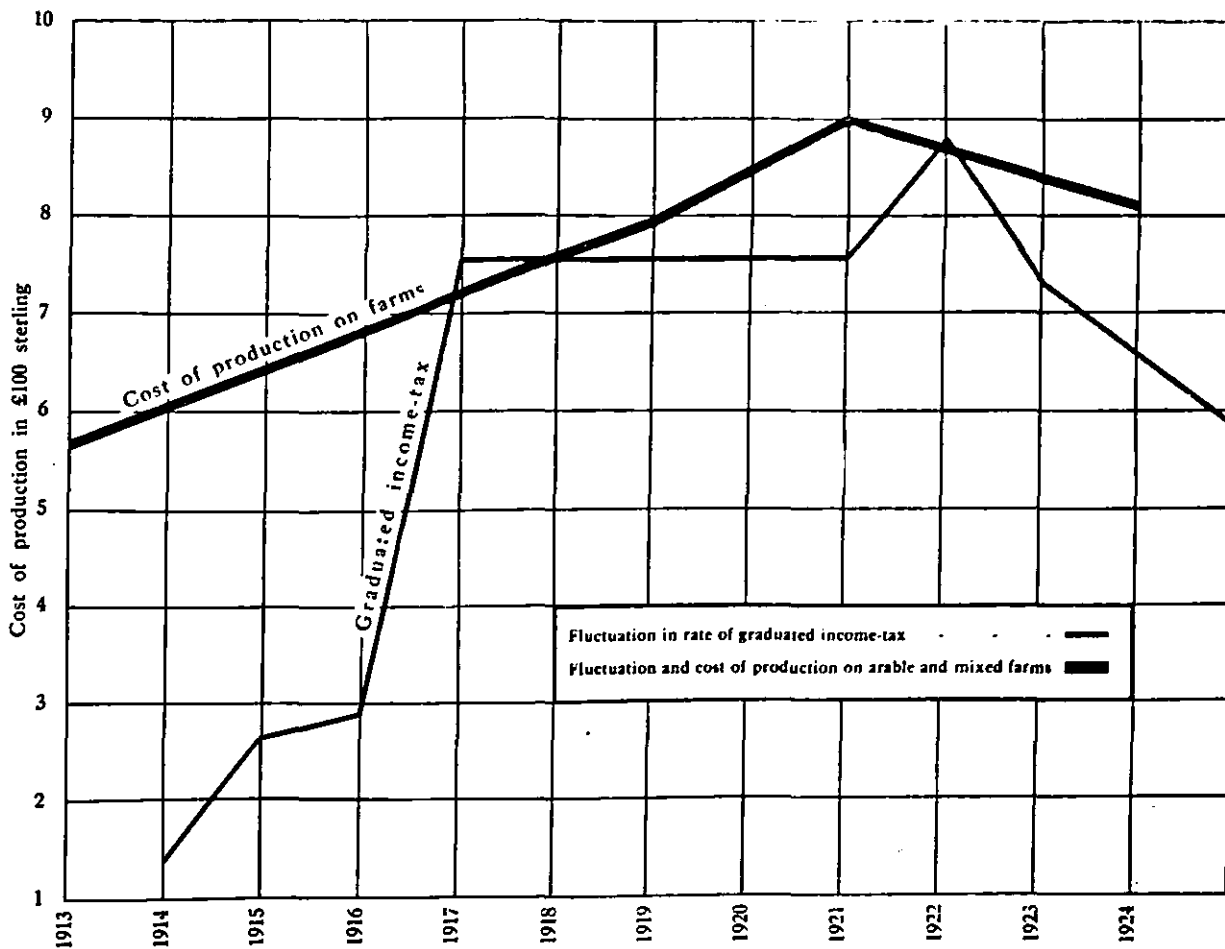
That is the assumption you make regardless of what rate they are earning on their capital?—That is what they are doing at the present time, but I think they should make some difference with regard to the capital.

The annexed statement and graph is filed in accordance with leave granted for that purpose by the Commission when sitting in Christchurch on the 5th day of May, 1924.

The information regarding the cost of farming operations has been collected from the representative farmers in the North Canterbury district, who have during the last ten years been engaged in grain-growing and producing meat and wool, and from merchants, freezing companies, and shipping companies. The statement does not represent the cost of farming in purely pastoral farming such as sheep-farming and dairy-farming.

The object of collecting and compiling the information in this way is to show that during the last ten years the cost of production on these farms has moved on parallel lines with the variation in the rate of income-tax, and the contention is that this increased cost cannot have been the cause of the increase in the rate of the income-tax, but has been the effect.

The amount of indirect income-tax on this class of farm to-day is £244—i.e., the difference between the cost of production in 1914 and 1924, and is more than 50 per cent. of the farmer's net income.



SUMMARY OF WORKING-EXPENSES ON MIXED FARM, 1913 TO 1924.  
Capital value, £10,000. Improvements, £1,200.

	1913.		1919.		1921.		1924.	
	At 5%.		At 6%.		At 7%.		At 8½%.	
	£	s. d.	£	s. d.	£	s. d.	£	s. d.
Interest on mortgage of £10,000 .. .. .	300	0 0	360	0 0	420	0 0	390	0 0
Wages .. .. .	110	0 0	194	0 0	168	0 0	156	0 0
Fertilizers (150 acres at 1 cwt.) .. .. .	35	12 6	67	10 0	78	15 0	56	3 0
Sacks and twine .. .. .	12	7 6	22	1 0	28	2 6	20	10 0
Shipping and freezing (consolidated rate) .. .. .	23	15 0	40	1 0	59	7 6	45	2 0
Railway charges .. .. .	32	6 0	42	18 0	42	18 6	42	17 0
Threshing .. .. .	46	6 8	60	15 0	93	4 8	45	16 8
	560	7 8	787	5 0	890	8 2	756	8 8

Coastal freight rate not procurable. Union Company say they have not varied. Rates and taxes omitted.

The gradual rise in the cost-of-production line from 1913 to 1919 is not quite accurate, the two biennial periods 1913-15 and 1917-19 showing a slighter and steeper rise, but the difference is very little. (N.B.—It was not possible to obtain the cost of production for each year in the time at our disposal, hence the inaccuracy at points such as 1922, 1923, 1920, and 1913 to 1919.)

AUCKLAND: THURSDAY, 8TH MAY, 1924.

JOSEPH GEORGE HADDOW, Barrister and Solicitor, examined.

*The Chairman.*] You have devoted some attention to the question of taxation, Mr. Haddow?—Well, in a modest way, I have.

You have put your views in writing: will you read them to us, please?—Yes, and I have sent six copies to the Commission. My statement is as follows:—

*Land-tax.*

1. This tax sins against the first need of all taxes in that it does not tax the individual according to his ability to pay. It may be fairly described as an artificial tax. The chief objections against it are—(1) It does not tax according to the ability to pay; (2) it often taxes a man who has no money to pay—and often actually on the debts he owes; (3) in many cases it cannot be collected from the man who owes it, and has to be collected from the man who does not owe it; (4) it is an arbitrary tax on one class of property and omits all other classes; (5) it must always be costly to collect. These objections are dealt with in turn.

2. Objections (1) and (2) may be taken together. Our country is a young country in the making, and its conditions cannot be compared with those of the Old World. The country is being made daily by the farmers because almost every farm has some part not fully improved. In the Old Country most farms are fully improved, and on such farms all the farmers' time is occupied in keeping things going. In New Zealand a farmer is doing the same work, and in addition he is making a new farm. For the latter purpose he must have capital. Hence his land is nearly always mortgaged. We may assume that the average farmer's interest in his land is not more than two-fifths of the total value. The rest of the value is the mortgagee's. The land-tax is at fault because it does not recognize this almost universal position. It allows a man an exemption of £4,000 for mortgages when the unimproved value is not over £6,000. Over £8,000 it allows no exemption. The result is very serious to a large number of farmers. A property with an unimproved value of £8,000 is probably worth a capital value of £12,000 and carries mortgages amounting to £7,000. The owners of properties of this class are taxed on the money they owe, instead of on the money they own. The land-tax exhibits similar weaknesses even when the values are low enough to enable the landowner to deduct them. In a period of low prices such as the Dominion has recently experienced the land-tax becomes a burden that the owner cannot carry. Two years ago farms were producing no income, and a large proportion of farmers were living on their capital. But their liability to pay the land-tax remained. In this way the land-tax offends against the primary rule that taxes must be levied on the taxpayer according to his ability to pay. These men had no ability, hence their income-taxes very properly ceased to be payable. Not so the land-tax. A tax that remains the same in good times and in bad, that is still a claim against a taxpayer who admittedly has no money with which to meet it, that takes no account of his ability to pay it, and that finally involves him in fines for not paying it when admittedly he has not the money and has no possibility of getting it, must be bad in principle. Briefly, it is both illogical and unjust.

3. The injustice of the land-tax is carried a step further by the methods adopted by the legislation for getting in the money when the taxpayer himself cannot pay. The Commissioner may call upon the mortgagee to pay (Land and Income Tax, 1923, s. 147) and so discourage him from lending more money to a farmer. It does not matter if the mortgagee made his advance one year before or one year after, or ten years before or after the tax accrued. He must pay. Failing the mortgagee, the next or any succeeding purchaser may be made to pay, or even the hardworking tenant of the land. Also there is no limit to the amount or number of years of arrears for which the mortgagee or purchaser or tenant may be called upon (s. 144), and, of course, the mortgagee or

purchaser or tenant must pay the fines that have accrued year after year because of the non-payment by the "taxpayer." If the land-tax was based on reason we should not find such expedients necessary in the collecting of it.

4. The land-tax is arbitrary in its necessary limitations. It is a property-tax which discriminates between persons. The bulk of a farmer's stock-in-trade is his land. It is taxed. Money may be said to be the banker's stock-in-trade, goods the merchant's, and study and experience the professional man's. These are not taxed. No form of property is taxed except land. The distinction cannot be said to be founded on reason. It is merely arbitrary.

5. *Cost of Collection.*—The land-tax must always be a costly tax to collect. It requires—(a) an expensive Valuation Department to fix values; (b) an assessment Court to overlook the work of the Valuation Department; (c) a large office staff to check returns, assess and collect the taxes. And as a result it yields much less than the income-tax, which costs comparatively little to collect. In 1923 there were 55,907 land-tax payers, and the same number of taxes to be assessed and collected. Also there were enormous numbers of valuations to be made. The result was a sum of £1,541,502 collected. The best year of the land-tax was 1921, when there were 54,363 taxpayers and a revenue of £1,688,978. In the same year (1921) there were 44,597 income-tax payers and an income-tax revenue of £8,248,945. Thus for a very much larger sum there were nearly ten thousand fewer assessments to be dealt with and no costly Valuation Department at all. Quite apart from the other objections to the land-tax the cost of collection is a serious defect in a tax which produces only £1,500,000 annually. That sum would be easily made up if the distribution of the income-tax was altered something after the manner set out below.

#### *Income-tax.*

The income-tax has none of the objections of the land-tax, and more than any other tax it falls upon the shoulders able to bear it. Hartley Withers, the English economist, says of it, "If we could get it into an ideal shape it is the most equitable form in which taxation can be imposed" ("Our money and the State," 1917, p. 88). This statement admits of no denial. It is based on reason. A man who has just received £500 for his year's work can easily afford to pay a reasonable part of it to the State. The great and surpassing advantage the income-tax enjoys is that, if it is fairly distributed, it always meets a man at that critical moment. The following suggestions for a fair distribution of the income-tax are offered as a modest contribution on an important subject. They are, in the main, the principles I advocated in a short series of articles contributed to the *Wanganui Herald* about twenty years ago. The income-tax should be regarded in the light of a family tax. A man should be taxed strictly according to his ability, and by accepting the income-tax as a family tax we should arrive more nearly at the ideal distribution of it. Thus if a man with £500 a year has a wife and three children, and is also keeping a sister, the income would be regarded as being not the income of the man alone, but the income of three adults and three children, or, say, four adults. The £500 would thus represent an income of £125 for each adult. This, of course, merely illustrates the principle. The amount of the exemptions and the rate of the tax would be fixed according to the needs of the time. In practice the amount of the exemption allowed in respect of each adult would decrease with the number of adults (or their equivalent in children) to be supported by the one income. To illustrate by typical examples: (a.) A young man with nobody to keep but himself. Income, £156 a year. A minimum tax of, say, £5 per annum. £150 a year may quite reasonably be taken as a point when taxation begins. As the adults in one house increase the limit of £150 will decrease, as the following illustrations show. (b.) Man and wife. Salary, £312. Tax, £5 each. (c.) Man and wife and man's mother. Income, £312. No tax, as £312 divided by three leaves £104 each, an amount below the £150 minimum. (d.) Man and wife and three children. Income, £312. Same result as (c), as three children=1 adult. (e.) Man and wife, six children, and man's sister. Income, £625. Here the family consists of an equivalent of five adults. As five adults may live at a less rate per head than one or two the minimum taxable amount may be reduced from £150 to £125. Here there would be five incomes of £125 each, on which £5 multiplied by 5 would be charged—namely, £25. The above examples illustrate the general principle only. Obviously, the minimum tax of £5 would have to be increased when the income reached a higher figure. It could be made to begin at £150 in cases (a), (b), and (c) at £5 or such smaller figure as the income exceeded £150. Thus an income of £151 pays £1, and income of £154 pays £4, and £155 pays £5. Over £155 in cases (a) and (b) and over £125 in cases (c) the tax would be gently graduated. All employees' taxes would be paid through the employer to lessen the cost of collection and the risk of evasion.

#### *Taxation of Companies.*

Companies would be treated in the same way as persons. A company is in law a person, and is given by the law special privilege. It is not unfair, therefore, to treat it, as at present, as a person for the purposes of taxation. There is one outstanding objection to treating an income made by a company in a different way from an income made by a person—namely, a person or firm could not compete on level terms with a company if the company paid no income-tax. No difference should be made in the taxation of incomes received from debentures and income from other sources. On to the above scheme the present differentiation of incomes earned and not earned could easily be grafted. This would give two classes of incomes, and to these might be added a third class suggested by Hartley Withers—namely, "Income produced by inherited wealth or wealth received by gift." That would give three classes of income and so produce what the economists call the "ideal income-tax." In support of the third class Hartley Withers gives a very good reason. He points out that it would enable us "to do away with death duties, and with the great unfairness they

involve—for example, when one estate changes hands frequently owing to the accident of death and another escapes by being held for eighty or ninety years by a specially tough owner who happened to inherit it when an infant.” Another advantage, which the author does not mention, is again the saving in cost of collection. We should be able to do without the office staffs at present engaged in inquiring into, assessing, and collecting death and gift duties. With regard to the general scheme of taxation and its effect upon farmers, the farmer depends upon the capital he can borrow to develop his property and make his farm pay. I have been interested in farms for thirty years. Take a piece of bush land: we all know the great amount of development that bush land requires before it becomes profitable, and the farmer, as he gets the power, has to borrow money to do it. We want to keep the market for getting that money as open as we can, because if the farmer does not succeed none of us can. Yet under present conditions we are closing his market. We discourage the big companies from lending moneys by saying that we will charge the company higher taxation if it lends money on mortgage. We all know how delicate the financial barometer is. Take the big lending companies like the insurance companies, we are diverting their loans from farmers to Harbour Boards and other local bodies, and this money may never come back to the farmer again. Because of recent legislation the farmer finds a difficulty in getting the money he requires because his mortgagee may have to pay his land-tax. That is not what the mortgagee lends the money for. If the farmer is in a bad way, there is a great temptation for the Commissioner to go to the mortgagee and ask for the tax and a fine. This is making it increasingly difficult for the farmer to get the money he requires for the development of his property. I may mention that the recent legislation has enabled the Public Trustee to go to the Court, and he will not allow the money to be collected from the estate. The Public Trustee can serve a notice on the mortgagee and say to him, “You cannot look to the land for the money. The mortgagee may have been encouraged to lend the money by reason of the fact that the farmer is an industrious man, and it is hardly equitable to take away the advantage of the personal character of the man. On top of that we have the Rural Credits Association. Under the Act they are enabled to say, “You shall not go on to the land for the money,” and the Public Trustee, on the other hand, says, “You shall not come on the estate for the money.” So the mortgagee finds that the money has gone, and that is not the way to enable the farmers to develop their farms.

What is the reason for that legislation—it is new to me?—I cannot understand it, unless it is done at the Public Trustee's request.

When was that done?—About 1917. I pointed out the effect of it to the Public Trustee's representative here. It means that provision is made in mortgages to the effect that the Public Trustee shall not be the trustee.

*Mr. Weston:* It prevents the distribution of assets. Sir Francis Bell went through the Bill and made some inquiries about it in Wellington. He must take some responsibility for it.

*The Chairman:* The Legislature must take the responsibility.

*Mr. Weston:* The New Zealand Law Society has a man who goes through Acts like that.

*Witness:* That is a good idea, because the Law Societies are composed of practising lawyers, and they are coming face to face with everyday difficulties. It is the proper thing to put it before them—better than putting it before the legal members of the House whose parliamentary duties make them too busy to look into such matters.

*Mr. Hunt.]* Do you believe in the graduated system of income-tax?—I feel impelled to believe in it for this reason: that by a graduated tax we can tax everybody according to his ability to pay. That is one of the points economists make against Customs taxation, that Customs duties tax the poor man with a family of eight to the extent of eight times as much as they tax the man with no children. Therefore if we can get on to him by income-tax and graduate him according to his ability to pay we get over the anomaly.

Your reason is that the man with the small family wants less to live on?—Yes.

The man with the large income can live and have something to spare?—Yes, and taxation should be paid out of what we have to spare.

If companies are to pay a graduated tax, is there any difference in the graduated tax on the different shareholders? A company is owned by its shareholders, and some of them are wealthy and some poor?—That must create a difficulty, but it is hard to see a way out of it.

Do you know what proportion companies pay of the amount collected in tax?—No, I do not know that.

It is from 66 to 70 per cent.; that means that on 70 per cent. of the income-tax collected there is no graduation as between the individuals?—That is so, but the law recognizes a company as a person.

Still, all the individuals that own that company are paying the same rate of tax?—Yes.

So that the graduation scale does not apply there?—No; but does not that only touch a comparatively small number of people? It touches a big proportion of the tax but a small number of people.

There are a very large number of shareholders in companies?—Yes; but if we did not tax the company I think the harm done would be greater than the little harm we do by imposition by the graduated tax.

Because people could not compete with them?—That is so; because we would drive the people to form companies instead of working on their own account.

Why should not they compete?—You have just reminded us that company taxation is high and that the companies pay a big proportion of the tax collected. If we are going to cut out the trader who was trading and having to sell goods in competition with the company—

That would mean that he would get a lower rate of return than the company got?—It might mean that he would get no return, because we should lose a large amount of taxation, and we would have to come harder on to him.



Supposing an individual trader has a capital which invested would give him £6,000 or £7,000 a year: do you suggest that on mortgage he has to pay a much higher tax than the individual with £600 or £700 a year?—Yes.

That means that he gets a lower rate of return on his money than the individual with £600 or £700 a year?—Yes, the percentage of return is lower.

If that can apply to money lent, should not it also apply to money invested in trading concerns?—Of course, we come back to the same difficulty. We cannot clear the problem of difficulty. There is always an argument both ways, but I cannot see any way out of the difficulty I have mentioned. Certainly the man who has put his money into a trading concern will get more than the man who has invested his capital in securities, because a man would not be induced to put his money into a trading concern unless he was going to get an added profit. The inducement to trade is that he will get more on his money.

You need to make a company pay a high rate because people would not put their money into companies unless they could see a net return of more than the lending rate?—That is so. I presume they would go on as they are doing now.

Supposing I came to you and asked you to put money into a company, you would expect to get more than the lending rate as your return?—Yes, most decidedly, more than on first-class securities.

You would know that my company would have to pay 5s. 10d. in the pound tax, and you would expect me to show that I could earn that in addition to the rate of profit which would give you more than the lending rate on first-class securities. That means that I would have to pass on the tax?—Yes, it has got to be passed on, and that distributes it when you pass it on.

Looking at it from another point of view, take a man who has £5,000, and who invests that at 6 per cent. and gets £300 a year. Then take another man who has £50,000, and who also invests it at 6 per cent. and gets £3,000 a year. When they come to be taxed the man with £3,000 a year has got to pay a considerable amount on each £1, and the man with the £300 a year pays nothing. The one has a net return of 5 per cent. and the other a net return of 6 per cent.?—Yes.

Supposing the man with £50,000 goes in for trading and the man with £5,000 gets twenty others to join him and goes into a competing trade, then the twenty small people joined together have to pay 5s. 10d. in the pound tax?—They have to pay the same rate as the big concern.

No; they have got to pay more, because the man with £5,000 would not make the maximum income?—That is so.

And you are reversing the process. When the man invests his money singly he would get a bigger return than the £50,000 man, but if he is joined by others they have got to pay bigger tax?—That is an academic illustration; it would not work out in practice. I do not think men would join in a company unless they could see a profit over and above what they are making.

You think they will not go into business unless they think they can pass the tax on?—That is so, unless they thought they could make a profit either by passing it on or otherwise.

They would have to widen their margin in order to be able to pay the tax and give the ordinary return to the shareholders?—Not necessarily; they might decrease their expenses or find a better process of manufacture.

By decreasing their expenses they would be widening their margin?—Yes, that is so.

If that company has to widen its margin of profit, the £50,000 man is enabled to widen his too?—Not necessarily; he may not have the skill.

But he may have better skill?—Then he is getting paid back.

His competitor, the company with twenty men in it, has to widen its margin in order to get the amount of the tax in addition to the ordinary return for its shareholders?—Yes. There is no such thing as an absolutely ideal tax.

The man with the £50,000 would have to widen his margin of profit?—Yes.

Would not it mean that he has to pass it on?—If everything was equal it might mean that, but he is not forced into that position. He does it because he is keen to make the extra interest. If he succeeds he can afford to pay the tax, and he will collect from the public a proportion of the tax.

You admit that a company has not much chance of being floated unless those floating it can show the same profit after passing on the tax and giving a good return?—Not necessarily passing it on. There is the case of an ordinary invention. A man can get money for developing a good invention. That is not a question of passing it on.

But an invention is a monopoly?—Of course, we have to take inventions of every class.

Take the ordinary companies. They are mostly dealing in competitive lines. There are very few companies not working on competitive lines. They may be manufacturing or other lines?—They would have to compete with the concern which was not run by a company.

That is so; but the bulk of our large trading is carried on by large companies?—Yes.

So that the main competition in large companies comes from other companies?—Large manufacturing businesses or merchants' businesses, do you mean?

Both?—Are the bulk of the merchants' businesses in the hands of public companies?

I am speaking of trading that has to be done in a large way?—It did not occur to me that the big merchants' businesses were limited-liability companies.

You will find that the bulk of the big business is done by companies. Would you agree that a company must give a better return than an ordinary investment?—Yes, because there is the risk.

And if the tax is to be met he must get a big return?—Yes, and he must have the tax in addition.

And similarly competitors, although they may be big men individually, as they are competing with companies they can widen their margin of profit too?—Yes.

And therefore they pass on their tax to the public, and probably a bit more as well?—Yes; but would that not apply right through?

*Mr. Weston.*] Is not the price of an article generally determined to some extent by the man who can make the article cheapest?—Yes, the trade would naturally leak into his coffers.

So that it does not follow that a man in order to return a margin of profit must sell more cheaply?—No, and it does not necessarily follow that the cost of the article must be increased. The trader may be able to compete with the others in a much better way.

You mentioned as one advantage of a company trading the limitation of liability: that is a rather important advantage?—It is most important.

It enables a man to take advantage of the brains and knowledge of others, and of the consolidation and aggregation of capital, without risking his own?—Yes.

In addition to that there are other advantages in companies: do you think that an individual has the same opportunity of raising debenture capital as a company?—No; it enables the small man to trade with two or three times the amount of capital he could provide. He might pay down 2s. 6d. in the pound, and borrow very considerably on debentures on the unpaid capital. That is a very great advantage companies have. I say that they have many advantages, and consequently they can trade easily.

Under the company system they could take deposits?—Yes.

And with individuals that cannot be done?—No.

With the public a company is regarded as being very solid as compared with an individual trader?—Yes. We saw that a little while ago when companies were advertising to receive money on I.O.U.s, and no debentures were given.

A company with a large nominal capital but small subscribed capital can obtain a good deal of money at a comparatively low rate of interest?—I take it that that is largely why companies are formed.

*Mr. Hunt* seems to think that companies are a popular form of investment. If this company-tax were changed, do you think more or less companies would be formed? What is your experience? Have you noticed any diminution in the number of companies formed while the heavy taxation on companies has been in force?—I do not think the public is given to thinking of the taxation. The public judges largely upon what it is told, and I do not think people take any notice of what income-tax the company will have to pay. If an attractive prospectus is put before them and they have the money they will put their money into it irrespective of what income-tax it may have to pay.

In fire-insurance business you have the competition of the Government Fire Insurance Department, and you have also the competition of well-established New Zealand companies, and foreign companies which are not dependent on New Zealand alone for their income?—Just so.

In spite of that, and in spite of the taxation, we have a number of business men forming a new company. Take another. You know that company that was formed to finance motor-car purchases? That is another large company?—Yes.

That is a lending company, is it not?—Yes, I suppose it is.

That also has been formed?—Yes. A man usually forms a company to develop his business. The man who invests in a small way has a few pounds on which he thinks he can make 10 or 15 per cent. He would have no chance of making that in any other way, and that is what attracts him to companies; and I do not think the fact that the company pays income-tax is ever going to stop him. I know the question is a difficult one, and there may be a lot to be said as to the unfairness of taxing the small man through the company; but, on the other hand, he gets many advantages, and he really probably pays no tax at all, because it is distributed among the public, I take it; or the money is saved in better methods or better marketing. But even if that is the case I think probably *Mr. Hunt's* point is good, because if a man saves by better methods and better marketing he will probably keep the price up with the other companies and take the benefit himself. But I do not think the public pays as much through that as it gains through retaining the tax.

On the whole you think it is to the advantage of the general public?—To retain the tax as it is. We have got to take the better of two courses. Either is full of difficulties, and I think the better thing is to retain the tax as it is.

And it is to the advantage of the man who has an income of, say, £2,000 a year; that man will be taxed at a less rate under the company system than if the individual is taxed?—Yes.

With regard to Auckland, I think Auckland is a city which has prospered to some extent owing to the number of small businesses here?—Very likely.

Has it struck you as a resident of Auckland that Auckland is better situated in that way than any other city in New Zealand?—I cannot say it has occurred to me. What I have noticed is that a retiring population is apt to drift to Auckland for a milder climate.

Have you noticed that the number of small businesses is probably greater in Auckland than in any other city of New Zealand?—Yes; that was pointed out in the Arbitration Court two days ago when I was appearing there, that the small shopkeeper is more numerous in Auckland.

Do you not think that the abolition of the company-tax would result in the gradual elimination of the small man?—It would certainly hit him, because if the companies are paying 66 per cent. of the income-tax revenue now, that would have to be distributed among the individuals.

*Mr. Shirlcliffe.*] On this question of the small shareholder in the company paying the same rate of tax as the large shareholder, I should like to get your view on this aspect of the matter: A small investor—say, with £1,000—is induced to put his money into a company, because he thinks that thereby he can make a better return on his money than he can if he handles it himself?—Exactly. I presume that is his reason.

And he gets all the advantage that the large shareholder gets in the company?—Yes.

When the company comes to arrive at its profit at the end of the year and declare its dividend, the small shareholder gets the same rate of dividend as the large shareholder?—Yes.

Can it be said that he is suffering an injustice, inasmuch as he put his money into the concern with the object of obtaining a dividend larger than he could make himself?—No, I do not think he

has any complaint at all. What occurs to me now, arising out of your illuminating question, is that the man who has a small capital in a big company gets all the advantage of the machinery of the big company, and that is some compensation to him.

We had it in evidence from the Commissioner of Taxes before the Taxation Committee of 1922 that if the incidence of taxation were removed from companies to individuals it would involve at least doubling the rate on all incomes between £300 and £2,000. Would you consider that desirable?—That would be a serious disadvantage, I should think, to trade.

Now, with reference to the passing-on of the tax, various opinions are held with regard to the possibility of passing on the tax, but except in the case of monopoly trades, do you not think that competitive conditions as they exist to-day to a large extent minimize the possibility of passing on the tax?—In speaking of passing on the tax, what was in my mind was this: the company has to pay it, and it must earn it, and it can only earn it by collecting it from the people to whom it sells its goods. At the same time, if it finds better methods of manufacture and so on, it may be able to sell the same goods at the same price, notwithstanding the tax.

You would agree, then, that a tax that is felt conduces to improved methods of management?—Of course it does.

Either by increased turnover or by economies in manufacture or management?—Yes; it spurs a good business man on to meet it by better methods and better marketing.

I suppose you would agree that a company, with its more or less perfect organization, has better opportunities of effecting economies and increasing its turnover than the small man has?—I take it that is why it is formed. If it has not, there is no excuse for forming it, except the less excusable one of using more borrowed money.

I want to put this further aspect of company-taxation to you in order to get your view of it. We will assume that the company is relieved of taxation and the tax is transferred to the individual shareholder. Could this not quite easily happen: 100 men with £500 each could form a company with £50,000 capital?—Yes.

It is not too much to assume that they would make £10,000 profit?—No.

The company would pay no tax, neither would the shareholders, assuming that the £500 represented their savings?—There would be 100 men, and the return would be below £300 a year each.

Yes. Neither the company nor the men would pay the tax, and therefore the country would lose by taxation on that basis?—Yes. I do not think the country can afford it at present.

You would not consider it a fair proposition in view of the private trader having to pay tax?—I do not think that the private trader doing the same class of business could compete. He would be swamped. He would have to close down.

Unless there were special circumstances?—Yes. I am assuming that everything else would be equal.

You were asked a question as to whether the formation of companies was not becoming unpopular. I have the figures here relating to the last five years. During 1922 there were 311 private companies registered, with a total nominal capital of £1,851,000. In the same year there were 106 public companies registered, with a total nominal capital of £11,273,000, of which 16 companies accounted for £10,415,000 nominal capital. As those 16 companies averaged £700,000 each in nominal capital, it would appear that they were companies that were formed to trade in a fairly large way. Do those figures convey anything to you as regards the present incidence of the tax discouraging the formation of companies?—I think it confirms my view that the people only look at the attractiveness of the prospectuses and listen to the glowing words of the man who is trying to get them to take shares. But could we not test that by actual figures since the tax has been increased and see whether it has affected the formation of companies? Has the formation of companies decreased?

I have given you the figures for 1922, which is far and away the best year of the last five. In 1921 there were 262 private companies registered, with a nominal capital of £2,069,000, and 75 public companies, with a nominal capital of £1,428,000. In 1920 the figures were larger again. 356 private companies were registered, with a nominal capital of £3,573,000, and 145 public companies with a nominal capital of £5,990,000. In 1919 it was a little less than that; and in 1918 it was still less?—The figures do not suggest that there has been any diminution. They suggest an increase. I wonder if it has ever occurred to you to compare those figures with the banking returns and see how they compare with the money available in the country? Those figures do suggest that the companies have got their share of the money in the country, because the companies registered seem to have risen with the good years, gone down with the bad years, and risen again when trade improved.

With regard to the debenture-tax, I am interested in hearing your view that the tax on debentures should harmonize with the tax on any other form of borrowing capital. You know that the last alteration in the debenture-tax—?—To 4s. 6d. in the pound.

To 4s. 6d. in the pound—only applies to new issues?—I do not think I had noticed that.

*The Chairman.*] That is so?—I had not read the Act carefully. I had only looked at it for the amount.

*Mr. Shirlcliffe.*] The great bulk of the borrowings on debentures that at present exist in the country are escaping that increased debenture-tax. Would you consider it a breach of faith, in the event of the tax being increased to harmonize with the tax on any other form of borrowing, to make it apply to all issues of debentures, past as well as present?—I do not think it would, for this reason: it is not like a contract. It is not a bargain entered into with the State that the State never will alter the tax. Every man who makes an investment makes it with his eyes open, and being a business man he must know that he cannot tie Parliament down to keep that tax at a special rate.

It is not in the same category as the tax-free war loans?—In that case it was a bargain—a contract. It is in quite a different category. I cannot see any possible objection from that point of view.

*Mr. Begg.*] With regard to companies, I take it from what you have said, which you have felt confirmed in by Mr. Shirlcliffe's figures, that company shares as an investment are as popular as

ever?—Apparently, and that was the impression I had without having had evidence until I saw the figures.

That indicates that dividends generally have not decreased of recent years, otherwise company investments would not be so popular, would they?—No. That would be an academic assumption. But I do not think the ordinary small investor, anyhow, troubles much about these considerations.

If dividends generally had been disastrous, people would not invest in companies?—No, they have not been disastrous. I think we may take it that they are as popular as ever; but whether that would indicate that dividends have not decreased a little I would not like to express an opinion.

From your knowledge, taking a number of your local companies, distributing and manufacturing companies, have dividends decreased?—I would not like to express an opinion on that, because I have not noticed. I have not been watching the dividends of companies, but so far as I have heard I have not heard of any decreasing seriously. I think that Milne and Choyce, for instance—the firm that occurs to me—have kept up a regular rate of interest right through the depression.

Out of the £6,000,000 collected in income-tax, more than £4,000,000 is paid by companies. Is it conceivable to you that that four millions of money has been made up by improved management?—They would not make all their income-tax up by improved management, would they?

If they do not, they must earn that much less. If they have not made that extra money by improved methods, then they must have got it from the public, or earned that much less?—But is the £4,000,000 extra money? Would not you add as extra what the increase has been since the war?

Income-tax, as you know, was very small then—negligible?—That brings in the question of prices all round, does it not, which, of course, have all increased.

I am speaking only of profits, not prices?—Prices have fallen again in the last two years.

But if the companies have succeeded in paying the same dividends, and presumably had the same profits for distribution, and have paid £4,000,000 in taxation in addition, do you think they could do all that by improved methods of manufacture?—No.

Or was part of it passed on?—Part of it, I should say, was probably passed on. I would not say the whole was passed on.

You quoted Hartley Withers, apparently with approval, and other economists, to show that taxation through the Customs is unfair?—I would not say that. I think what Hartley Withers means is that it is not ideal. It brings in the question of free trade, does it not? May I make my point clear? The idea of getting everything that we can in proportion to a man's ability to pay would not be achieved through the Customs duties. I think that is what Hartley Withers means; and if we had a universal income-tax we could do it. The ideal income-tax could do it; but Customs will not do it, because the wealthy and the poor pay the same rate.

You stated the case of a single man and a man with eight children. It is very unfair. In so far as trading companies, we will say, pass on to the public in order to earn the tax, that is at least as unfair as any Customs duty could be, is it not? That is, it is a tax on the buying public, and as they buy in proportion to their needs, those that need most pay most. That would naturally follow, would it not?—Are we not assuming that the amount passed on is big? I think the amount passed on would be very small.

Whatever the amount, small or great, it would be practically equivalent to a Customs duty?—It would be open, would it not, to the same objection? But I think it would be very small.

You think that the bulk of that four millions of money has been found by improved methods of management in companies?—By reducing expense in production, through having the advantage of working on a large scale, no doubt very considerable economies must have been effected through companies.

I am not comparing companies with private traders at all. I am comparing companies to-day with companies ten years ago. They have paid £4,000,000 in taxes, roughly speaking, in a year, and we have assumed they are paying the same dividends or their shares would not be so popular?—Yes, we have assumed that that is passed on to the public—part of it.

Not all. You say very little. The bulk of it—we will say £3,500,000—has been got by improved management of the companies—

*Mr. Weston:* You are quoting a period when there were excess war profits involved. At the present time I do not think more than four millions of money is taken by the income-tax altogether.

*Mr. Begg:* Mr. Clark can tell us.

*Mr. Clark:* About £3,000,000 for the past year.

*Mr. Begg:* Rather over £2,000,000 from companies?

*Mr. Clark:* About £2,000,000.

*Mr. Begg (to witness):* Companies have effected economies to this extent, and only a very little has been passed on to the public?—Yes.

The taxation has stimulated company-management to that extent?—No. Are we not overlooking one little thing? Supposing the companies did not manufacture on a big scale, where should we get the goods from? We should probably have to import them. We are assuming that we should be able to buy them just as cheaply if the companies did not exist. That is not a fair assumption.

I am not assuming that. Ten years ago the companies had all the advantages they have to-day, with the additional advantage that they were taxed very lightly?—Is it fair to test them with ten years ago? Must we not test the position as between companies and no companies?

No. I show the comparison between companies' operations when taxation was negligible and companies' operations when taxation is heavy, and I gather that your opinion is that heavy taxation has stimulated good management to this extent: that they pay this £2,000,000 out of improved management?—No, that is a wrong impression.

Well, where did they get it from?—I have not expressed that view.

How do you suggest they got the money? They obviously did get it. If they did not get it from improved methods of management, where did they get it?—Are we talking of the excess which

they got over ten years ago? Do you want me to express an opinion as to how they made the excess income as between now and ten years ago?

Yes, in ratio—not necessarily excess income, because capital and everything else make a difference. They have got a charge to meet to-day that they had not ten years ago, a charge which in the aggregate amounts to about £2,000,000?—They have got it from the same place that every one else has got his income-tax from that he has had to pay in the last ten years. We have all had to get extra income-tax in the last ten years, and the companies have got it from the same sources as every one else.

Where is that?—I am afraid I cannot say. I know that as far as lawyers are concerned they have had to work longer, and their fees have been increased. During the war I worked every night until about 10 o'clock.

And the companies have worked harder and got bigger prices?—I would not like to say that; but I do say that it is not a fair comparison. I think you are putting the question to find out whether the tax is passed on to the public?

Yes?—I think it is the wrong way to find out. I think we ought to consider this: supposing the companies did not operate with big capital, on a big scale, would our things be cheaper than they are? I say, No. That is the way to test it.

So you think we ought to encourage companies and big aggregations of capital, because we will get cheaper goods in that way?—No. I think we ought to let them go on as they are, if they are content to go on as they are. I think they are probably not costing anything to the public, or such a little that it need not trouble us, because if they were not there we should not be able to make in the country the things that they are making. Take tweed. I always buy New Zealand tweed. If we had not the companies we should have to import our clothes from England, and we should have to pay more.

But is that the comparison? You say it is between companies and no companies. If companies were relieved of taxation, why should there be no companies? The same companies would be in existence with less liability to meet at the end of the year?—If they were relieved of taxation, of course, there would be a lot more, but then we should have to put the taxation on the people.

But the companies would remain and would still be producing the goods we want. Would the tendency be to produce them still cheaper or otherwise?—I really do not follow the question. I thought we were considering whether the public were being injured by taxing the companies.

That is the question?—I do not think they are, for this reason: we have got to go right to the foundation of things. Whether the public are being wronged by the existence of companies under the present circumstances, that is what we have got to consider. I suggest that they are not, because the companies are operating on a big scale in a way that a private individual could not. Go back for a moment to that one question of manufacturing cloth. I do not think there is any private firm doing that. That has to be done by big companies, and I think that if no big companies did it we should have to have our clothes made of imported tweeds, and our suits would cost us more than they are costing us to-day; so that in that case our companies are getting the tax out of the foreigner. Is that clear?

No, not to my mind?—It is to mine.

The comparison you are making is not the comparison I want you to make?—I know that.

The comparison I want to make is between the company as it exists to-day and the company as it would exist if relieved of taxation?—Then, the question is this: are we to let companies off now so as to get things cheaper?

Yes, that is the question?—That is quite a different question. I think that is not a question of taxation. It seems to me that is a question of the cost of living.

It is a question of the incidence of taxation, whether the taxation should be upon the company or the individual?—I think you are quite right if you say let the companies off all taxation, and we will probably get things somewhat cheaper, but I think we should make a mistake if we thought we should get back all that we gave them. It would go in extra profits.

You think we would get things a bit cheaper?—We might get them a bit cheaper. The company would get nine-tenths of the profit and we would get one-tenth.

*Mr. Shirlcliffe.*] With regard to debentures, how would you treat local-body debentures as compared with company debentures?—I would not make any distinction; but as to the people deriving income, I do not care where it is derived, I think it all ought to pay income-tax.

You do not think that the local bodies have any claim to preferential treatment?—No; I would make them go and borrow their money without any advantages. The farmer who wants to borrow money cannot go to London for his £1,000, whereas the local bodies can go on the London market for any money they require.

*Mr. Hunt.*] Have you followed the English taxation of companies?—I was trained in England, but I have forgotten what little I knew of taxation there, but I know in England they did not tax too heavily in my day.

Recently they have had a corporation profits tax there: have you followed that at all?—No.

Well, if I gave you a few figures you might let me know what you think about them?—I prefer our own system.

In England they collected £310,000,000 from individual incomes and £50,000,000 by the corporation profits tax. Last year they reduced the profits tax by half, and this year the Labour Government is cutting it out altogether, so that evidently they think it is a bad tax?—Apparently they do. But you know the Old Country is run for the wealthy people. I am an Englishman myself, but the poor man was not allowed in my profession in England.

I will get back to the question asked you by *Mr. Begg*. In reply to him you said you objected to Customs taxation because the wealthy man and the poor man paid at the same rate?—Yes, it is quite obvious that in Customs duty that is so.

But do not the wealthy and the poor pay exactly the same rate in regard to companies?—Yes.

So that the same objection applies to 70 per cent. of the tax collected under our income-tax law?—Yes. We cannot have an absolutely perfect system of taxation.

Mr. Shirlcliffe quoted to you Mr. Clark's evidence to the effect that to put the income-tax on the individual and let off the company would mean doubling the rate of income-tax on incomes from £300 to £2,000, and you said that would be bad?—Yes.

Have you looked at the figures?—No.

I will give you some, taking the incomes from £300 to £1,000. On an income of £300 there is no tax payable. But take a man drawing £300 a year from a company: he is paying now 5s. 10d.?—Yes, if it is a big company.

A man drawing £600 income now is paying 5s. 6d. in the pound on his whole income?—Yes.  
Now, doubling that would make it 11s. 2d. in the pound: do you suggest it would be much better for a man drawing £300 from a company to have to pay 5s. 10d. in the pound than for him to pay 11s. 2d. in the pound?—Does not that bring me back to the fact that companies have considerable privileges? Are not you confusing a company with its component parts?

The tax paid by the company has to come from some individual—either out of the public or out of the shareholders?—No; I think we can get it out of the foreigner.

How can we get it out of the foreigner?—The foreign shareholder and the foreign manufacturer. Take linen collars and clothes and other goods. I think we are getting them cheaper now as they are manufactured in New Zealand than we could if they were not manufactured in New Zealand.

But there are a tremendous lot of goods in regard to which we are not competing with the foreigner?—That is right, but as soon as we compete with him we will reduce our taxation. If we can save two guineas on a suit we can afford to pay 5s. in extra taxation, and we would be 15s. to the good.

But you are only doing it by increasing duties: the duties have got to be high enough to enable the local company to make profits?—Apparently they are high enough now.

To get back to my question, you admitted that a man getting £300 a year from a company has to pay 5s. 10d. in the pound tax?—I do not think the company shareholder has any grievance; the public are probably suffering.

Mr. Weston.] But the company has his choice: he need not invest in company shares unless he wants to?—That is so. I say that he only goes into it because it is going to give him a profit over and above an investment in securities.

Mr. Hunt.] But you are exceeding your principle of the wealthy paying the same as the poor?—Yes; but there never was a principle that was perfect right through.

Mr. Clark.] On the matter of a possible breach of faith in connection with the issue of tax-free debentures and war loans, there would be a definite breach of contract, but would it be a breach of contract to aggregate the income received by a person holding war-loan bonds with his other income and fix the rate on his total income. That has been suggested?—That would increase his rate. That would affect the graduation. I think that would be indirectly taxing him. I do not think I should do that. For the sake of gaining a little money I should not run the risk of breaking a contract.

#### HERBERT SPONG HAWKINS examined.

The Chairman.] You are a farmer at Hamilton, Mr. Hawkins, and you are also a director of the Farmers' Co-operative Auctioneering Company, of Hamilton?—Yes.

You have prepared two statements, one dealing with the effect of present taxation on your company, and the other dealing with your position as a farmer?—Yes, that is so.

Will you read those statements, please?—Yes.

#### HERBERT S. HAWKINS, Farmer, Glencoe, Hamilton.

Mr. Massey is reported to have said at Invercargill that "His policy was that every man should pay taxes in proportion to his ability to pay." That is, as I understand it, out of net income earned. May I show how it has operated in my case. I bought my present farm of 800 acres in 1898, and have resided on it ever since. The whole of this evidence refers to this property and no other. In the first place, land-tax is levied and recoverable quite irrespective of a farmer's ability to pay it out of income. My land-tax for the years mentioned has increased as follows: Tax paid—1912, £4 13s. 4d. on 795 acres; 1917, £62 6s. 4d. on 714 acres; 1920, £116 4s. on 709 acres. The difference in the acreage shows portions of the farm which had been sold at different times. In the second place, income-tax has been levied on portions of my gross income without any reference to my net income or ability to pay, as the following table will show:—

Year.	Income from		Loss on Farming.	Net Income.	Tax paid.	
	Mortgage Interest.	Directors' Fees.			Land-tax.	Income-tax.
1920	£ ..	£ 400	£ — 121	£ 279	£ 116 4 0	£ 2 8 9
1921	.. 328	.. 250	.. — 1,041	.. — 463	.. 47 3 2	.. 5 3 2
1922	.. 588	.. ..	.. — 705	.. — 117	.. 37 11 5	.. ..
1923	.. 597	.. 200	.. — 261	.. 536	.. 34 11 10	.. 22 4 2

In 1920 I sold 350 acres out of the 709 left. The mortgage interest is interest on the unpaid portion of the purchase price of the land sold. Had I retained this, the dairying half of the farm, whatever profit I might have made would have been set against the loss made on the rest, which was used for

grazing only. In the result my net income for the four years amounts to £235, and during that time I have paid in taxation £265. There are, I believe, many hundreds of farmers in a similar position, and it would be a very great relief to them if Mr. Massey's policy were carried out.

HERBERT S. HAWKINS, Director, Farmers' Co-operative Auctioneering Company, Hamilton.

I submit the following to show the burden laid upon companies by the Government taxation and their inability to carry it:—

A company has to pay its way on the difference between cost of production and selling-price. Income-tax is a levy on a portion of this difference. It is necessary for the company to provide for its own living after the tax is paid. The Farmers' Auctioneering Company requires the following:—

To distribute preference share capital.							
To distribute ordinary share capital.							
To put aside reserves.							£
Preference share capital, £253,212 at 6 per cent.	..	..	..	..	..	..	15,193
Ordinary share capital, £226,741 at 8 per cent...	..	..	..	..	..	..	18,139
							<u>£33,332</u>
To put aside as reserve, say ..	..	..	..	..	..	..	8,335
							<u>£41,667</u>
							<u>£41,667</u>
Taking into consideration the deductions in the income-tax assessment as provided by the Act, it would be necessary to make a net profit of ..							56,350
From which is deducted tax at 5s. 10d. on £50,350 ..							14,683
							<u>£41,667</u>
Leaving balance as above ..							<u>£41,667</u>

That is, we have to increase the net profit required for the company's purposes by 35 per cent. to provide for the Government taxation. We have three earning departments—stock, wool, and merchandise—the first two of which are worked on a commission basis. In these we cannot add to our earnings without increasing the rate of commission. A 4-per-cent. commission did enable us to make a profit in the stock department sufficient to give a rebate of 25 per cent. to our shareholders—i.e., 1 per cent. of our commission—and out of the 3 per cent. left to contribute its fair quota towards dividends and reserves. To-day the greater part of this 4-per-cent. commission is required to pay expenses showing practically no margin for any of the above purposes. It follows that if this extra 35 per cent. profit can be made anywhere it must be made in the merchandise department. This, however, is practically impossible because of the very keen competition in this department from smaller concerns paying a lower rate of taxation. We cannot carry on indefinitely without substantial relief because we cannot give our shareholders a reasonable return on their capital after paying the tax. The following table gives the net profit earned, the amounts distributed and put to reserve, and the taxation paid for the years 1908–23. It shows that under a nominal rate of taxation the company was able to pay its way and build up the very modest reserve of £46,200 out of profits in twelve years. It goes on to show how the higher tax gradually decreased the amounts put to reserve, until they eventually ceased altogether in spite of the abnormally good trading-conditions existing and culminating in 1919–20. It further shows the effects of the depression in 1921, which turned a net profit of nearly £60,000 to a substantial loss, involving withdrawals from our reserves in that and the following year for the payment of our preference shareholders. It is obvious that a very few more years with corresponding results would wipe the company out of existence.

TABLE SHOWING THE NET PROFIT EARNED, THE AMOUNT DISTRIBUTED AND PUT TO RESERVE, AND THE TAXATION PAID FOR THE YEARS 1908–23.

Year.	Rate of Income-tax in Pound.	Net Profit.	Amount Distributed.		Amount put to Reserve.	Income-tax.	Land-tax.	Total Taxation.
			Interest on Preferential Share Capital.	Interest on Ordinary Share Capital.				
1908 ..	s. d.	£	£	£	£	£	£	£
1908 ..	..	7,971	..	2,419	2,000	..	..	..
1909 ..	..	7,835	..	2,812	2,750	335	..	335
1910 ..	..	9,275	..	3,008	2,250	442	..	442
1911 ..	..	11,715	..	4,538	3,500	769	..	769
1912 ..	..	17,546	..	7,336	5,500	895	..	895
1913 ..	..	21,858	..	9,832	6,000	1,325	22	1,347
1914 ..	..	22,043	..	10,653	6,000	1,585	20	1,605
1915 ..	2 8	21,702	296	11,452	5,000	2,572	20	2,598
1916 ..	6 3*	27,477	920	11,665	6,000	9,073*	40	9,113
1917 ..	7 6	26,032	2,221	11,992	4,329	9,590	172	9,762
1918 ..	7 6	30,871	4,309	12,981	1,652	11,775	253	12,028
1919 ..	7 6	33,353	5,905	13,589	1,319	11,752	487	12,239
1920 ..	7 6	41,953	8,058	14,347	..	17,689	847	18,536
1921 ..	8 10	59,852	13,480	16,812	..	25,600	1,709	27,309
1922 ..	7 4	Loss 1,383	15,192	No div.	..	..	1,549	1,549
1923 ..	5 10	207	15,192	No div.	..	..	1,443	1,443

\* Including excess profits tax. Actual assessment, £34,000.

NOTE.—Dividend on preference shares for years 1922 and 1923 paid out of reserve.

*Witness:* With regard to the table of years in this statement, we balance on 31st January in each year, and the years referred to in the table are the years ending on the 31st January in each case. So that the figures practically apply to the previous year's trading; for instance, the figures for the year ending 31st January, 1920, practically covers the operations for the year 1919.

*Mr. Shirtcliffe.]* You do not show the rate of dividend you were paying before the period of high taxation?—I can give them to you.

You show the interest on the ordinary share capital and the actual amount, but not the rates?—The rate for 1908, 1909, and 1910 was 6 per cent., and the rate for the other years from 1911 onwards was 8 per cent.

Until you ceased paying dividends?—Yes.

Then, even during the period of high taxation, covering the years 1917–21, you were able to pay the 8 per cent.?—Yes.

So that up to that point, even with the tax at 8s. 10d., your ability to pay your liability to preference shareholders and an 8-per-cent. dividend on ordinary capital was not affected, but you were unable to add anything to reserves?—That is so.

In 1922 and 1923 you show losses?—Yes; a loss in 1922 and a profit in 1923 of £207.

Then, in common with most trading concerns during and after the slump, your company made large trading losses on stocks and advances, but if it had not been for those losses you might have been able to pay your dividend?—We made losses all round.

But they were trading losses in common with most other concerns throughout the Dominion. We know that trading concerns have lost enormous sums in trading, and they have been unable on that account to pay dividends or add to their reserves, and have found it difficult to pay their tax. So that the position of your company as regards its inability to pay dividends may be altogether attributable to the huge trading losses that have been made?—We lost no capital.

But you have lost more than your trading profits?—That is so.

And as in 1921, when you had to pay 8s. 10d. income-tax, you were able to pay your 8 per cent. dividend, it follows that with the income-tax reduced to 5s. 10d. your inability to pay a dividend must be attributable to the huge trading losses that you have made?—Yes, chiefly. You can see the effect of the taxation long before the depression of finance.

Well, that would be a natural corollary of increased taxation: no business could pay as well, as taxation went up?—That is so.

Your company being a co-operative company, is its policy to cut its margin of profit to its customers, or do you sell at the ordinary trading merchant's profit?—We cut them as far as we possibly can; that is to say, we do not take any excess profit out of anything.

Then to the extent that you cut your prices you are rather at a disadvantage as compared with the ordinary trading companies?—Possibly.

It is your custom to cut your selling-price to your customers: that may also partly account for your inability to make any trading profits?—That may be so.

You think that probably that is so?—No doubt it has its effect.

*Witness:* May I put in some evidence on behalf of Mr. Bushell? I am instructed to say that he is in the doctor's hands and is unable to be present.

*The Chairman.]* Yes. I understand that Mr. Bushell is secretary to your company?—Yes.

And he has prepared a statement of his views, which you present on his behalf?—Yes. He has gone into it very comprehensively.

You are not prepared to be cross-examined on his statement?—I am afraid not.

Handed in by Mr. H. S. Hawkins on behalf of Mr. Bushell, who was unable to attend through illness.

ALBERT CHARLES BUSHELL, Secretary, The Farmers' Co-operative Auctioneering Company (Limited).

To the Chairman and Gentlemen of the Taxation Investigation Committee.

GENTLEMEN,—

I thank you for the opportunity afforded of laying my views before you relative to the important question of land and income tax, more particularly its direct bearing upon the companies operating in New Zealand, especially co-operative associations, with which I am associated.

I submit that the principle of taxation as adopted in this Dominion differs materially from the incidence of taxation of every other British country in so far as it applies to companies, and the principle that the subjects of every State ought to contribute towards the support of the Government as nearly as possible in proportion to their respective abilities is violated in this Dominion, as companies are taxed as a distinct entity, and the highest graduated tax is charged on all incomes of £10,000 a year or over, the result being that any company in a large way of business will almost certainly be called upon to pay tax upon its earnings at the maximum rate, notwithstanding the fact that the company may have some thousands of shareholders whose average shareholding is under £100, and notwithstanding the fact that although £10,000 a year or over may be earned it is not sufficient to pay a dividend upon the paid-up capital, whereas smaller companies and private traders may be earning large dividends upon their paid-up capital and yet only be taxed at half the rate of their larger competitors.

I think it is generally admitted that this Dominion's revenue is mainly derivable from agricultural and pastoral sources. It follows, therefore, that anything that prejudicially affects those interests must necessarily affect the prosperity of the whole country. The many thousands of shareholders of the several co-operative associations which are linked up with the Farmers' Co-operative Wholesale Federation (New Zealand), Limited, which I represent, in addition to the Farmers' Co-operative Auctioneering Company (Limited), whose operations I deal with specially, are seriously penalized simply because they happen to belong to one of the several large groups of individuals or companies whose joint operations aggregate a profit of £10,000 or more, and the fact is overlooked that the members or shareholders of these co-operative concerns not only provide the capital for their several businesses, but they also practically produce the income through their own business operations and upon which they are taxed up to the hilt. To more forcibly illustrate the heavy and unjust burden placed upon companies in general and co-operative associa-



tions in particular, the majority of whose shareholders' incomes are so small that even with the dividends on their shares added they would be free from income-tax on account of being below the exemption rate: During the war companies throughout the Dominion shouldered this unjust and iniquitous burden without cavil. For the last few years, however, strenuous efforts have been made to get company-taxation put upon a more equitable and just basis. So far, I regret to say, without success.

At the 31st March, 1922, companies contributed 69.8 per cent. of the total income-tax obtained in New Zealand, whilst other taxpayers contributed only 30.2 per cent., or, in other words, companies paid seven-tenths as against three-tenths. Although I have not got the 1923 figures the same ratio no doubt obtains, and this in face of the evidence given by the Commissioner of Taxes before the Taxation Committee in 1922 (*vide* page 6, section C of that Committee's report). (c.) The Commissioner for Inland Revenue, in his evidence before the Committee, stated that, of the total capital invested in company shares of all kinds in New Zealand, one-half was owned by people whose incomes were so small that, even with the dividends on their shares added, they would be free from income-tax on account of being below the exemption rate. Of the remaining half, a considerable portion was owned by people of comparatively small means, and it would take three-sevenths of this remaining half to bring the incomes of those who receive the dividends up to the maximum exemption. Only four-sevenths of this remainder would be taxable, and the great bulk of this at a comparatively low graduated rate." In support of my contention I propose giving some facts and figures dealing with the Federation of Co-operative Associations I have referred to, showing the taxation levied upon same, and which, when viewed from the standpoint of the large number of small shareholders concerned, the figures show how unjust and inconsistent the present system of taxation is in its operation with companies constituted as these concerns are—namely, an aggregation of a large number of small interests. These facts are fully borne out by a study of the accompanying Schedule marked "A."

## SCHEDULE A.

	The New Zealand Farmers' Co-operative Association of Canterbury (Limited), Christchurch.	Canterbury Farmers' Co-operative Association (Limited), Timaru.	Formers' Co-operative Association of Canterbury (Limited), Hamilton.	Hawke's Bay Farmers' Co-operative Association (Limited), Napier.	Otago Farmers' Co-operative Association of New Zealand (Limited), Dunedin.	Southland Farmers' Co-operative Association (Limited), Invercargill.	Farmers' Co-operative Organization Society of New Zealand (Limited), Hawera.	New Zealand Farmers' Co-operative Distributing Company (Limited), Feilding.	Gisborne Sheep-farmers' Frozen Meat and Mercantile Company (Limited), Gisborne.	North Auckland Farmers' Co-operative (Limited), Whangarei.	Totals.
Number of shareholders	11,608	4,567	5,491	2,047	943	2,500	4,522	2,700	1,650	2,564	38,592
Total paid-up capital	£ 883,821	£ 306,222	£ 478,672	£ 162,175	£ 108,675	£ 63,792	£ 112,337	£ 103,003	£ 349,151	£ 129,092	£ 2,607,540
Total uncalled capital	423,744	119,784	178,294	91,070	55,825	29,183	141,290	135,803	170,850	8,501	1,354,473
Average capital per shareholder—											
Paid up	76	67	87	79	107	26	24	31	212	50	68
Uncalled ..	36	26	32	44	67	12	31	57	103	3	35
Net profits—Year											
1913	60,224	32,217	21,858	10,149	4,209	Loss	..	510	2,080	2,808	134,008
1914	68,021	33,543	22,044	11,100	3,190	Loss	..	533	16,814	5,584	100,820
1915	64,878	31,616	21,702	16,686	5,524	4,000	1,457	1,458	14,780	6,656	168,757
1916	77,208	22,649	27,478	21,252	5,925	3,500	2,850	1,295	9,297	7,027	178,481
1917	67,525	25,150	26,032	19,938	4,646	2,800	4,954	3,901	22,680	7,184	184,870
1918	80,530	27,503	30,872	17,373	5,816	7,500	6,654	11,333	16,407	8,725	212,713
1919	97,330	33,000	33,353	16,802	7,346	10,000	4,846	11,218	6,599	5,174	225,608
1920	117,769	62,149	41,953	24,574	8,323	14,000	8,664	39	26,420	9,609	313,500
1921	87,633	19,030	59,852	10,406	8,691	1,900	Loss	69,676	44,777	1,696	225,294
					(Loss)			(Loss)			1,804,180
Land-tax—Year											
1913	220	72	22	21	2	25	..	..	2	..	304
1914	454	124	19	92	2	25	..	..	10	37	703
1915	583	154	26	96	6	25	..	..	10	28	926
1916	501	392	39	143	6	25	..	..	7	24	1,137
1917	1,162	428	171	369	11	25	125	5	21	65	2,382
1918	1,096	428	253	386	13	25	62	17	80	88	2,448
1919	1,210	659	487	452	15	25	113	53	113	167	3,294
1920	1,396	779	847	550	..	25	180	19	115	180	4,166
1921	3,611	800	1,709	614	..	25	238	224	314	211	7,645
											23,065
Income-tax—Year											
1913	3,683	3,032	1,347	687	249	..	..	38	80	365	9,487
1914	4,264	1,950	1,585	955	190	..	..	19	1,014	218	10,195
1915	8,318	4,005	2,572	2,773	1,633	670	485	170	847	804	22,277
1916	13,622	3,870	10,033	8,561	1,253	610	1,283	177	898	1,218	41,525
1917	23,548	10,018	9,590	12,532	1,785	470	2,869	2,095	5,381	3,629	71,917
1918	41,855	16,132	11,775	13,907	2,649	3,000	3,247	2,945	5,613	6,708	107,831
1919	33,622	14,443	11,752	11,927	3,345	4,200	1,558	4,357	3,337	4,995	93,536
1920	40,798	22,551	17,689	15,237	5,048	6,800	3,744	2,270	10,905	1,106	126,148
1921	34,214	..	25,600	4,841	..	..	..	170	21,578	5,055	91,456
											574,374

The figures in Schedule A have been compiled for the years 1913 to 1921 inclusive. The years 1922-23 are not included, because few, if any, of the companies referred to made profits. Unfortunately, in a number of instances huge losses were incurred.

From this Schedule it will be seen that ten associations are represented, with a joint membership of 38,592 persons, whose total paid-up capital amounts to £2,607,540, which averages £68 per shareholder. An uncalled liability attaches to the above aggregation of persons amounting to £1,354,473, averaging £35 per member. The total net profits earned by this group of associations covering the income-tax period 1922 amounted to £225,294. The excessive amount of tax which had to be borne amounted to £99,103, which is clearly illustrated in Schedule B.

## SCHEDULE B.

	£
Total net profits for year ending 31st January, 1921 (without deducted losses) .. .. .	225,294
Total income-tax .. .. .	£91,458
Total land-tax .. .. .	7,645
	<u>99,103</u>
Available for distribution amongst 38,592 shareholders at that date .. .. .	£126,191
Of the above total profits, for every 20s. retained by the company the State took, by way of income and land tax, 15s. 8-4d.	
The percentage of income-tax being .. .. .	40-59 per cent.
The percentage of land-tax being .. .. .	3-39 per cent.
Total percentage of profits taken by the State .. .. .	<u>43-98 per cent.</u>
	£
The paid-up capital of the companies being .. .. .	2,697,540
The total reserves being approximately .. .. .	399,082
	<u>£3,096,622</u>

On the above capital and reserves invested in the business, after providing for income and land tax, the total profits available equalled only 4-07 per cent.

With your permission I now propose dealing with the question as it affects the Farmers' Co-operative Auctioneering Company (Limited), with headquarters at Hamilton, and have taken the figures of its most successful year, 1921. At the 31st January, 1922, a loss of £1,383 was made, whilst a small profit of £207 was disclosed for the year ending 31st January, 1923. The 1924 figures are dealt with separately.

## THE FARMERS' CO-OPERATIVE AUCTIONEERING COMPANY (LIMITED), HAMILTON.

*Details as disclosed by Balance-sheet of 31st January, 1921.*

The paid-up capital of this association at date stood at £475,098, contributed to by 5,115 shareholders, which averages £92 per shareholder. An uncalled liability also attaches to the above aggregation of persons, amounting to £170,388, averaging £33 per member, and of whom no less than 4,828 ordinary shareholders hold an average of fourteen shares each.

This company's ramifications extend over a territory which approximates 14,000 square miles—its branches extend from Auckland to Taumarunui, and from the west coast to the east coast, taking in the Bay of Plenty.

The company operates in no less than forty saleyards, and has twelve branch establishments in addition to its headquarters at Hamilton.

The total net profits for the year derived from the entire business amounted to £59,852, upon which it had to pay in income-tax £25,600, or 42-77 per cent. Land-tax for the same period amounted to £1,709, or equalling 2-85 per cent., as against £847 for the previous year, showing an increase in this charge of over 100 per cent., whilst the capital value of the properties for the like period only show an increase of £26,406, the unimproved value being respectively 1920, £52,153; 1921, £73,721—disclosing an increase of 41-35 per cent.

This additional taxation is accounted for not only by the increased incidence of land-tax, but by Government revaluation of properties, such increased values being brought about by the company's own enterprise.

In the year 1914 the total earnings of this association amounted to £22,044, upon which it paid in income-tax £1,585, and £20 in land-tax, making a total of £1,605, or a percentage of 7-28 per cent. on the profits earned, as against 45-62 per cent. for the year ending 1921.

## THE FARMERS' CO-OPERATIVE AUCTIONEERING COMPANY (LIMITED).

	£
Net profits for year ending 31st January, 1921 .. .. .	59,852
Income-tax on same .. .. .	£25,600
Land-tax .. .. .	1,709
	<u>27,309</u>
Available for distribution amongst 5,115 shareholders at that time .. .. .	<u>£32,543</u>
Of the above total profits for every 20s. retained by the company the State took, by way of income and land tax, 16s. 9-4d.	
The percentage of income-tax being .. .. .	42-77
The percentage of land-tax being .. .. .	2-85
Total percentage of profits taken by the State .. .. .	<u>45-62</u>
The paid-up capital of the company being .. .. .	475,098
The total reserves being .. .. .	62,983
	<u>£538,081</u>

On the above capital and reserves invested in the business, after providing for income and land tax, the total profits available equalled only 6-04 per cent.

MEMORANDUM.—The company took advantage of the special discounts given by the State for prompt payment—namely, 10 per cent. off land-tax, and 5 per cent. income tax, otherwise the showings would be much more unfavourable to the company.

## THE FARMERS' CO-OPERATIVE AUCTIONEERING COMPANY (LIMITED).

*1924 Results.*

At the 31st January, 1924, the paid up capital of the company stood at £478,798. The Profit and Loss Account discloses a profit of £20,162. Upon this sum (approximately) tax at the rate of 5s. 10½d. in the pound will have to be paid, leaving barely sufficient to pay the 6 per cent. interest upon the preference share capital. The ordinary shareholders, whose paid-up capital aggregates £225,586, receiving no dividend for the third successive year, which proves my contention that large companies are taxed up to the hilt at the maximum rate, and yet the profits are not sufficient to give the ordinary shareholders any return upon their investment. In face of this can it be argued, either fairly or logically, that to treat companies as single entities is fair or equitable, leave alone consistent.

I should like to emphasize the fact that these co-operative associations are mostly made up of a general headquarters establishment in a certain centre, with a number of branch stores domiciled in various parts of districts for the expressed purpose of giving equal services to the shareholders residing in the districts, and my contention is that were these several stores or branches separately owned and run as so many different concerns the owners thereof would in the majority of cases only be called upon to contribute the minimum amount of taxation, or very little beyond it, whereas because we have co-ordinated and adopted up-to-date methods for the purpose of marketing our shareholders' stock and produce, as well as supplying them with their general needs for domestic and agricultural purposes, the profits of these branches are brought into hotchpotch in accordance with the world-wide acknowledged principles of progression and economic working, and because of this we are forced to pay the maximum taxation. Unless a drastic change is made by the Government whereby large companies secure substantial relief many of them will be unable to carry on, and it will be a case of either winding up or reconstruction, but in this latter connection the Government has put a barrier to such a step by legislation, as per section 98, Land and Income Tax Act, 1923, which reads as follows:—

"(1.) If the Commissioner is satisfied with respect to two or more companies consisting substantially of the same shareholders or under the control of the same persons that the separate constitution of those companies is not *bona fide* for the purpose of more effectively carrying out their objects, but is for the purpose of reducing their taxation the Commissioner may, for the purposes of income-tax, treat those companies as if they were a single company, and in any such case those companies shall be jointly assessed and jointly and severally liable, with such right of contribution or indemnity between themselves as is just.

"(2.) For the purposes of this section two companies shall be deemed to consist substantially of the same shareholders if not less than one-half of the paid-up capital of each of them is held by or on behalf of shareholders in the other. Shares in one company held by or on behalf of another company shall for this purpose be deemed to be held by the shareholders in the last-mentioned company."

For the purpose of illustrating the disabilities which large companies are suffering under the present incidence of taxation I give the following examples, which I submit are in no wise exaggerated—on the contrary, the figures, if anything, are in favour of the smaller concerns:—

Take a small company or individual trader with a paid-up capital of .. .. .	£12,000
Earning, say, 16½ per cent. before deduction of tax, which yields a profit of .. .. .	£ 2,000 0 0
The income-tax upon this—graduated rate—amounts to .. .. .	180 13 4
Leaving .. .. .	£1,813 6 8

available for distribution, representing 15.11 per cent. upon the paid-up capital.

Now, take a larger company with a paid-up capital of, say, £120,000, operating upon precisely the same lines as the smaller concern, and making the same percentage of net profits before deduction of income-tax:—

This would show an earning of .. .. .	£ 20,000 0 0
"Assuming this to be the assessed income. In practice it would be considerably more."	
Tax at 5s. 10½d. in the pound amounts to .. .. .	5,806 13 4
Leaving .. .. .	£14,133 6 8

available for distribution among the shareholders, equalling 11.77 per cent. on the paid-up capital, which is a distinct disadvantage of 3.34 per cent. as compared with the smaller business. On the previous basis of taxation it equalled fully 6 per cent.

I desire also to direct your attention to the serious handicap which practically the whole of our co-operative shareholders suffer as compared with wealthy investors in small companies, and, for example, in this connection, would like to quote from a pamphlet which the Federated Co-operative Associations, as well as a number of the stock and station firms, issued about two years ago upon the question of excessive taxation.

"Wealthy investors by spreading their capital amongst these small companies get off with a comparatively light tax. For example, take a man with an income of £10,000 before income-tax is deducted. If he has to show all this in his tax return he will pay 8s. 9½d. in the pound, or £4,400. If he can spread 80 per cent. of his capital amongst a number of small companies that show an average of £2,000 a year each, these companies would only pay income-tax at an average rate of £280 each, and as our wealthy friend gets his dividends clear of income-tax he has not to include them in his own income-tax returns. The income he has is reduced to that derived from one-fifth of his capital, or, say, £2,000 a year, on which the graduated rate comes to £280. The result is this wealthy man, instead of paying 8s. 9½d. in the pound, or £4,000, in income-tax, escapes with a payment of £1,400; that is the combined tax on his small company holdings and his own direct payment. Through spreading his capital amongst small companies he makes a clear saving of £3,000 a year."

What I have illustrated could not happen in any other part of the British Empire except in New Zealand. In every other part of the Empire the individual shareholder, and not the company, pays graduated tax according to his means. There is no avenue of escape for the wealthy, and no grinding taxation on small shareholders such as those whom I represent.

These remarks are equally applicable under the present incidence,—only in somewhat of a lesser degree.

A leading authority on taxation (according to Press reports) has stated to this Commission that in his opinion it is consistent, for taxation purposes, to treat a company as a single entity. To disprove this theory I submit the following illustrations: A. Of a partnership (where each partner's income is assessed separately), and B. of a company, with exactly the same capital and obtaining the same results:—

A. Partnership. Five partners, equal shares. Capital, £100,000. Net profit, £10,000. Each partner would be taxed upon £2,000, subject to certain exemptions which companies do not enjoy:—

Tax upon each £2,000 = £186 13s. 4d. multiplied by 5 = £933 6s. 8d.

B. Company. 100 shareholders. Capital, £100,000. Net profit, £10,000. Tax at 5s. 10½d. in the pound, £2,933 6s. 8d.

These figures disclose the fact that because 100 men of moderate means mobilize their £100,000 capital they are penalized to the tune of £2,000, as against the five men working under a partnership agreement whose capital in the aggregate equals the 100 shareholders in the company. Each of the partners would receive on their invested capital of £20,000, 9.06 per cent. Whereas each of the 100 shareholders in the company would receive only 7.06 per cent.—penalized to the extent of 2 per cent. on their capital. The State in the case of the partnership taking by way of income-tax 9.33 per cent. of the net profits. In the case of the company 29.33 per cent. of the net profit—company penalized to no less an extent than 20 per cent. of their profits. These figures speak for themselves, and show how unjust and inequitable the tax is as applied to companies.

#### LAND-TAX.

The graduated land-tax, which was first imposed in this country for the purpose of bursting up large landed estates, is no longer required, and is not in the best interests of the country, as it tends to restrict production and enterprise, and I submit that a flat rate should be substituted.

Land-tax is a first charge against the land, and the present graduated tax is a crushing burden to the majority of farmers, and is a huge rental in itself, and inasmuch as approximately seven-sixteenths of the total land-tax collected in this Dominion comes from towns it is equally a heavy burden to businesses, especially such companies as I represent, and by reference to Schedule B already referred to the huge growth of this tax since 1916 can readily be seen.

It is most unfair to levy a graduated land-tax on valuable business-sites. For example, the Farmers' Co-operative Auctioneering Company (Limited) has headquarters at Hamilton, twelve branches and forty saleyards spread over the territory in which it operates. Necessary accommodation paddocks have to be provided for travelling stock; and the value of all these properties (many of them small in themselves) is added together and taxed as one property at the maximum rate of tax. Were each business-site, saleyard, or accommodation paddock treated separately only the minimum tax would be payable. Further, although this tax is an absolute first charge on the business, no exemption is allowed in the income-tax assessment, and this has been no small burden since 1916.

I earnestly hope that the result of this Commission will be a revision of the present system of income and land tax assessment, and that—

1. (a.) Companies such as I represent will only be taxed upon their undivided profits; or, as an alternative,—

(b.) A flat rate be levied at the minimum rate to all taxpayers and adjustment be made with the individual shareholders. (The work and cost of making adjustments should not be permitted to interfere with the equitable incidence of taxation). Or, as a further alternative,—

(c.) A graduated rate to be levied with a maximum not exceeding 4s. in the pound. The graduated rate to be assessed on the relative proportion of profits to capital—i.e., a company earning 20 per cent. or more (after deducting the basic allowance referred to later) upon its capital to be taxed at the highest graduated rate, whilst a company earning 2½ per cent. (after deducting basic allowance) upon its capital to be taxed at the minimum graduated rate, irrespective of the total amount of profit earned in each case. This would more fairly adjust the tax as between large and small companies. I am aware that to give effect to this method there are apparent difficulties, but submit that the following or a similar method might prove practicable.

Deducting, say, 2½ per cent. on the paid-up capital from the assessed profits, and this sum to be the basis upon which the graduated rate be assessed on the total assessed income. Illustration:—

A. Company, £100,000 capital. Profit, £22,500=22½ per cent. £22,500—(2½ per cent. on £100,000) £2,500=£20,000. Graduated rate on £20,000 to be assessed on total profits of £22,500.

B. Company, £100,000 capital. Profit, £5,000=5 per cent. £5,000—(2½ per cent. on £100,000) £2,500=£2,500. Graduated rate on £2,500 to be assessed on total profits of £5,000.

A. Maximum rate 4s. on £22,500=tax £4,500, leaving £18,000 available for distribution=18 per cent.

B. Minimum rate 1s. on £5,000=tax £250, leaving £4,750 available for distribution=4¾ per cent.

A. State takes in income-tax 20 per cent. of net profits.

B. State takes in income-tax 5 per cent. of net profits.

Where the total profits do not equal 2½ per cent. after deducting the basic allowance of 2½ per cent. (or such basic allowance as is decided upon), the minimum tax to be charged on the total assessed profits less a rebate of 20 per cent. or 25 per cent.

2. That taxable items will exclude land-tax, charges for brokerage paid in connection with the raising of additional capital, and that a more reasonable allowance for depreciation on properties and plant be made.

3. That the land-tax (especially as applied to companies) should be assessed at a flat rate, and not according to graduated scale, as it is manifestly unfair, as the same principles which I have urged with respect to individual shareholders' interests in regard to income-tax apply.

4. That income-tax be levied upon the average of the three past years, on the lines of what is done in Great Britain.

For A. C. BUSHELL,

HERBERT S. HAWKINS,  
Secretary, the Farmers' Co-operative Auctioneering  
Company (Limited).

GEORGE CRIBB, Farmer, Puriri, examined.

*Witness:* Mr. Chairman and gentlemen, I saw your advertisement in the newspaper, and I thought this would be a suitable opportunity to lay our grievances before you. This room ought to be full of farmers come to make known their grievances. I have been farming for forty-five years, and I am now in my eighty-third year. I wish to bring under your notice the great taxation under which we are labouring under the present system of taxation. Before the war my lands were valued by the Government valuator. The Thames County Council charges *pro rata* were £69 per year, including hospital rate, &c. Since that period the rates have risen year by year. This year, 1924, the Thames County bill for rates and taxes was £265 6s. 1d., and the Government land-tax has risen to £101 on the same lands that I held before the war. This high taxation will be my ruin if it continues. I wish to state that I have been forty years on the land struggling against adverse circumstances. If taxes were reduced I would be in a position to produce more and employ more labour. They are rating me off the land.

*Mr. Shirtcliffe.*] How many acres have you got?—400 acres. I have to pay over £1 a day in rates, and wages have gone up, and I cannot get labour.

What is the Government valuation on your land?—I think it is £25 an acre.

That is £10,000, and you have paid £265 a year in rates; that is nearly 7d. in the pound?—Yes; then there is the land-tax of £101. All their charges are based on the land-valuation, so-much in the pound. There are over 250 acres which are just surface-sown and cannot be dealt with because I cannot employ the necessary labour to utilize the land; it would cost too much.

We cannot deal with any local taxation matters?—But if you lower the Government rate, then the other comes down. I am convinced that if land was made as easy to hold as a gold-mining property more land would be taken up and more stuff sent away from the country, and people would live more comfortably. We had a bad winter and many cattle died, and we have had many losses to contend with.

Why are the rates in your county so much higher than in other counties?—I do not know. I saw the County Clerk and was told that they base the tax on the Government valuation.

And you say you are paying about 6½d. in the pound?—There is a hospital rate, a library rate, a road rate, a bridge rate, and a drainage rate.

Is the drainage carried out by the county?—Yes; it is carried out by a separate committee. We used to pay a man 25s. or 30s. a week, but now I have to pay a man from £2 to £2 5s. a week,

If you were relieved of the land-tax would that enable you to carry on?—Undoubtedly. I may tell you that I cannot keep up my payments.

*Mr. Weston.*] You have no mortgage on your place?—No; but I have an overdraft.

What do you use your land for?—Dairying and cropping. This last season we had a paddock of 7 acres in oats, 16 acres of millet, 7 acres of maize, and other grass-paddocks.

How many cows do you run?—We are running fifty now, but they are going off.

What number of sheep?—No sheep. We rear all our stock and run a lot of pigs.

*Mr. Shirlcliffe.*] How are other farmers in your county doing?—Some are doing very well. If I could afford to drain the lower parts of my farm I would be able to run a lot more stock, but the river overflows its banks.

Those farmers are in a better position than you are? They are able to pay this 6½d. in the pound and the land-tax and still make good?—They have got a monkey on their back.

Well, that makes it worse?—Yes; but hardly any man is free. You pay down so-much money and leave the rest to pay off annually if you can.

Yes; but men who have got a more or less heavy mortgage on their farms in your county must be in a far worse position than you are?—Some are, because they are going off the land. They are leaving it. They pack up their goods and clear out. The whole sum and substance is this: the settlers are an energetic body, but it is a struggle. I have been there since I was a young man. When I went to the valuer to object, he said, "Why not sell your land?" Well, after living on your land you do not care to sell and let a stranger take it. Supposing that you graft a tree and wait and see the fruit grow, will you not prefer that fruit to going to a shop to buy it? You see, I have created that tree.

*The Chairman.*] I think we understand your position. What you advocate is the abolition of the land-tax?—Some of it. My wife died some time ago and the land was hers, and before she died she wished me to give the farm—that is, part of it—the homestead—to my two girls who have held to me. When I transferred that land to them the Government charged them £467 for the gift—the land that they had been thirty years labouring on. That was an injustice.

Gift duty?—Yes; but they had laboured for it. They had never had any wages. There should be a difference made in a case where a person has laboured. It was their labour.

That is a matter we cannot go into. That is outside the scope of our inquiry?—They had not the money. I had to borrow it from the bank to pay off the Government and pay the lawyer £40 for the transfer.

*Mr. Begg.*] The land-tax is the only point of all your troubles that we can touch?—I hope you will touch it.

*Mr. Shirlcliffe.*] I gather that you would much prefer an income-tax to a land-tax?—Undoubtedly. If I have an income I will only too freely pay tax on it. When I went into the post-office at the Thames to pay my hard-earned £101 I said to the clerk, "That is hard-earned money." What do you think he said? "I wish I had half of it to pay." But he had not earned it.

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The Hon. GEORGE FOWLDS, Merchant, Auckland, examined.

*The Chairman.*] You have set forth your views on the subject of taxation in the statement you now produce?—Yes, sir.

Will you read it to us, please?—It is as follows:—

The fact that taxation systems call for constant revision and endless inquiries into their incidence in an endeavour to locate anomalies and remedy defects should indicate to thinking men that there is something unsound, uneconomic, and futile in all existing methods of taxation, and that processes of amendment, however good the intention, are devoid of a scientific basis, and therefore can never be final. The process is like an attempt to stop up ten leaks in a vessel with nine plugs, each hole being in turn stopped up with a plug removed from another hole. The vital evil contained in every system of taxation consists of the fact that it despoils a man of a portion of the product of his individual labour, and could only be justified by necessity. No such necessity exists, therefore the only way to "mend" any system of taxation is to "end" it. The system obtaining in this Dominion is much the same as obtains in most other countries with the one exception of the land-tax (so called). Revenue in the main is derived from Customs and Excise, income-taxes, and death duties. Customs taxation is so notoriously inequitable (even amongst taxes which have no basis in justice) that it is a wonder that they persist in the twentieth century. (I speak of revenue duties as apart from protective duties, the latter of which, if the policy of protection is sound, should raise little or no revenue.) It is admitted practically by every authority on taxation that Customs revenue duties press heaviest on the poor man and are equivalent to an income-tax graduated against the smaller incomes. They should be wiped out forthwith once and for all. Such duties as are "protective" have the same evil effect, pressing heaviest on the under-dog, the only difference being that, instead of the Government directly levying the tax (as with revenue duties), it presents individuals with a charter whereby they can tax the people in the interests of certain sections of the community. Protective duties have two main effects: (1) They raise the cost of living and of production; (2) they prevent exports by keeping out goods which need to come in in payment of exports. Such a policy cannot be upheld in the interests of the community as a whole. Before leaving Customs duties I may be permitted to point out that the recent revision of the tariff has resulted in an increase per cent. on the bulk of the schedules, and that an estimate, made recently, showed that the increase of taxation involved in the revision, allowing for average importations (the mean between the years 1920, a boom period, and 1922, a lean period, being taken) amounted to no less than

£1,644,438 per year. Such a policy is a retrograde step in methods of taxation. Income-taxes are preferable to Customs taxes in the matter of incidence, especially when graduated, which makes it more difficult to pass them on, but they have serious defects in other directions. They are inquisitorial, their collection calling for information which no State Department should be empowered to demand. In normal times and when the rate is high the major portion of the income-tax must be passed on to the consumer and so increase the cost of living; to the extent in which the income-tax cannot be passed on because of the exemption and the graduations it is an unfair impost on one trader as against others in the same line of business. Death duties are attractive to the average person, because with exemptions and a sliding-scale they bear heavily on the wealthy. The idea is that if a man amasses a large fortune he has, in all probability, obtained the most of his wealth without rendering an equivalent to the community. If such is the case, the remedy lies not in taxing his estate at so-much per cent., but in the adjustment of social conditions so that the accumulation of such wealth would be impossible. If men "get without earning" other men must "earn without getting," hence, even if all the misappropriated money were taken at death, justice would not be done, seeing that the deceased had been levying a tribute on his fellows for, it may be, a couple of generations. Thus all forms of taxation are devoid of equity, and should, if possible, be abolished *in toto*. I say "if possible" advisedly, for I affirm that the State can obtain all the revenue required, in times of peace at any rate, without levying on the individual earnings of any man. All that is necessary is for the State to appropriate "rent." I use the term in its economic sense, as meaning the annual value of land apart from any improvements placed upon it or in it—that is, what is commonly called the "unimproved value" or "ground" or "site" value. Ex hypothesis, any value that attaches to land must be created by the community, seeing that the result of individual labour (improvements) is exempted. It follows, therefore, that if the State were to appropriate rent it would not be levying taxation on individuals, but merely restoring to the community those values which the community had first created. Thus values of a communal nature, instead of being, as now, appropriated and retained by landowners, would be diverted into the State Treasury. This revenue would be sufficient to enable the State to repeal all taxes. Even if it were not sufficient, the rent, whatever it may be, should be taken first before any levy is made on individuals. With our system of valuation it can be shown that the revenue would cover all legitimate State needs. The unimproved value of New Zealand land is set down in the latest Year-book at 329 millions sterling, which valuation, if accurate, is necessarily less than the true economic value because of existing land-values taxation, which obviously reduces selling or market values. Taxing "rent" at 5 per cent. of the capital unimproved value, as stated, we get, roughly, £16,500,000, which added to the £1,500,000 now collected would give a total of £18,000,000 of revenue to replace the tax revenue as at present, £15,594,288 (1923). It is possible that under our present system of "fee-simple" ownership the valuations are inflated and include "prospective values," but the margin, in my opinion, would cover any such inflation, especially as in many cases there is undervaluation. For the year 1922-23 the landowners of New Zealand, owning £330,000,000 of unimproved land value, paid in land-tax £1,541,502; the dead people paid in death duties £1,829,852; the smokers of the Dominion paid £1,181,330 in tobacco duty. The question of housing is closely bound up with the question of taxation. The recent announcement by the Government that it would advance loans up to 95 per cent. of the value caused quite a land boom in city and suburban sections, which were sold on a small deposit and monthly instalments. The payment of these monthly instalments has had a clearly visible effect on the volume of business during the last year. The present system of taxation increases the price of nearly every commodity which goes into the building of a house, and the absence of adequate land-value taxation is responsible for the high and speculative price which has to be paid for a site on which to build it. The true policy for the Government, therefore, is to gradually increase the land-values taxation, year by year, or session by session, using the accruing revenue to reduce, and finally extinguish, all taxes on individual industry. The periodical increase in land-values taxation should continue until such time as land "apart from improvements" ceases to have any selling-value, until, that is, the whole of the economic rent goes to the community which has created it.

*Mr. Hunt.*] The present position is that the land has been bought by people and paid for. Would you not under your proposal be "collaring" what they had paid for, without compensation?—I did not hear of any talk of compensation when the Government two years ago confiscated that £1,600,000 of the earnings of labour; and there can be no more confiscation involved in the taxation of land-values than in the taxation of the products of labour.

Say I have spent my money in buying some land, and you have spent yours in building a factory, why should you appropriate all my land and you stick to your factory?—Because you have bought something that the best and brainiest men of every country have been, for forty years at least, telling the people it was not a proper thing for them to have and that the State ought to have it.

Say I am a farmer, if I want to farm I must buy land?—Not necessarily.

If you want to farm now in New Zealand you have to buy a farm?—The two functions of landowning and farming are quite clearly and separately and definitely distinct.

We are in the position that the best of the farmers of the country have bought their farms. You are going to take it all from them?—Yes, because they have got something that has been created by the community, is maintained by the community, and ought to be collected for community purposes.

How are you going to get at the unimproved value? Take the present Government valuation: do you call that unimproved value?—If you did you would not get anything like the proper land-value of the country, because there are more cases where the Government valuation is below the actual land-value than where it is above it.

The unimproved value that the Government taxes now is a purely arbitrary thing. It is very much above what you could call the unimproved value. What I mean is this: you could go and buy unimproved land to-day—land in its absolutely natural state—for very, very little, and you could buy improved land—any quantity of good, improved sheep-country—at just about the cost of bringing it into its present state from its unimproved state?—Yes.

What do you call the unimproved sections?—The fact of the matter is that there is no great quantity of really good land that is available to be bought to-day in its unimproved state, but you have the difference between what the improvements have cost and what the selling-value of the property is to guide you as to what is the unimproved value. When the land boom was at its height there were sales down in Taranaki at £250 and £300 per acre, and I had investigations made, which showed that there were practically none of those sections valued at beyond £70 or £80 or £90 an acre unimproved value. You could not tell me that the improvements on these farms cost the difference between those figures and the selling-price.

You know as well as any of us that those sales were never justified and that very little money passed. They were only paper sales, and most of the purchases have gone back. I dare say that if the Government wanted to appropriate the second and third and fourth and additional mortgages they could get them for very little to-day?—I have talked with practical farmers in all parts of New Zealand, some of whom had themselves been engaged in the work of valuation, and they have assured me that there is no insuperable difficulty in arriving at a reasonable and more or less uniform value of the unimproved and the improvements.

Would not the effect be that you would wipe out the capital that landowners now have?—As far as the unimproved value of the land is concerned, yes.

What about the mortgages on the land?—They would be in just the same position.

They would be wiped out, too?—To the extent that the mortgage represented unimproved land-value, yes. Herbert Spencer fifty years ago said, "In our tender regard for the vested interests of the few we must not forget that the rights of the many are in abeyance and must be held in abeyance until justice is done"; and that is the position. I am satisfied that our present civilization cannot endure much longer if the present private appropriation of land is allowed to continue. You must not think it is altogether a country question, because land-values are in the towns as well as in the country.

It just means that everybody who has put his money into unimproved value, whether by way of purchase or of lease, is going to be wiped out, and everybody that has put his money into buildings and ships and houses and machinery and stocks of goods is going to be allowed to go on. That is the position?—Yes. Those people are in possession of something which it is contrary to the welfare of humanity for them to be in possession of, and as long as that persists we are drifting rapidly on to revolution. The only cure is to make the radical cure and establish justice.

*Mr. Weston.*] Do you believe in the persecution of the Jews? In old times the Baron got hold of the rich Jew and pulled his teeth until he paid up his money. Do you believe in that? Do you approve of those old Barons getting hold of the Jews and pulling their teeth until they disgorged their wealth?—I am not going to pull out anybody's teeth.

You would take from every farmer in New Zealand?—No.

A considerable portion?—No; that is quite a mistake. Of course, the present Government refuses to give us a return showing the figures of land-value holdings in New Zealand; but the last return that was presented—B.-17 something, I think it was—showed clearly that the great majority of the farmers would be benefited by the change that I am here advocating to-day.

It would be a great portion, as far as I can see; it must run into many millions—I mean the unimproved value of the land in the country and the towns. If you take that away it is very much like the action of the Baron who said to the Jew, "I warned you not to become rich, because if you were to do so I would pull your teeth?—I think it is not nearly so bad as taking £1,600,000 a year out of the pockets of people earning from £3 to £5 a week.

Do you act on any local bodies that hold reserves?—Yes.

That system of endowments, leased on long terms—that is a praiseworthy attempt to secure the unimproved value for the people?—It is a very unscientific attempt.

Under that, the rent, which you say you want to confiscate, goes to the local authority?—Yes, but—

You say you want what Ricardo defines as rent, do you not?—Yes.

Well, the whole of that now goes to the local authority?—Not in a long lease. There is in a long lease a growth of value during the time, so that even the private leaseholder gets a large portion of the rent.

I have just been acting for the Wellington Harbour Board, and I found that it is practically impossible for a local authority to get what you term the whole of the unimproved value?—I do not think that even if this were brought in the country would get the whole of the unimproved value, unless it raised more revenue, because you must recognize that if the whole of the present taxation were taken off in the first place and nothing put in its place land-values would enormously increase.

Do you know what one of the best witnesses, Mr. Vaile, of Auckland, advised? He said he had come to the conclusion, from the letting by local authorities of their endowments, that it was advisable for local authorities to get legislative power to sell their endowments and to invest the proceeds in ordinary securities?—That might be.

Because the return to them would be greater than they might get from holding on to them?—That might be. In Anzac Avenue here the city had power to sell because it was acquiring land for a new roadway. It sold sections there at about £60 and £70 a foot that are to-day changing hands at about £200; and yet it is still possible that the £70 might be more than they would have got by

leasing them. I am not recommending leasing them. I am recommending that the State take annually the necessary amount of revenue that is required for the purposes of either local government or national government—that, and no more. And it would be quite possible—it would have been possible in the past to have gradually abolished taxation and raised the tax on land-values and got all the revenue from land-values, leaving individual land-values pretty well in the position where you began.

You have got a business?—Yes.

Is there not land-value increment in a business?—Not a penny.

Say you start a business in Auckland, and another man starts a business, say, in Dunedin. Auckland goes ahead very much. A large number of people come to the City of Auckland. Its climate attracts people. Does not your business prosper more than the business of the man in Dunedin?—Yes. The whole of that increased prosperity is reflected in the land-values in the city in which I carry on business, and my landlord has a keen sense of that fact by the periodical and rapid increase of the rent. There is no such thing as goodwill in business, excepting probably in some proprietary concerns. There is a goodwill that will be developed by a business, but it is developed largely on that site where the business is carried on. There is a certain amount of character goodwill that a man builds up, but it is not the community that does that. It is his service that does that. But to the extent that goodwill in a business is built up, it is built upon a particular site, and the whole of that goodwill is attached to that and is reflected in land-value. You compel me or any other business man to move away from the site on which he has developed the business, and the man who would pay anything substantial for goodwill would find he had miscalculated. The goodwill is attached to the site and is collected in rent by the landlord. I know of cases in this city in which, during the time I have been here, rents have increased by six times, and in which the tenant has spent more on the improvement of the premises than the landlord has done during that time.

*Mr. Shirtcliffe.*] It seems to me that your proposal would involve, would it not, the confiscation of this 329 millions sterling of unimproved values, as regards private owners or private mortgagees?—Yes, just in the same way as the present Customs taxation is confiscating the earnings of the workers to the extent of £5,000,000 or £6,000,000 a year.

It is not only the workers. The Customs taxation touches every one in the community?—Yes, that is true. If a man has £3 to £5 a week in wages his Customs taxation will amount to 20 per cent. of his income. If a man has £5,000 it may possibly amount to 5 per cent. but not more.

Can you not assume from your experience that a man with £5,000 a year will probably buy ten times as much in dutiable goods as the man with £500 a year?—I do not think that.

I mean, in the way of motor-cars and luxuries?—Not ten times as much, but a good deal more. I am allowing for five times more in reckoning 5 per cent. as against the 20 per cent. that the poor man pays.

We had a gentleman in this morning. He has been forty years on his farm. He has brought it to its present condition from an absolutely virgin state, when it was practically valueless. He has brought that farm up to a highly improved state. The unimproved value to-day is £25 an acre. Do you think it reasonable that the accumulation of forty years, practically, should be confiscated?—If the value is the result of his work, then it is an improvement value and ought not to be taxed.

There you have the unimproved value to-day. It is community value?—It cannot be both community value and the value of his work.

As a matter of fact, are not the unimproved values to-day largely community values?—The whole unimproved value is a community value.

Very well. As to how the increase in value has taken place, that man has been working that farm for forty years. He has put the whole of his brains and energy into it, together with those of his wife and family, probably. Do you think it is reasonable that that man's interest in that farm should be confiscated?—He has been getting out of the produce of his labour payment for his labour, the same as the other workers have been doing. If it is a community-created value it belongs to the community and ought to be taken and used for community purposes.

Do you think that under that system farmers would have any encouragement to improve their lands in the same way that they do to-day?—I think they would have more.

If the ownership of the lands were taken away from them?—I think they would have more. Anybody who is going to develop unimproved land to-day has got to have sufficient capital to buy everything that he needs at an increased price because of the duties that are levied on it. What I advocate would enormously reduce the cost to the man breaking in fresh ground.

*Mr. Begg.*] You stated that the bulk of the farmers would be benefited by the change?—Yes, the majority.

How do you arrive at that?—The figures show that if we collected 5 per cent. on the actual value and remitted all the present Customs duties—and, remember, it is not only the Customs duties that they pay, because everything they buy that is produced locally, under the stimulus of the protective tariff, is increased in price to them as well—the figures show that the majority of them would receive more remission of taxation in the Customs duties and the profits on the Customs duties than they would pay in land-tax. If the Government would give us the figures we would give you the effect; but Mr. Massey's Government has repeatedly refused to give that return, which has been prepared and presented on a good many previous occasions.

Are you aware that a very large part of New Zealand is owned by the Government, never having been parted with?—Yes, a considerable area.

There ought to be a very substantial revenue from that?—Considering that it is mountain-tops and a good deal of it comparatively poor country I would not expect the revenue to be very big.

A great deal of it is good farming-land. You would expect that to be a steadily increasing revenue?—Not with the increase of rabbits and things of that sort.



The State as an owner has not been able to keep its land in order and maintain its value?—I do not think the State should own land in that way at all. I am not advocating the leasehold principle.

But the State is merely collecting a rent on the unimproved value of that land?—No. It is doing more than that. It is regulating the conditions and denying men the freedom of action in farming which they would have under another system.

In what way?—Well, there is the danger, for example, that at the end of the lease, if they have improved the land to a high extent, the rental will go up, and therefore the tendency with them is to take as much out of the land as possible so as to have the rent fixed as low as possible.

They are entitled to value for their improvements?—Yes.

Then, what have they to fear?—Well, I suppose they fear that they will have too high a value.

The Government takes the visible improvements into account and ignores the invisible improvements?—The system of valuation might be improved.

Does not that explain the complaint that the Valuation Department will not allow valuation for improvements?—I suppose that is so.

Are you not going to magnify that to an insuperable degree?—No, I do not think so. If there were a serious proportion of the tax falling upon the unimproved value the force of combination available would make sure that the valuation did not improve in amount, and it does not really very much matter to the individual whether the unimproved value is high or low if it is uniform. That is the main thing in the general levying of taxation.

Do you think we are getting uniformity to-day with valuations?—Well, I do not know how far it goes. I do not think there is any human institution or man that is absolutely perfect and exact. There is an unreasonable lack of uniformity to-day because of the fact that revaluations are sometimes left for long periods when great changes have taken place, and that, I think, is an unjust thing. I think there ought to be very regular revaluations.

What period would you suggest?—I do not know that it is very urgent, but certainly not more than five years.

Do you think that landholders or farmers would be encouraged to improve their lands with the knowledge that they were to be reappraised in five years' time?—I do, as long as the general capacity of the valuers was the best obtainable, and as long as the farmers had a fair understanding that all reasonable allowance would be made for improvements.

That is the law now. Do you think you would get a better class of valuers than you have now?—I think you would get better results, because the man is not particularly interested in the valuation if it is only 1d. or 1½d. in the pound.

Have the Government revenues from these publicly owned lands increased? In forty years what increment has there been?—I could not say without considerable labour, because the quantity of such land has varied. The Government has sold some lands that were leasehold years ago, and these variations would make it very difficult to give you the exact figures.

Would it surprise you that in considerable areas it is doubtful to-day whether the whole of the rents pay the cost of administration?—I would not be seriously surprised at that.

And yet you have sufficient faith and hope that you can raise £16,500,000 by this process?—No; I condemn that process of leasehold.

But if you reappraised it every five years, that would make it just a five-years lease with valuation for improvements?—But it is the collecting of the annual value.

It is the same thing; it does not matter whether it is collected by the landlord or by the State: the term of the lease is the term of the reappraisal?—No.

What is the distinction then?—The distinction is that a man has absolute freedom to put his land to whatever he considers is the best use. There are always more or less restrictions upon any Government lease that materially handicap a man in making the best use of the land.

There are restrictions in all leases—for instance, to prevent a tenant ruining the land. Would you allow a tenant to ruin the land?—No; he must make the best use of it.

And you think that a reappraisal every five years would encourage that?—It would not discourage it as long as his improvements were allowed for.

Under your system is it the idea that just sufficient revenue should be raised to pay the Government expenses of the country?—That would be a very big advance on the present system. It would not establish complete justice, but it would be a great improvement on the present system of collecting revenue.

But would you consider a system complete when it merely raised enough revenue for the Government?—It would depend upon what the activities of the State were. There will be a gradual development of the services which the State will render to the people that compose it.

But, allowing our imagination to take flight, and assuming that a great deal more could be raised by this system than would be required to meet the actual necessities of the Government, would you still raise it?—Yes, in the interests of the community.

Do you think that would not lead to extravagance?—No; I think it is the one thing that will prevent extravagance when the people have to raise the money. Indirect taxation is always liable to be more extravagant than direct taxation.

On what proportion of the population would this be direct taxation?—It would be direct taxation on all the population in the same way as Customs taxation.

But it would be only on the landowners?—But gradually everybody would become a landowner.

I do not follow you there?—Every man wants the use of land in some shape or form. Some are at present holding land waiting for a rise. If they know that future rises are going to be collected in the form of a levy, then they will be more ready to part with it, and the other people will

be free to acquire it. Instead of a man having to wait till he can raise from £300 to £550 to buy a section on which to build a house he will have a chance of getting it cheaper, and therefore more of them will get sections.

How will he get it cheaper? A building-section is unimproved land to-day. If you are going to absorb the unimproved value how are you going to get it cheaper?—Because of the speculative value in land to-day.

We could show you instances of what you call speculative value, being less than the Government unimproved value?—If you suggest that land-values will not come down and that a man could not get a section at a lower price, then it would mean that we could raise taxation from land-values without affecting present land-values; that is hardly possible, is it?

I do not follow you. There are no improvements worth calling improvements on lands that are building-sites?—Of course, a good deal of it would be legitimate improvements where it had been graded and fenced and where the rocks have been taken away.

But the value of improvements on building-sites is small?—Yes, infinitesimal.

And the unimproved value put on that land to-day is about its selling-value?—Not to my knowledge. It is always under the selling-value. If I want to buy a place I find out the Government valuation, and the price asked is always a great deal higher than the Government valuation.

Do you know the number of landowners in New Zealand?—About eighty-five thousand was the figure in the Year-book.

Would you be optimistic enough to suppose that that number would double under your system?—Oh, yes, I think so, and probably there would be a good deal more than that. In the first place the value of men's wages would be higher, and they would soon be all getting sections and putting up houses of some kind for themselves. At present if anybody builds a house he is fined for it every year by the local body, because he has had the audacity to improve the district. With that stopped, and the fairer distribution, even if wages fell their purchasing-power would be more, and the people would soon get sections and build houses.

Apart from theories, do you know of any case where such a system has been put into operation successfully?—Yes; the housing question is a world-wide question. In the City of New York they were faced with the same problem, and they announced that any house built or started to be built within three years was to be exempted from local taxes for ten years. They then found that more houses were built then than they did in the whole of England by the encouragement they gave with their millions of Government funds in trying to promote house-building.

But do you consider that a fair comparison?—Yes, I think so.

Is not that only an indication that the loaded side of the dice will fall next to the table: as compared with the others the others were loaded to make their improvements?—No, that is not so, because in New York they tax land-values more than they do in England. The land-value would pay the same tax as the improvements, so that when they did this they induced the people to build new houses so that there was no additional burden upon those who had gone before. They were getting as much out of the sites as they were getting before, so that the others were not loaded to that extent. The city was getting the same revenue from its sites after the houses were built upon them that they were getting before, and therefore there was no extra burden. All improvements should be exempt from taxation.

It is obvious that those new buildings were loaded upon the old ones,?—Why?

Because if the city got only the same revenue it had to road the area?—No; the roads and sewers are all built by the city, and the value of those improvements and the water-supply is put upon the vacant sections.

You are not yourself satisfied with the result of that experiment?—No; possibly New York would have done better if it had abandoned all taxation upon the buildings and raised the revenue by a tax upon land-values. That is fairer to the whole community and is no disadvantage to the landowners. There was, I may say, a remarkable investigation made in regard to the question of rating on unimproved values in New Zealand, about fifteen years after it was in operation, when a Swedish economist spent weeks going into it. He found that, taking all the places that had adopted rating on unimproved values, and the value of their improvements and the unimproved value of the land at the date when the Act was passed, at the time of his investigation the population of those places that had adopted rating on unimproved values had increased by 24 per cent., whereas the rest of the Dominion had increased by only 8 per cent. The value of the improvements had increased tremendously, nearly 300 per cent., as against the similar increase in the value of the improvements in the rest of the Dominion. But what to some extent surprised people was that even the land-values had increased in those places, but that was only because people went to places where progress was taking place, because there they could make improvements without being taxed for them.

Have you got those figures and the details?—No.

We would like to get them; the statement would be very interesting, no doubt?—Yes.

*The Chairman.*] Where is the report to be found?—We published it in our paper called *The Liberator*. I think I can trace the report. That economist came out here when I was in the Ministry, and he worried the life out of us for the figures he required.

*Mr. Begg.*] We know most about Government-owned land in the South?—Yes.

How do you account for the fact that our city people, traders and others, are advocating the renting of these territories either in longer leases or actually making them into freeholds in order to increase production?—I am not surprised at that at all. If there is to be a leasehold system, something on the Glasgow lease principle where a man can go on from term to term is better than the leases that previously existed.

Would you mind telling me again what is the distinction in your mind between the leasehold and holding land from the Government with the reappraisal of rent every five years?—Well, I do

not consider that at any time the full annual value of the land would be collected ; in fact, I do not think it could be collected. That is to say, if the total revenue, the total annual value, collected this year was used for the best possible purposes of the community by the Government the value next year would be greater. Because every good action of the Government reflects itself in land-values, and I do not think it would ever be possible to overtake the land-value. If the appraisement was made out, and the money was spent wisely, I do not think that the appraisement of to-morrow would be under it.

You think it would be impossible to take the money from the farmer fast enough?—Yes. I believe that, no matter what system is adopted, there always will be a substantial proportion of the land-value that will remain in the hands of the owner, and with that along with his improvements he will be able to buy and sell. Buying and selling are of great importance for any system of leasehold ; give him a perfect system of exchange.

But leaseholders have that system of exchange?—But not to quite the same extent as the freeholder has. As I say, there is the question of the proper use of the land, according to what the owner thinks is the way to get the best results. The leaseholders claim that that is one of the arguments against the leasehold, that they are limited in making the best use of their land.

*Mr. Hunt.*] Can you explain this—it is an actual happening? In Otago there are two blocks which have been held for thirty-eight years. One block has been a Crown leasehold, and under the conditions under which it has been occupied the tenant has theoretically had his whole interest in the land. He has had the whole of the improvements. It is not poor country. From an analysis point of view it has some of the richest soil in New Zealand. But during that thirty-eight years its producing-capacity has gone down by two-thirds. The rent has gone down enormously, until to-day the total rents would pay only 5 per cent. on the capital value of 4s. an acre. I do not think the total rents would very much more than pay administration expenses. I do not think the State gets anything out of it. Alongside of that run there is a freehold, which has been improved and improved, and the producing-capacity has increased by a great deal. How do you account for that?—That is no comparison with an improved system. The collection of taxation from land-values assessed annually is entirely different from the leasehold system.

But would you go and revalue it every five years?—Not necessarily.

Or periodically? The experience of those people has been that if they improve that country it is immediately reflected in increased rents. I will give you an instance that came under my notice. About fourteen years ago two blocks were put up, each about 36,000 acres of grazing-country, the upset rental being £300 on each of them. One block was sold at the upset rental and the other at £650 a year. Twelve months ago the lease expired and they were being revalued. The £650-a-year man had his rent reduced to £300 a year, and he got it on a thirty-five-year lease, and the other man was told that his block was far too good for one man to have, and that they were going to cut it up. Would that not happen under your system?—No.

In towns there is largely a site value, but in the country it is the production value that counts, and that depends upon improvements effected?—That can be easily exaggerated. If a man has his mind made up that the taxation of land-values is wrong—

But there is the great difficulty of assessing values, and assessing improvements over a number of years?—I have discussed it with farmers and value.s who tell me that it is not insuperable. There may be inequalities, but I want to point out that our whole civilization is at stake.

That case in Otago which I quoted is the largest experiment made in New Zealand under the leasehold system, and there has been an endeavour to value the improvements collectively, but that is what has happened. Every time a man has improved his land he has had it taken from him because it is too good for one man to hold. In the other cases where the lands have not been improved the tenants have had their rents reduced?—If I believed that this system (taxing on land-values) involved that, then I would have to reconsider my views to some extent as to the method to apply, but in regard to the principle that has got to be applied I have not the slightest doubt.

Now, the Teviot Station is on the banks of the Clutha River. It was a block of pastoral leasehold country that was parted with by the State many years ago. Adjoining that station, up the river, is a lot of country held under leasehold. There is no difference, to my mind, in the quality of the soil on the two areas. The Teviot Station is now freehold, and the people have fenced it, improved it, and increased its carrying-capacity. But the leasehold has gone down and down in carrying-capacity. During the last twenty years the State has obtained in rates and taxes from that freehold block many times the amount they have obtained in rent and rates and taxes from the leasehold?—What I have said to-day has no relation to the leasehold system. It is the antithesis of the leasehold system.

*Mr. Weston.*] You are going to take what, under the leasehold system, would go in rent. It is only calling it a different name. You are going to get the same amount?—Ultimately the result, if you like, may be the same, but in the meantime the owners have had the opportunity of subdividing, and the assessment would be growing more scientific ; and, as I say, I fall back upon the definite assurance of practical men that there is no serious difficulty in arriving at what is the value of the improvements, and that might easily be provided for on a generous scale, so as to make sure that there is no encroachment on the value of the improvements.

*Mr. Hunt.*] Do you think that a practical man could tell me the condition of any block of country forty years ago unless he had seen it?—No ; a certain amount of possible expenditure on improvements would disappear with the effluxion of time. But before the war in normal times the landless people of this country were presenting the landowners with an annual gift of £12,500,000 in the increase in land-values. Since the war the annual increment has been about £18,000,000, and that with

valuations of land at £70 and £90 an acre which was selling at £300 an acre. There is no possibility of the value of improvements being the difference between those valuations and the selling-price.

You are mistaken. There were no sales at £300 an acre?—I was pointed out a place where the man refused £300 an acre, and the papers reported sales at £350.

They were paper promises to pay, which were never redeemed?—These paper promises in the cities have ways of realizing themselves as time goes on.

*Mr. Weston.*] Have you read any of the books of Sir Josiah Stamp? He was President of the Board of Inland Revenue, was he not?—I am not sure that I have.

He took out a lot of calculations and showed that if the whole of the rents paid in England and all the interest on capital investments were divided among the workers of Great Britain the bonus to each worker would not exceed £14, and would probably be nearer £5. Would not that rather knock your argument on the head?—No. That is the very smallest part of it. It is the general effect on economic conditions. I consider that the wages of labour are directly controlled by the private appropriation of rent, and the additional production that would take place if natural opportunities were freed from the incubus of the landowner would be such that from that alone there would be a very much larger amount per head of the population available than you refer to.

What do you think is the more prominent instinct in man—to work, or to take his ease?—I do not know that I could give a very definite reply to that. I think that temperaments vary. Some people very much prefer to work. I know my wife does. If I were to judge by myself I think I should be inclined to place the loafer in the majority. But I am satisfied that if I take in the wife with me it will be a fair balance between us. I should like to say, before leaving you, that I have not come simply because I wanted to, but because I felt it was my duty. I do not expect that it is going to have a great effect on the report, but I felt that I had to put what I believe to be fundamental truths before the Commission.

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CHARLES HOLME NIGHTINGALE, Accountant, Auckland, and a Member of the New Zealand Land Values League, examined.

*The Chairman.*] You have written a statement setting out your views on the subject of taxation. By the way, does that express the views of your League?—Partly so. The two papers together do—Mr. Fowlds's and mine.

Will you read yours, please?—It is as follows:—

In my opinion, the views expressed by the Hon. George Fowlds show the only equitable way to deal with the question of taxation in New Zealand and elsewhere. Fundamentally sound, they are applicable to all communities; scientific, they are final. It is not necessary for me to cover the same ground, so I propose to discuss certain details in connection with the present and the proposed methods of fiscal government. Taking the three main classes of taxes, Customs and Excise, income-tax, and death duties, I would like to emphasize the great waste of energy and potential wealth-production which is involved in all three of them. The administration of the Customs Department entails upon a large Government staff, and also upon private firms and individuals, a loss of time which if assessed in "labour hours" would probably astonish the community. Every large business employs a "shipping clerk" whose duties include the passing of entries through the Customs with all the delays and inconveniences that occur at the Customhouse, on the wharves, and elsewhere. If Customs duties can be abolished in favour of a better system the cost of administering which would be trivial the time involved by the tariff is shown to be an economic waste—a dead loss to the State. The work necessitated by income-taxation is too well appreciated to need unduly stressing. Who does not know the time and worry preparatory to the filling-in of an income return? Then, there are the services of a small army of Government officials checking, inspecting, assessing, and generally administering the Taxation Department. The total economic waste in connection with income-taxation in this way is, in my opinion, a matter of the utmost importance. The best that can be said of it is that it is "good business" for accountants. The same applies to death duties, and stamps generally. These make "good business" for lawyers. Even in the most trivial matters such as stamps on receipts there is an appreciable waste of time, and so on all down the line. Land-values taxes (so called), on the other hand, are simple in collection. Land cannot be hidden away out of sight, nor its value concealed. Land-tax returns in a great many cases need only the words "as before" and the payor's attestation. The main expense is that of valuing land, but the process, after a start has been made (as in New Zealand), is not a serious matter. Landowners might be asked to assess their own values. They carry the values in their heads. Who does not know the value of the land he holds? Checks could be devised to safeguard the State against under-valuation. These will readily suggest themselves, and some are already in force. In my opinion, the exemption in the land-tax of £500 should be abolished forthwith. The Commissioner of Taxes, in giving evidence before you, stated truly that land-ownership conferred a "peculiar privilege" not inherent in other ownership; and, that being so, there is no good reason why all landowners, whatever the value of their holdings, should not contribute to the State revenue in accordance with the "peculiar privilege" they enjoy. (John Stuart Mill said, "the greatest burden on the land was the landlord.") Applying this to New Zealand conditions, as distinct from British, I would say the greatest burden on the land is the mortgagee and the speculator. Believing that the State should take the whole rental value of all land, I do not approve of graduation as a principle; but I would not repeal the present sliding scale, except by gradually increasing the ordinary rates until the graduation automatically ceased to apply. I would like to stress the undoubted fact that if the State had appropriated land-values in their entirety from the start of settlement in New Zealand there would never

wars apart, have been any need to impose taxation of any description. Indeed, if, when the Great War commenced, valuations had been quickly revised the boom in land-values consequent upon the war would have given a revenue which would have covered all war expenses. The land question lies at the root of all social troubles and labour unrest, so far as they relate to the cost of living and the ability of men to make a comfortable living. Ownership of land in "fee-simple" creates "vested rights in public wrongs," which should be abolished. Under existing circumstances men can only take up land upon a system which is equal to "paying twice." That is, they must pay "rent" or its equivalent to individuals, and, besides, what is equal to another rent in taxes to the State. The dice is thus heavily loaded in advance against the would-be land-user. In order to get what is mistakenly supposed to be "cheap" land people settle in the backblocks, usually with disastrous results financially (and often physically, especially in the case of women and children), unless, and until, settlement reaches them and they are able to appropriate community-created values. In such cases they may become suddenly wealthy. There should be no such thing as backblocks unless as applied to mining and sawmilling operations. Ordinary settlement should be as near the centres of population as possible (other things equal), and would be so if valuable land in the "front blocks" were not allowed to be held idle, or only partially used. Land values taxation (so-called) has a twofold beneficial effect: it provides revenue and, if carried to its logical conclusion, gives to every member of the community at all times an equal right to the soil of his country which no other system can do. Under this system (the State appropriation of rent) land at "the margin of cultivation" could be taken up rent-free, rate-free, and tax-free (for land there has no economic value), and the producer on such areas would necessarily get the full product of his labour undiminished. So also would all other workers by hand or brain, for wages would be based on what could be earned at the margin of cultivation. The present system shuts people out from natural opportunities (land) on equitable terms (land is obtainable only on ransom conditions) and causes overcrowded cities. It is mainly responsible for that grave menace the "drift to the towns." The result in a city like Auckland is, in my opinion, that a large portion of the population are either unemployed or engaged in work which has no value to the community. Between the idle rich and the idle poor there are great numbers engaged in work involving senseless competition in overcrowded trades and professions; supernumeraries merely. They are not to blame, but the system. Denied their natural rights on just terms, they have no option. The goal to be kept in view is the gradual increase in the land-values tax (so called) and the gradual repeal of all existing taxes. Amendments affecting the incidence of present taxes, though palliative, are futile to accomplish any permanent good. No benefit to the masses can be obtained in that way. If benefits were so obtainable they would materialize in higher land-values and be appropriated, under existing conditions, by the landowners, thus the method would defeat itself. The country would be a more desirable place to live in, and more would have to be paid for the privilege of acquiring a site. Private property in land in fee-simple must be abolished in favour of a system of ownership—if you will—based on the equal rights of all. This can only be done by means of the State appropriation of rent—there is no other way.

*Mr. Begg.*] Do you really believe that doubling the land-tax would be encouragement?—I believe it would, because it would repeal all other taxes and give people a proper chance.

Then, the land-tax we have must have encouraged it?—I certainly think so, yes; but the land-tax is so small and the increase of population has caused land-values to go ahead so very fast that a good deal of the effect has been lost.

Do you think that the towns are not congested where you could get land for nothing?—There is no country where you can get desirable land for nothing.

Canada?—Where? In the poorer regions or the backblocks. Can you get it in the cities?

You could when they were originally founded. But under your system you would not get free land close to the cities, would you?—You would get land in New Zealand fairly close to the city. In New Zealand there is a population of a million and a third. New Zealand is capable of supporting a population of twenty millions. Therefore only a small proportion of the land in New Zealand need be used to supply the present population. Thus I think that if this system were adopted the margin of cultivation would come very much closer to the cities than it does now, because the ground in the front blocks would be put to full use, and so the margin would come in. That is what is wrong with the Government lands. They are away in the backblocks, where they have no real economic value, or very little.

Their economic value should have increased in the last forty years, should it not, with the increase in population?—Not beyond the margin of cultivation.

But they were all occupied fifty years ago?—The margin of cultivation is an economic proposition. How do you know that those Government lands are not beyond the margin of cultivation?

I know perfectly well, because it pays to occupy them. What would your standard be?—The standard under the system which I advocate would be that land that had no value, apart from improvements, would be at or about the margin.

If there is a block of land which has been occupied for forty or fifty years by people who have paid rent to the Government and have sold the produce and made a good living and made money out of it for forty years, you still maintain that that may be beyond the margin of cultivation?—It may be. I would not say definitely that it was.

Your statement is so full of assumptions, when you speak of population of twenty millions, and so on, that I do not think we have any basis on which to discuss it?—Do you think that New Zealand would not support a population of twenty millions?

Possibly it may?—But what is your opinion?

My opinion is that if twenty millions were here, unless there was a great advance in methods of production, they would not live in anything like the comfort or well-being in which the people here now exist?—I think they would under this system.

*Mr. Shirtcliffe.*] Would you suggest compensation at all for these present owners of the land—the owners and the mortgagees who would lose 329 millions?—No. I would lose some of it myself if your view of the case is correct.

You admit that they would lose that?—Just in the same way as the negro slave-owners in America sixty years ago lost their vested rights in the negroes.

But we are not slaves in this country?—I differ from you there. I think that under this system of land-ownership we are economic slaves, most of us.

*Mr. Clark.*] With reference to administration, you spoke of the saving in expense by the abolition of Customs duties; but even if you abolished all the duties you would still have to maintain the Customs Department for the inspection of imported liquor?—Yes, you would have to do a certain amount.

You would still require the same staff?—I do not think you would require anything like the same staff.

If the whole of the revenue was raised from land-taxation, you would require a much more elaborate system of valuation than we have at present, and more experienced valuers and more highly paid valuers?—The valuations once made it would be a simple matter to keep the system going.

No. You would want the same careful inspection of every valuation?—You have got the half of that under the present system, when you have the land-valuation system running with the other.

The force of public opinion, if the whole of the revenue were raised from that source, would compel a much more elaborate valuation being made?—I think the valuation could be made by making the landowners make their own assessments.

Do you know that that was tried in Australia and found to be a failure?—I was not aware of that.

Under the Federal Land-tax Act for several years the owners had the right of making their own valuations. It was found to be a regular fiasco, and the alteration of the system by the appointment of valuers by the State brought in thousands and thousands of pounds of additional revenue?—Well, in Australia the taxes that they have on land are very small and a quite minor thing.

No?—There is an exemption of £5,000. Where you have the whole of the revenue raised from land-values taxation it would be to the interest of one person to see that the other fellow's assessment was not too low. Each would be interested in seeing that the assessments were correct, and I think that would make a lot of difference. I think that they would appreciate the system and would refuse to have anything to do with Customs taxes or income-taxes.

Then, as to the amount. Mr. Fowlds quoted the figure of £16,000,000 as being raised on £320,000,000 unimproved value. That £320,000,000 includes, I think, lands owned by the Crown and lands owned by local authorities, which are exempt. If you take those lands out, there would not be £16,000,000. The revenue raised by the Central Government and by the local authorities in rates for the year ended 31st March, 1923, was nearly £20,000,000. They require that revenue. So, with respect to Mr. Fowlds's £16,000,000, even assuming that the £320,000,000 would stand, at 5 per cent. on that there would be a shortage?—It would not make any difference. It would only mean, if the revenue was not enough, that after the community-created values had been taken taxation would then come in. It does not make any difference in principle.

But it would not raise the whole of the revenue required. In that £320,000,000 the values are a good deal inflated?—I do not think so. I will give you an instance. I bought land four years ago at £220 unimproved. The Government valuation was, I think, under £200 on that land, and it has never been raised. I sold the section the other day, with a house on it, on a land-valuation of £600.

*Mr. Shirtcliffe.*] Very wrong of you!—I do not think there is any wrong in it. I am willing to change the system. I am not out as a philanthropist.

*Mr. Begg.*] You have got some more sections, I suppose?—Yes, I have another one.

*Mr. Hunt.*] When you sold did you get cash or a mortgage?—I got cash all the way down.

*Mr. Shirtcliffe.*] Is your League a dominion League?—Yes.

Have you a large membership?—I do not know what the membership is. It is not a large one. Several hundred or several thousand?—It would be several hundred, I suppose.

Mostly city members?—I do not think so. One man I converted here into this doctrine is a farmer, near Christchurch.

Suburban?—Four or five miles out.

*Mr. Hunt.*] He must have his land pretty well mortgaged, then?—I do not know. He is a wealthy man.

*Mr. Shirtcliffe.*] You do not get many farmers in your League?—No. With regard to leasing and private ownership, we hear it said that private ownership is such a very fine thing that from the owner's point of view the leasehold cannot stand alongside it. Well, if you had nothing but leasehold land in New Zealand the land would be as well farmed as it is to-day. Down in Te Kuiti the land is Maori leasehold, and settlement round Te Kuiti has gone ahead marvellously under a system which is manifestly unfair. The leaseholders are calling out about it because the community-created value is going to Maoris instead of to white people.

*Mr. Weston.*] You admit that the freehold tenure has advantages over yours?—To the individual, just as it would be advantageous to me if I had the freedom of the Bank of New Zealand conferred upon me; but it would not be to the bank's shareholders. There is a difference between an individual interest and the interest of the people as a whole.

*Mr. Begg.*] As there are only eighty-five thousand freeholders in New Zealand and, probably, half a million adults without land, the slow progress of the ideas you enunciate must be very dis-

appointing. One would naturally suppose that the landless would absorb these ideas very readily, would he not?—The trouble is that they have gone off the track down to socialism instead. They want what they think is a better proposition, but what, in my opinion, is no proposition at all.

AUCKLAND: FRIDAY, 9TH, MAY, 1924.

JOHN HERBERT PERCY KISSLING examined.

*The Chairman.*] You are general manager of the New Zealand Insurance Company, Mr. Kissling?—Yes.

Your company has invested in debentures issued by municipalities and by companies?—Yes.

You know what the present law is with regard to the taxation of income derived from such debentures?—Yes.

It has been suggested that a change should be made, and that instead of the income from debentures being taxed in the way in which it is taxed now such income should be treated as part of the ordinary income of the taxpayer and taxed in the same way as the rest of his income. Can you give us any idea of how such a change would operate?—Provided the general income-tax is reduced substantially, institutions such as ours would welcome that change. It is the heavy income-tax on companies at present which they feel so much. We have two sources of revenue—namely, business (underwriting and profits) and returns from investments—and we would prefer to see a considerable reduction in the general income-tax that we now pay, even if we had to pay a little bit more on our interest on such investments as debentures.

In the conditions you mention your company would welcome a change such as that suggested?—Yes. At the same time, an alteration in the investment side of our business is not pleasant. Investors do not like these continual alterations in such settled stocks as municipal or company debentures. The present very high rate on debentures, 4s. 6d., precludes companies such as ours from investing in them.

Is it the small investor who invests in debentures of that kind?—Well, he can invest in them because he gets a proper return, and gets his drawback from the Commissioner provided the rate of his tax does not come up to the maximum.

*Mr. Hunt.*] Your investments are divided into three classes—viz., mortgages, local-body debentures, and war-loan stock?—Yes.

War-loan stock is tax-free. I suppose in making your investments you look to the net return and not to the gross?—Yes.

You calculate the income-tax in the rate of interest?—Yes.

Has this high tax on your business affected your investments in mortgages?—Very seriously. We desire to lend on mortgage, but the high rate of taxation precludes us absolutely.

How does the amount you have now invested on mortgage compare with your investments in pre-war days?—It is very considerably reduced now.

I suppose your total investment funds are greater?—Yes. As a matter of fact, our company could not lend on mortgage and pay 5s. 10d. in the pound tax. Our directors are averse to charging more than 6½ per cent.

Do they think that is as much as the farmer can pay?—Yes.

And that does not leave a net rate sufficient for you?—That is so. You have to take 38s. off that, which leaves £4 12s., and we can get £4 16s. 3d. to-day, and in 1938 and 1939 war loans.

So that you do not lend on mortgage now at all?—We can only lend through our trust estates, and it is a position we do not like. We would prefer to be assisting the Dominion by advancing money on mortgage. It suits our underwriting side, but at present it does not suit our interest side. It would assist business, and we could help the Dominion in that way.

*Mr. Weston.*] The market price is based on the net return?—Yes.

So that there has been a tendency during the last few years for the price of Government stocks and debentures to approach a parity with the net return from mortgages; they are getting nearer than they were?—Yes. While institutions would look for a price that would return them something in the nature of 5 per cent. net, I think our municipal stocks are down to about 8 per cent.

You invest in Federal Government bonds?—Yes.

I understand those are giving a net return free of tax?—Yes, £6 9s.

And they are a very handy form of security for a company like yours because they are so liquid?—Yes, just as liquid as our 1938 and 1939 bonds.

And some of them are short-dated?—Yes.

Supposing the company-taxation could be substantially reduced, and that the limit could be pulled down to 4s. 6d., would you not recommend an alteration—either a reduction or an increase—in the present rate on debentures of 4s. 6d. The suggestion has been made by some witnesses that the interest from debentures should be subject to the same rates as other income. That would mean an increase in the present debenture rate?—Well, if you reduce the municipal rate of taxation you are going to get less revenue.

The idea is fair: the debenture rate is 4s. 6d. on new issues, whereas the limit of the graduated tax is 5s. 10d.?—Yes.

Supposing it was possible to pull that 5s. 10d. down to 4s. 6d., would you recommend any alteration in the rate of the interest on debentures pending that reduction?—I am not quite sure whether I understand your question.

The Government have been aiming at a reduction of the present taxation. We have had the income-tax rate pulled down from 8s. 9d. to 5s. 10d. in the pound, and I take it that we are all hoping that the limit will be further reduced. Do you think it would be advisable to increase the present

rate on debentures, which is 4s. 6d., in view of there being a likelihood that the maximum rate of the graduated tax may come down to the neighbourhood of 4s. 6d. ? Is it worth while making a change to cover a period of two or three years ?—Well, perhaps the best way I can reply to that is this : it will not tempt large institutions to invest in municipal debentures at 3s. even. If they have to pay 5½ per cent., and they are going to pay a tax of 3s. in the pound, that is 16s. 6d. off it, which brings down the return on that investment to less than what you would get out of a tax-free investment. So that 3s. in the pound would not assist the large investor.

Supposing you increased it, what is the view of business institutions to frequent changes in the rate of taxation on a particular form of security ?—On municipal debentures they would almost think it was a breach of faith.

But that is not an interference ?—Or to make them retrospective. In general, I suppose it would pay us to bear a little additional burden in that direction provided the income-tax is substantially reduced.

*Mr. Shirtcliffe.*] In your view, would there be any justification for the claim that it would be a breach of faith if an increased tax on debentures were made retrospective : would there be any justification for that ?—Well, the public generally are looking for a reduction in taxation, and not an increase.

But they have had preferential taxation for years in connection with these debentures ?—But not very often. They are induced to go into those investments on favourable rates.

But with the knowledge that the rate may be altered at any time by the Legislature : that is a risk that every investor takes, is it not ?—Yes, that is so ; but investors in municipal securities vary in the taxation they pay. It does not press evenly.

Would it not press more evenly if the tax were made to harmonize with the tax on other sources of income ?—It would, undoubtedly, if the Government had not given them special preference.

Having given them special preference in the past you do not see any reason why it should be continued in fairness to the community ?—Except for the general effect it has on the investing public in having special investments annually changed.

We are in hopes that this will be the final change ?—Well, capital is easily frightened. Take the position of mortgages at the present time : we have constant appeals for money, but legislation has put us in such a position that we cannot advance that money.

At 6½ per cent. ?—At 6½ per cent.

Does not it come to this : that owing to the opportunities you had of investing in tax-free war loans you can get a higher net rate of interest than you could by lending money on mortgage at 6½ per cent. ?—They are all governed by that £4 16s. 3d.

On the other hand, if you raised your rate to 7 per cent. you would get slightly more than you would get from tax-free war loans ?—And there would be the difficulty of the collection of interest.

Do you think, Mr. Kissling, that the uncertain values of land during the last few years have had anything to do with the reluctance on the part of lenders to lend on mortgage ?—Since 1921 there has been a marked change ; there is no doubt about that.

And lenders have been in a state of uncertainty as to what was the real value of rural lands ?—Yes.

So that that has made it more difficult to satisfy borrowers ?—There is that side of it.

It does not apply so much to suburban lands because there is not the same uncertainty as regards the values of city and suburban securities ?—That is so.

So that we may say that until rural lands reach stable values based upon their capacity to produce it will be difficult for borrowers to obtain their requirements ?—Yes, that is the ideal position, if we could get that.

It is because you have not reached that position that borrowers are finding it more difficult to obtain the necessary accommodation ?—The fact that our lending at 6½ per cent., with that 5s. 10d. in the pound tax, does not give us a return as good as the 1938 and 1939 bonds—that is the main point.

I quite see that. The better investment offered by tax-free war loans has driven you from lending money at 6½ per cent. ?—We get a better return.

And therefore it is preventing you from lending at 6½ per cent. ?—Yes.

Very well. Now, what reduction in the maximum rate would you consider necessary to again put you in a lending position in regard to mortgage securities ?—Provided we can get something over the war-loan rate of interest, plus the certainty that we are not going to have this income-tax continually changed. That is one of the difficulties that lenders have at present—the uncertainty as to the durability of the tenure of the present taxation—how long it is going to be for.

Let us calculate that : the present maximum is 5s. 10d. in the pound. What is that on 6½ per cent. ?—That would be 38s. off £6 10s., or £4 12s.

Supposing, for the sake of argument, you got it down to 4s. 6d. ; 29s. 3d. from £6 10s. ; that would give you 6 per cent. That would be sufficient to send you back to mortgage securities, because it would give you a rather better return than tax-free war loans ?—For sound mortgage securities, yes, and provided we had some security that that rate would not be altered.

It is the uncertainty of the continuance of the tax as against the fixed contract you have with the Government with regard to tax-free war loans ?—Yes. That is our lighthouse, as it were—the £4 16s. 3d. which has been obtained.

It comes back to the suggestion I made just now about the uncertainty of land-values. Are you able from your general knowledge of the position of the country to-day to indicate to what extent, apart from the rate of interest, the present uncertainty regarding the real value of land is militating against the lending of money on mortgage ?—No, I do not know enough about it.

It is a difficult question to answer, I know ?—I could not answer it.



Representatives of Auckland Chamber of Commerce in attendance, consisting of Messrs. A. A. Martin, H. W. Hudson, A. G. Lunn, and J. R. Rendell.

ALFRED ANDREW MARTIN, President, Auckland Chamber of Commerce, examined.

*The Chairman.*] You wish to make a statement, do you not, with regard to the position of your Chamber in respect to this question of taxation?—I just want to make a preliminary explanation. We are appearing before the Commission to express the views of the Council of our Chamber in connection with taxation. We have a Taxation Committee, and the actual evidence from our point of view has been left to them to place before the Commission. That is all I have to say.

HAROLD W. HUDSON, Managing Director of L. D. Nathan and Co. (Limited), Immediate Past President, Auckland Chamber of Commerce and Associated Chambers of Commerce of New Zealand, examined.

*The Chairman.*] The Taxation Committee of your Chamber has gone into the question of taxation?—Yes. We have a standing committee on the subject.

That committee has gone into the question and is prepared to place its views before the Commission?—Yes, sir.

Have you prepared a statement?—It is really only notes, and I would ask to be allowed to interpolate as occasion requires.

Just go through the notes and do what you think necessary as you go along?—Yes, sir. It reads:—

“I am deputed by the executive of the Auckland Chamber of Commerce to present to this Commission a statement of their views upon some of the questions under your inquiry, and to say the views so expressed (unless otherwise specially qualified) are those of probably 95 per cent. of our members.”

I may remark, in passing, that these views were drawn up, so that our Chamber might know exactly of what I was going to speak.

“Briefly, we ask for amendment of present methods of assessment for land and income tax in respect of the following: (i.) That the present practice of assessing public companies for income-tax be amended by being brought into line with that uniformly adopted in every other British community—by permitting deduction of dividends from companies’ assessable income, and, instead, including them in that of individual shareholders. (ii.) That assessable income from any source whatever should, as to the rate of taxation, be placed upon the same footing. (iii.) That State and municipal undertakings in competition with private enterprise, or entering fields of activity usually covered by private enterprise, should be subject to the same rate of taxation as privately owned ventures.

“We beg to submit the following reasons in support, taking the points raised seriatim:—

“1. *Assessment of Public Companies.*—We take exception to the present on the grounds following:—

“(a.) That inasmuch as the present practice in effect imposes the same rate of taxation upon the proportion of income earned by the capital of the smallest shareholder as upon that of the wealthiest it transgresses the basic principle underlying our fiscal legislation, which requires the apportionment of the load of taxation to the individual taxpayer’s capacity to bear it. We are, of course, aware of the relief nominally afforded the smaller investor under section 37 of the 1917 Act, but which in operation is illusory, and of the further stock argument that a registered company is a separate entity and therefore should be treated as such, but we respectfully submit that in face of the importance of the question raised the latter contention is too obviously a legal quibble to be permitted to cloud so important an issue. Nor do we overlook or underestimate the opposition which may be offered to reform by preferential shareholders, or the necessity for providing for taxation of undivided profits, or the difficulty in distinguishing in taxation between dividends out of past and immediate profits.”

Perhaps I may mention here that my firm are in the fortunate, or unfortunate, position of coming under the highest graduation whichever way it goes, so that we are not interested one way or the other. Personally, I do not own a share or a foot of ground, and, as far as my wife is concerned, we own the house we live in, and she has 275 preferential shares in a mercantile venture. That is the extent to which we are interested. The statement goes on:—

“(b.) That the present method is economically unsound in that it involves immediate appropriation by the State of a very large proportion, if not the whole, of the surplus profits, which otherwise would become available as working capital for the extension of an industry and for the production of further taxable income. On the other hand, taxation of the same profits after passing into the shareholders’ hands would, by permitting the payment of better dividends, encourage more general reinvestment, or in times of stress such as the present, when the weight of taxation borne by commerce and industry is even now not fully understood, would bring home to the investing public a more general appreciation of the necessity for personal thrift. Under existing circumstances these considerations cannot apply.

“(c.) That in its operation the present practice is contrary to public policy, since by its heavy differentiation against the earnings of registered capital, in contradistinction to that unregistered, it penalizes the mobilization of resources so essential in the promotion of industry under modern conditions. The anomalous character of the present practice becomes at once apparent if it be borne in mind that, notwithstanding the obvious desirability from an investor’s point of view of the definition of individual interests by registration, shareholders or partners in an unregistered venture, employing the same capital returning the same amount of income as a registered one, may in conceivable

circumstances be liable for only a third of the taxation chargeable against the former, or even escape altogether. Anticipating advancement of the time-worn plea of justification upon the ground of necessity for raising a definite amount of revenue, we may say at once we do not admit the adequacy of that reason for the retention of the present unfair, uneconomic, and anomalous practices complained of—at any rate, until all possible and more equitable alternatives have been impartially examined. Therefore, before recourse be had to the obviously final alternative for maintaining the existing revenue from this source by a readjustment of the scale of graduation, we respectfully submit the effect should be first ascertained of bringing into force the desired reforms, for we feel assured these would result in bringing under an increased graduation more incomes than now escape at the lower rates than is generally realized. We further suggest that a closer 'combing out' of the small incomes would reveal a further substantial taxable amount, and that such 'combing out' would be greatly facilitated by a measure of decentralization in the collection process—in appointing local 'Supervisors of Income-tax' on the British model."

We are, of course, aware that there is a supervisor in the main centres, but it would necessitate far more appointments if you were going to comb out the subdistricts. Men would need to be appointed who were acquainted with local conditions and local residents. The statement goes on:—

"Though usually regarded by the proletariat as a 'class' levy, we regard the income-tax as the fairest of all imposts to all classes alike, and we venture to suggest that a reduction of the present exemption limit (the highest in the British dominions) from £300 to, say, £200, retaining existing allowances for wife, children, and other statutory dependants, would leave the married man in practically the same position as at present and go some way towards equalizing or tapering off the existing unfair and entirely unwarrantable advantage of the single one under the application of the 'living-wage' theory as now in force, with great advantage to the latter's sense of responsibility as a citizen."

Is it permissible at this stage to remind you that 75 per cent. of those men drawing the so-called living-wage have no dependants at all?

*The Chairman.*] Is the percentage so high as that?—It is 73 per cent., to be correct. There are 11 per cent. that possess the qualifications or responsibilities which warrant the application of the living-wage theory, and there are 16 per cent. that have responsibilities in excess of the living-wage, and we have to lay a course on that.

*Mr. Weston.*] That is, a wife and two children?—A wife and two children, or other statutory dependants. The statement proceeds:—

"2. *Application of a Uniform Rate of Taxation to all Income from whatever Source derived.*—In framing this portion of our request we had in mind the preferential position still occupied by public-body and other debentures, a position so anomalous and indefensible as to cause the averagely intelligent taxpayer to wonder why it was ever permitted or allowed to continue for so long. Its existence has been responsible and is still responsible for the diversion of much needed capital from our productive rural industries to the relatively unproductive amenities of the city. The position of co-operative undertakings in relation to liability for income-tax, we submit, calls for attention. It is generally understood that these distribute all surplus earnings by way of bonus or otherwise amongst members, who themselves are now exempt from income-tax. If this be so, what is to be the position of those co-operative dairy associations, for instance, who own and operate coal-mines, timber-milling plants, and other industries—not only for their own requirements, but dispose of the surplus output in the open market in direct competition with others paying full taxation?"

I may say that that point was brought under our notice at the Conference of the associated Chambers. I do not know whether we are correct in stating it in this way, but that is the point that was raised. The Waikato Dairy Association was stated to be mining more coal than they required for their own use and putting it on to the market in competition with other mines that are paying full taxation.

"3. *The Taxation of State and Municipally Owned Enterprises.*—The increasing tendency of the State and municipal bodies to embark upon activities hitherto covered by private enterprise is raising this question in an acute form. Apart from the manifest injustice to individuals involved in permitting such undertakings with their wide statutory powers to thus crush competition, the question has a wider bearing, inasmuch as every shilling of taxation so remitted must necessarily be replaced from other sources and too often made good by country residents and others who cannot participate in the amenities created. Cases in point are those of our own Electricity Department in competition with the local Gas Company, and the city tramway service in competition with private carriers."

Here again I will interpolate a personal note. My firm never owned a tramway share, and they do not own a gas share.

"For instance, in the first case the power to levy a non-consumers rate alone constitutes a crushing handicap upon its competitor, and incidentally, though perhaps indirectly, increases the load upon those who must use gas, since the volume of production is a factor in distributive cost."

I notice in the Press that this non-consumers rate which I mention has not been brought into force, but the right to levy it exists, and the menace is always there.

"In the case of the second instance cited, it is common knowledge that the original owners or promoters were compelled to surrender their undertaking chiefly through refusal of the local body to concede permission to increase fares proportionately to increasing working-costs. It is understood the Tramway Company at that time was paying income-tax somewhere in the region of £30,000 per annum. A factor in the negotiations for surrender of the service, and one much emphasized at the time by those in favour of the transaction, was the immunity of municipal undertakings from such taxation. In effect, that immunity, supplemented by an increase in fares subsequently adopted, though refused to the former owners, enabled the new ones to concede the staff that increase in wages,

inability to allow which out of earnings under the old schedule had been originally the compelling cause for surrender, but exemption from taxation was at the outset and still constitutes the margin upon which the City Council relies for a surplus of income over working-costs. The recently notified intention of the City Council to install motor-bus services in competition with those in existence—which have efficiently filled a felt want—but accentuates the unfairness of the present practice and should add weight to our protest.”

That is a measure which is just coming into force. The City Council have ordered ten motor-buses, which obviously will wipe out, if they are reasonably well managed, the local service entirely.

*Mr. Hunt.*] Simply through taxation?—Simply through taxation—their immunity from taxation. If you examine the last figures sent in by the City Council you will see that the margin is that of taxation. The statement goes on:—

“We are, of course, aware that municipalities base their claim for exemption from taxation largely upon the ground that State property within their borders is free from rates, but we would submit that the latter condition is common to every public body, large and small, in the Dominion, and is certainly no valid reason for a continuance of present conditions, which constitute a direct and undesirable incentive to local bodies to unduly widen the scope of their activities at the expense of the ratepayers.” Our fish-market is a case in point. “On the question of land-taxation we hesitate to express our views in the same unqualified manner. We recognize there may be legitimate grounds for differences in opinion—a concession we are not prepared to make in regard to the matters already touched upon. We would, however, support the reported views of the Commissioner of Taxes, to the effect that land-tax (whatever may be ultimately decided upon) should be assessed in some sort of relationship to income-tax, which we regard as the fairest tax of all, both to city and country, in its ready capacity for equitable adjustment.”

In that connection we fail to see why the farmers' income-tax should be rebated. We quite admit that there may be ground for revision of the incidence of land-tax on agricultural interests, and so forth. We do not consider we are in a position to express a definite opinion on that; but we do feel as commercial men that the income-tax is the fairest impost, and we see no reason why it should not continue to be paid by the farmers, provided that adequate regard is had to any burden they may be under in connection with the land-tax. The statement concludes:—

“Especially would we urge that land employed in the creation of taxable income be treated for taxation purposes in town and country alike. We can see no logical reason for differentiation.”

Following those remarks, I desire to make a point that I overlooked in connection with the debenture-tax. There are undertakings here, or there are investors, who by the manipulation of this measure are able to escape quite a large amount of income-tax. A case was brought under my notice. A Queen Street property was sold—I think the figure was £97,000, but I am not quite certain. The astute owners would not take a mortgage. They took a debenture over the whole undertaking. Almost next door was a similar property, on which was paid the ordinary mortgage-tax. The difference came to very nearly £990—£990. This case was brought under the notice of our Chamber. I can give you the name of one of the places. The solicitor for that undertaking was about as shrewd a man as one could get here, and it was put up to my company that we might perhaps finance by resorting to those tactics. Another point: We frequently find when the tax returns come in that there are alterations in the valuations of which we have had no notice. We refer to the Valuation Department. All that they can say is that notice was sent, and we can say that we did not get it. Another point—and these are personal views of my own—is the unequal manner in which assessments are made. I can give you three cases in point. The late L. D. Nathan had a property in Kawhia—two, in fact. He sold one. That was a bush section, of very broken land. The unimproved value of the section he sold was 10s. an acre. He died about 1908. The other section we sold as soon as we could. We were rated at £3 an acre—the same land. We protested, but ineffectually. We sold it, and directly it was sold the valuation was reduced to 10s. an acre. We sold a property at Okoroire known as the Chicken Farm—one of our disastrous ventures. It comprised about 500 acres. We protested against the valuation of the improvements, which affected the rating. But no; the local valuer's view was that the valuation was a fair one. We sold the property to Mr. Harrison, and the valuation of the improvements was dropped, he told me, by £3,000, but I do not think it was as much as that. At any rate, there was a heavy drop directly he bought. Another case. We sold Section 21 at Rotorua, consisting of about 5 acres. We had held it since Rotorua was cut up. The valuations varied. The figure was £1,200, and it was raised to £2,000. We protested, and we got it cut down to £1,200 again. We could not get an offer for it. At last we sold it for £1,250 on fair terms. The buyer paid £500 deposit, and was to pay £750 in six months. Immediately the valuation was raised to £3,300. I believe the valuation was raised before we sold, and we did not know it. At any rate, the unfortunate buyer was astonished to find the valuation raised so much, and he intimated to us that he would forfeit his deposit, and that anybody else who liked could have the property. We did not want that, and by dint of persuasion we have induced him to keep to his purchase. We have given him longer terms, and he is going to try to work it; and I believe he has got the valuation down to £2,500. But there is a discrepancy there that should never have occurred in the case of a practically unimproved section. Another case. We sold the Central Hotel here the other day. We simply could not make ends meet. We are taxed on a fairly high scale for income-tax and land-tax, and the land-tax on the Central Hotel, speaking from memory, was about £900. The people who have bought it will not pay a quarter of the income-tax that we were paying. We wanted to provide a high-class residential house, but the earnings of the house were taxed on a high scale with the rest of our income, so there was nothing left, and we had to cut it out. We have passed it on to the usual hotelkeeper, who will make what he can out of it. We got rid of it, and we are money in pocket by doing so. Another point, *apropos* of that case at Rotorua. If a leasehold is overvalued for land-tax we cannot ask the Government to take it over. It is not on the same footing as a freehold.

At any rate, the buyer was blocked. I should like to say that since we came into the room this morning the following letter from the Dunedin Chamber of Commerce has been handed to us by the Secretary of our Chamber: "I am directed by the Council of this Chamber to forward for your information enclosed copy of letter which has been addressed to the Commissioner of Taxes in regard to two cases of hardship due to the fact that the Department has refrained from enforcing prompt payment of land-tax from the original owners and is now claiming the amount (with penalty) years later from the present holders of the mortgages. Probably there are similar cases in your district, and my Council will be glad if you can support the protest that has been made."

*Mr. Weston.*] I do not think I have any question to ask, in view of the Chamber's definite views about company-taxation.

*Witness:* We have worried over this long enough. I will candidly admit that Aucklanders cannot understand why the present system goes on. It may seem that we are obsessed with our views and cannot absorb other people's, but we cannot understand why the present methods go on.

*Mr. Weston.*] Let me ask this: With the burden of taxation as it is at present, do you think there is a sufficient reserve of taxable capacity left in New Zealand to provide for an emergency?—That is a difficult question for a layman to answer. Even from the information that comes under our own notice we feel that there is a good deal more here. At any rate, we take this ground: that *Fiat justitia, ruat cælum* is the motto that should first be observed in this connection; and we feel that until we have worried out all the collateral sources of income we have no right to increase the load on individuals. We are all carrying a fair load now. And there is this suggestion of ours to lower the exemption.

Supposing we had a national misfortune; supposing that we had to go into another war or that we had a very bad attack of foot-and-mouth disease among our dairy herds. Do you think there is a sufficient reserve of taxable capacity in New Zealand to enable the Government to impose a heavy tax to meet the emergency?—Obviously we should have to do that.

Do you think it is there?—I think so. Mind you, we should be the poorer for it. Those compulsory war loans have dragged the working capital out of the country and crippled us. But it would have to be done. At present there is as much extravagance and spending going on as if we had no taxation at all. A lot of our industries are doing very well, and a lot are not. Some of those with a heavy protective tariff are making nice profits, but others again have a hard job to make ends meet. As business men we want to know not only where we are, but how we got there and where we are going.

*Mr. Shirtcliffe.*] You do not suggest that companies should be relieved of tax altogether?—No.

Only on the dividends?—We recognize that theoretically the fairest way would be to divide the profits up in the ratio of the shares, but that is a long job and is impracticable, really. It would be too expensive and cumbersome, and we recognize that we have got to sacrifice something: but if we could get dividends taxed and leave the company to be taxed on the residue, that would be a fair thing, and we think it a fair sacrifice to make.

You would tax companies on a graduated scale on the undivided profits?—It may be said, would not that set a premium on the distribution of all your profits and cripple the business? But it would not be so, because usually the largest shareholders are responsible men who have the welfare of the undertaking at heart, and they would not consent to the depletion of capital unduly.

Would you suggest that the graduation on the undivided profits should be scaled according to the total profits?—No. You would be practically reinstating the handicap that the company is under now.

Except that the graduated tax at the full rate according to the total profit would only be paid upon the undivided profits?—I cannot see the logic of that.

You do not suggest that?—No. We would be quite content as a compromise to suggest taxation of the undistributed profits on the graduation that those profits would carry were they in the hands of a private individual. We wish to get away, if we can, from this handicap on the mobilization of capital, which we feel is undesirable and impolitic.

Take the case of a company that has had one or two good years and carries forward undivided profits on which it has paid its graduated rate, and then meets with a fairly bad year; but it still wishes to pay its dividend, and it pays it out of its reserves. How would you deal with that?—We are quite willing, if we can get any reform, to throw that overboard too.

You would even submit to that double taxation?—We would submit to something of the sort if we could get back to this principle of individual taxation.

*Mr. Rendell:* Mr. Hudson looks round to me and asks for confirmation. I am not sure that in agreeing to the undivided profits being taxed it was understood they would be assessed only at their rate, not at the rate of the company's total profits.

*Mr. Shirtcliffe:* That is the point I wished to get from Mr. Hudson.

*Mr. Rendell:* It is only on the undivided profits, not on the total profits of the company.

*Witness:* The graduation would be on the balance of undivided profits. Then if undivided profits formed part of a subsequent dividend, the shareholder receiving those would be liable to be taxed on his income altogether. That is inevitable, unless you are going to load up the reform with a great deal of detail.

*Mr. Shirtcliffe.*] I gather that you base your claim for this alteration in the incidence of taxation as a matter of justice to companies?—Yes.

You leave out of account the interest of the individual shareholder?—It is in justice to the public generally and the private individual—the small investor. What we want to get at is to encourage general investment.

In what way is the general investor suffering an injustice at present?—We will take the case of a widow putting £1,000—the amount of her husband's life insurance—into Northern Steamship Company shares, for instance. The income from that investment is taxed at the same rate as that of a man holding 20,000 shares in the company.

Is it now? The company pays the tax, and, after all, the widow puts her money into the company in order that in combination with large blocks of capital, probably, she may be able to obtain a dividend that she could not possibly get if she tried to handle the money herself. She recognizes that she is going to get very considerable advantages by investing the money in the company. There is the limited liability, and the advantages given her by the enormous trading-capacity of the company. She expects to get the same rate of dividend on her £1,000 as the largest shareholder, and she gets it. She gets what she is looking for—that is, the same rate of dividend as the biggest shareholder in the company. In what way is she suffering an injustice?—Is it a fair argument?

Surely?—The unfairness of that argument is probably best exposed if we take a smaller case. We will say there are four partners in a business. One man dies, and his widow leaves her money in the business. What is her position there? Is she not entitled to the same treatment of her capital as her husband was?

Confine yourself for the moment to the instance I have suggested—that of a widow putting £1,000 into a big company in order that she may get the same rate of dividend as the largest shareholder, and she gets it. Tell me whether you think that this might not eventuate. I do not know that it would apply if taxation were levied on undivided profits, but I was going to put it in this way to you: that 100 men with £500 each might combine and put their £50,000 into a company for the purpose of mobilizing their capital for trading. Say, they make a profit of £10,000, which is not unreasonable. They would escape income-tax. They might distribute the whole of that £10,000 in dividends, and that would all escape taxation. The country would get no taxation from an undertaking of that kind at all?—But the income would fall into the hands of men who normally would pay no taxation in any case, and why should their earnings be levied upon because they happen to be in the aggregate? That is the very point at issue.

Because they are getting those enormous advantages that belong to a company?—We have heard that, and we have tried to look at it from that point of view, but we fail. We may be dense, but we fail.

*Mr. Begg.*] You mention that you are in favour of a uniform rate of taxation—that is, that income from debentures should carry the same taxation as income from any other source. Very many local-body loans have been raised by the issue of debentures carrying tax at the rate of 2s. 6d. in the pound, and when the rate was raised to 4s. 6d. it was not made retrospective. Do you think that the legislation should be made retrospective with regard to those issues?—Certainly. We could not understand why it was altered. As president of the Associated Chambers, I had a telegram handed to me on the Wellington Station as I was leaving, stating that this appeal had been made in Dunedin. I immediately wired back that it was illogical; but eventually Dunedin was able to get it through. But we considered it unfair.

You would not consider that it would involve any breach of faith, express or implied?—No more than in the case of the mortgagee. We consider that the mortgagee should be on the same footing exactly. A debenture is supposed to be a mortgage.

It was recognized by some of those who issued company debentures at that time that it might not last, and they put in a clause limiting the payment to 3s. in the pound. They evidently recognized that it might not last?—Just so. It is a surprise to us that it has lasted as long as it has.

ALFRED GEORGE LUNN, ex-President of the Auckland Chamber of Commerce, examined.

*The Chairman.*] Are you on the Taxation Committee of the Chamber?—Yes, sir.

Do you wish to say anything in support of the views put forward by Mr. Hudson?—Yes. I am sorry that I have got , but you know what we have on hand just now—namely, the visit of the Special Squadron, and my time is very short in consequence. But I should like to say, briefly, that Mr. Hudson and the Taxation Committee have very carefully gone into all these points, and you have really as clear a statement in the case he has presented to you as anything could possibly be, and that statement really embodies the unanimous opinion of our Taxation Committee. To make quite sure that we were not going beyond the bounds of what we might claim for the Chamber, at their luncheon a fortnight ago I read out the headings that you had placed before you by Mr. Hudson and asked, if there was any possible objection, that they should make it known then or by letter to the secretary. We had a fairly large attendance, and there was not a single dissident. The only thing I should like to emphasize to the Commission is that there has been for a considerable time—for two or three years—a strong feeling in the Chamber that the present incidence of income-tax in regard to companies is not only unfair and unjust but immoral, for the reason that a number of people are able under it to pass their taxation on—I will not say the whole of it, but probably 75 per cent. at least can be passed on. If it is a manufacturing firm that passes on to a wholesaler, a profit is placed on that proportion of taxation. If it goes through another hand, an additional proportion of taxation is placed on it, and ultimately the poor consumer comes in there to have to pay not only this proportion of taxation which has been passed on, but he has to pay a very heavy profit on it. It is felt that the only possible means of getting over the anomalies and the inequalities incidental to company-taxation is to tax at the destination—the individual who ultimately handles the money. He is really the centre round which the whole income-tax must revolve—the man who is ultimately benefitting; and if there are no means—and I think there are none—of the individual passing it on he then realizes he has to pay his tax. I realize that Mr. Clark will possibly show that there are great difficulties in the way of collecting tax on the individual system, and I realize that it would probably cost the Government more, but I think that in the interests of justice and fairer taxation we should be doing a wise thing to face the cost and the difficulties and the howls of a few people who, like myself, will undoubtedly have their present taxation increased—to face all that and get down to this fact: that every individual in this country who has anything to protect or who wishes to be properly

governed must be willing to pay for it like a man. I think that ultimately, when we have instituted the individual system of taxation—as I have not the slightest doubt we shall—we shall find that the difficulties which have been suggested will vanish into thin air. I do not think I can add anything to the remarks that have already been made by our members, but I will be glad to answer any questions. There is just this one point to which I might refer: Mr. Weston asked as to whether there would be sufficient money to meet a sudden draft—

*Mr. Weston:* No; you do not see the point. It had nothing to do with company-taxation. The remark was made to emphasize the point that the capacity of a company to stand taxation had been reached, and that there was a necessity to reduce taxation so as to leave us with a safe margin to meet any extraordinary exigency that might be forced upon the Government?—Oh, I get your view now. We shall have to support the endeavour to meet that trouble if it should arise.

JOHN ROBERT RENDELL examined.

*The Chairman.*] I understand, Mr. Rendell, that you also are a member of the Taxation Committee of the Auckland Chamber of Commerce?—Yes, and I am managing director of Rendells Limited. I wish to say, for the information of the Commission, that in drawing up my brief statement I have done so quite apart from reference to Mr. Hudson and his views. While we agreed in the committee on the points, I have set out my points by myself. I will read my statement, which is as follows:—

“I wish to place before the Commission my objection to the companies-tax, because I believe it presses with unequal weight upon different classes of business, mainly due to the assessable amount being arrived at without any reference to the capital employed in its production. A very large profit for a small company could be a very small—indeed, an unpayable—one for a big company, yet both might have to pay the same total in taxation. The balance left for distribution might, in the case of the small company, pay a fair dividend, and also provide for a reserve. In the case of a big company it might be sufficient for a bare dividend, without any reserve, or it might necessitate drawing upon reserves to provide even that.”

As far as the graduation principle is concerned, the Government or the Commissioner of Taxes says that when you have reached £300 you have got to the bread-line, and that that is not a taxable amount at all. Now, you can capitalize that amount. You can say that to produce £300 a year a man should have from £3,000 to £6,000 capital; whether it is the case of a man or a woman unable to work, you have got to have a capital of from £3,000 to £6,000. Take £3,000 as the capital which the Commissioner of Taxes admits is required to produce the income which is really on the bread-line. If ten of those people on the bread-line, whether they are labourers or others, put their money together, it represents £30,000, and at 10 per cent. they would get a dividend of £3,000. Thus their capital at once becomes a very appreciable taxable amount. Thus logically it is proved that, as far as company-taxation is concerned, the company is not an individual. You are extending to poor mortals the doctrine of the Trinity; indeed, not only are three equal to one, but ten are equal to one, and thirty are equal to one. The logic of this will be appreciated by a legal man. A company is not an individual except as far as the principle is concerned. My statement continues:—

“Our Railways, if they were a company showing the same results as at present, would have to pay a thumping big income-tax, which would reduce their interest on capital earnings from 3½ per cent. to less than 3 per cent. It would make no difference if it reduced it to 2 per cent., it would still have to pay a big income-tax. Companies who are unable or unwilling to pass on this tax may at any time find it impossible to pay a fair dividend, a heavy tax, and also provide the necessary margin required by business to provide for risks and expansion. Among those who are content with the tax are found those companies who are able to pass it, or a large part of it, on to the public—companies such as banking, insurance, gas, and those firms who by mutual understanding, or some other cause, are able to limit competition sufficiently to enable them to load the cost of their services with their income-tax. An object-lesson for others to follow suit, to the detriment of free competitive trading. We have not yet reached the stage when all of this taxation is passed on, but it is fast developing that way, and if no change is made the only successful large companies in the future will be those able and willing to become tax-gatherers from the public.”

In support of that argument I would refer you to Mr. Kissling's evidence, to the effect that companies are not prepared to go on with mortgage business because it is unpayable. His company have a variety of interests; but what about those businesses which have no varied interests? They cannot change from one class of trading to something else. They have either got to pass on the tax or become unprofitable propositions. My statement continues:—

“It is inevitable that the retention of a high graduated tax on companies, irrespective of the capital employed, will force them to look upon the tax as a business cost—an overhead charge to be allowed for in their costing-sheets—and when, as with the contented ones, it has reached that stage it is proof positive that the tax, and possibly the tax plus an added profit, is being passed on. Other supporters of this tax will be found among wealthy directors, and their spokesmen and individual shareholders, who find it pays them to receive tax-free dividends; also those businessmen relying upon capital attracted by tax-free dividends. It presses with unequal weight by favouring the small company, particularly those smaller ones the principals of which are actually or nominally active executives, and are able to discount the value of the dividend rate, and by adjusting their salaries and bonuses are able to reduce the amount assessable to somewhat harmless proportions. This is not an evasion of taxation, because they are doing in effect, what the tax is supposed to do—but does not—make it really personal. They transfer the tax, or part of it, from the company to the person; the smaller company thus has an advantage over its larger competitor. Under one other head is

the tax approved, and that is 'It is easy to collect.' This is the argument of the footpad, the prototype of the numerous motor bandits in U.S.A. Their methods press unequally, but their overriding argument is that 'It is easy to collect.' A brief summary of the foregoing indicates that the strongest arguments against the tax are provided by its supporters, those who find they can pass it on, or who find it handicaps their competitors, and those who use it as a means to escape taxation altogether. I strongly object, because it appears to me a very wrong system which induces the creation of tax-free capital, and invites evasion of the worst kind—i.e., from a class well able to contribute—those who are enjoying large incomes from tax-free dividends. It appears to me a disgraceful thing that there can be two incomes, subject to the same indirect taxation, one of, say, £4,000, the other £400 only, the smaller one being made to pay direct taxation while the larger can escape. This condition is nurtured by the present tax. As an alternative to this tax I support the recommendations of the Chamber of Commerce."

There is one other suggestion I wish to make: I believe that the demand for tax should be sent round to the taxpayer, as was done by the Department before the war. If that could be done it would be better than the present system—that is, if it could be done without releasing the taxpayer from the onus of responsibility. All the world over the creditor is supposed to notify the debtor when it is time for him to pay. It would be of benefit to the taxpayer if the old order were reverted to. We know personally of persons who avoid the payment of tax. The demand makes them toe the line better than merely the suggestion that the onus is upon them. I know of people who boast that they do not pay any tax.

*Mr. Clark:* The present system was introduced in order to throw the responsibility upon the taxpayers, and my experience is that it pays us better than the old system. Previously the taxpayer would make the excuse that he had not received a return form. The whole thing is advertised generally, and we find that it is much more effective than the old system. We get more returns sent in now than under the old system. We used to get 30 per cent. of the forms back, but the present method is much more successful in getting the returns in.

*The Chairman:* You make the taxpayer pay postage on his return, Mr. Clark?

*Mr. Clark:* That is a matter for the Postal Department.

*Mr. Hudson:* I would like to explain that the notes read by me were not prepared in time for Mr. Rendell to see them, so that his notes were prepared without reference to them. I would also like to testify to the fact that our Chamber appreciates the generally efficient manner in which the Taxation Department is carried on, and the uniform courtesy of the Commissioner to every member of the Chamber. We have, of course, had some trouble in answering some of his questions, but one and all, without a dissentient, recognize the courtesy and efficiency of the officials of the Taxation Department. We do not quarrel with the graduation principle, and we feel that many of the complaints in regard to it which have reached you have been made under a misapprehension as to the operation of the graduation principle. We consider that those complaints are quite unfair. We think the graduation principle is quite fair.

#### JAMES BELL DONALD examined.

*The Chairman.]* What is your position, Mr. Donald?—I am managing director of A. B. Donald (Limited), a company carrying on business in Auckland and trading with the islands.

You have written us a letter setting forth the views of your company in connection with the question of taxation?—Yes, I understood you desired our views to be set out in a letter, and perhaps you would like me to read it, but there are one or two points I would like to explain as I go on. I am not exactly sure that it is all relevant to your inquiry, but if you will allow me to proceed I think you will find it satisfactory. My letter is as follows;—

"To begin with, I would like to state that I believe the question of taxation is a very important one, much more than the average citizen realizes. I further believe proper adjustment of taxation is essential for good government and general peace throughout the community. Unfortunately, however, there are too many people in this Dominion and other countries who look on this question from an altogether selfish standpoint. Their one thought is, 'How can I make the other man pay and escape myself,' and politicians are too ready to fall in with the views of the majority to secure their support. Nevertheless, I take it that the present Government has a desire to act fairly towards the whole community, otherwise this Commission would not have been set up. It is contended by the average working-man that he is called upon to pay too much in the way of taxation, whereas if the situation is carefully analysed practically no taxation is borne by the large majority. In proof of this I would submit that the wages of working-men are fixed by the Arbitration Court to cover the full cost of living. It might be argued that such receive but a bare living-wage, but this does not apply to the man who desires to get on and is prepared to give the best of service. The foregoing may not be relevant to the inquiry, but I make the statements for what they are worth, because I firmly believe that all adults should pay a direct tax, and in this connection it matters not how moderate the amount is so long as the tax is enforced. I suggest that if every elector had to pay a direct tax to the Government he would be a great deal more interested in the men whom he elects to Parliament, and in this way we would have a much better Government, and a much deeper interest in matters that pertain to the welfare of the country. There is no question but that all should be taxed according to their means, &c., but in connection with income-tax and land-tax there is a point where taxation almost becomes robbery. My contention is that there is a fair charge for income-tax, &c., and beyond that point the Government have no right to go. It is not a sin to hold means that have been rightfully acquired, although one would think from the statements that are made by agitators and many others that to be wealthy one must have been dishonest to be the fortunate

possessor of even a moderate amount of wealth. I bring these matters before you because they have a bearing on my evidence.

*Method of taxing Income, &c.*—It is suggested by many that individuals should be taxed instead of companies, and while the former works out in theory there is something to be said against it in practice. To begin with, most large industries, &c., in New Zealand are more or less monopolies, and to alter the incidence of company-taxation would simply be throwing profits into their hands which probably would be used to bolster up their monopolies. In any case, most very large companies regulate their profits to cover the taxation levied by the Government, and this more or less is borne out by the rate of dividends not having been reduced during the past four or five years to any great extent.”

Here I would like to remark that if the tax were put on individuals it is possible that companies might reduce their profits, and thus the cost of living might be brought down. My statement continues:—

“Of course, because we have monopolies in New Zealand there is no reason why a better system of taxation should not be brought into force. The remedy really remains with the Government to see that legislation is passed to overcome undue profits being made by the monopolies, and if it can be accomplished I believe there is no question whatever but that individuals should be taxed instead of companies. All the same I am of the opinion that companies should pay a certain percentage in income-tax, even though the amount may be moderate.”

Here I would like to remark that I think that every company should pay a proportionate sum in income-tax, and that that tax should go to the Government absolutely, without any rebate to the individual when the individual is taxed. I would not suggest, however, that 3s. in the pound should be the amount of the tax. I think that 1s. probably would be sufficient. My statement continues as follows:—

“As regards the present system of fixing the amount of taxation according to the income, this also does not appear to me to be altogether fair. I suggest that graduation income-tax should be abolished, and in its place every income-tax payer should be taxed at a given rate for every £500 or more, according to his yearly income, with a fixed figure for all above a certain amount. That is to say, a person receiving, say, £7,000 of income should be taxed, for argument sake, as follows: On the first £300, nil; on the next £500, say, 1s. in the pound; on the second £500, say, 1s. 6d. in the pound; on the third £500, 2s. in the pound; on the fourth £500, 2s. 6d. in the pound; on the next £1,000, say, 3s. in the pound; on the next £1,000, say, 4s. in the pound; on the next £1,000, say, 5s. in the pound; and all income of the total of these amounts to be taxed at the highest rate whatever it may be.”

I suggest that the sum in excess of the last of these amounts be taxed at the highest rate. My statement continues:—

“You will realize that the above graduation scheme is only suggestive to illustrate my idea, and has nothing to do with the rate I consider should be the maximum, although I am of the opinion that the maximum should run about 5s. in the pound. If income-tax payers were taxed as above, all would know just exactly how they stood, and would be able to regulate their expenditure accordingly. Furthermore, they would realize they would not have to pay a large amount unless they were fortunate enough to make sufficient to come under the maximum charge. It is contended that those in a position to pay should be made to do so, and this, in my opinion, is right provided that the amount charged, as suggested in the beginning, is not made extortionate. I certainly believe if the Government were to fall in with the suggestion I have made it would give general satisfaction to the general body of income-tax payers. I would also like to stress the point that I do not consider it at all advantageous to the Dominion to have unearned income-tax at a different rate to earned income, my reasons for this being that unearned income is received from people who are compelled to borrow money, and it can only tend to cause the borrower to pay a higher rate of interest than would otherwise be the case, and, seeing the Government are anxious that farmers and those in need should be able to borrow money at the lowest rates, their action in making a difference between earned and unearned income must react to the detriment of those in need. I would appreciate earnest consideration being given to the latter.

*Land Tax.*—As we are aware, land has been subject to taxation almost from time immemorial, and seeing land-values (sale values) are always fixed with the knowledge of the amount of taxation, I suggest no good reason can be advanced to discontinue land-taxation. As to the method of taxation much could be said, but I believe the same system I advocate for income-tax should be brought into force with regard to land-tax, the only difference being the jumps between the various amounts after the exemption amount has been agreed upon. To illustrate my suggestion I submit the following: Exemption, say, £500. First taxable amount, £1,000; second taxable amount, £1,500; third taxable amount, £2,500; fourth taxable amount, £5,000; fifth taxable amount, £7,500; sixth taxable amount, £10,000; seventh taxable amount, £15,000; eighth taxable amount, £20,000; &c. I do not suggest the rate on which the tax should start or finish, although I am willing to give my opinion if the Commission desires it. I protest against graduated land-tax applying to city business lands, and would suggest in its place a flat rate, such flat rate not to apply to private houses, even though located in the cities.

*Payment of Taxes, &c.*—There have been suggestions from time to time that the payment of taxes should be made earlier than is now the case, and, furthermore, that a small discount should be given for quick payment. In this connection I would state that quite a number of people would prefer to be able to pay their taxes when liability is known, to get their liability finished with. I consider if the scheme for both income-tax and land-tax as outlined by me was brought into force it would be possible for the taxpayer to make up his returns and remit the amount of his assessment to the Government when sending in his returns, and in consideration of such quick payments the Government could allow 2½ per cent. discount. At the present time income-tax is collected practically



nine months after it becomes due, so in giving the 2½ per cent. discount at the time of sending in returns the Government would be at least 2 per cent. better off than at present. It seems feasible to believe it would make the work of the Treasurer very much easier.

"If the Commissioners have any question they would like to ask I will be pleased to answer them to the best of my ability, and in closing I would thank them for giving me this opportunity of placing my views before them."

*Witness:* There are one or two other questions I would like to bring forward. Has this Commission anything to do with taxation as a whole, or is it confined to land and income tax?

*The Chairman.]* Our inquiry is limited to land and income tax?—Then, what I have to say further has nothing to do with that, but refers to something apart from it.

ALFRED FRANCIS DRUCE examined.

*The Chairman.]* You are a farmer at Papatoetoe, Mr. Druce?—Yes.

How long have you been farming there?—Just over twenty-five years.

What is the size of your farm?—At present it is 35½ acres, but it was 65½ acres. Owing to my ill health and on account of my son getting married I was not able to manage the larger area, and I had to part with some of it.

What sort of farming do you carry on?—Dairying.

How many cows have you got?—Well, I am a man enjoying anything but good health. I received an injury in an accident, and I only carry on what work I can do myself on the farm, because if I had to employ labour it would be a losing proposition. I have ten cows, but I could do with another six or seven; but I could not do the work myself with the larger number, and, as I said, to employ labour would make the farm a losing proposition.

You wish to put before the Commission your views on the land-tax?—I would like to inquire whether your order of reference allows me to go outside land and income tax, provided I keep in the line of direct taxation, not discussing Customs taxation?

Your views may have some bearing on the matter we have to deal with?—They certainly will have some bearing on it. Before proceeding I might state that I have been a local-body man nearly all my life, and to this matter I have given a lifetime's consideration. I appeared before a Commission about twelve years ago at Otahuhu on the assessment question, Mr. Justice Frazer presiding. After that Commission sat, though the expense must have been very great, the whole matter was shelved and nothing was done. I hope you gentlemen will endeavour to do something.

"Doing" hardly rests with us: all we can do is to make our recommendations. It remains for the Legislature to say whether effect shall be given to them or not?—Well, I will start with the income-tax. I have read some of the reports of your sittings, especially what Mr. Clark said in Wellington. It appears to me that a good deal too much attention is paid to what is said by their own Government officials. Time and again it has come under my notice as a local-body man that no notice is taken of what outside business men say on these subjects. The Commissioner of Taxes states that he considers that everybody, farmers included, should pay income-tax. I would like to draw your attention to the fact that in Auckland you are in the province of the small farmer—it is even more so at Hamilton—and this question of taxation is absolutely vital to the small farmer, and the question of whether he is going to be made to pay income-tax as well as land-tax. Land-tax, as you have been told, has to be paid whether the man makes a gain or loss, whereas income-tax is only paid on gains. Land-tax starts at £5,000, and if he has a mortgage he has to pay on his debts. That is one of the most unjust things. During my experience I have found that quite 70 per cent. of farmers have to go on to their places with a mortgage, and a heavy one at that. During the last ten years I have acted as valuer, and I have found that the mortgages have been terribly heavy. Very often there is a second one, and in one or two cases there have been third mortgages. If a man has to pay tax on these he cannot carry on; it is monstrous. A man goes on a farm principally to keep his wife and children in respectability, and if that sort of thing is allowed to go on he cannot do it, and he finds he has to leave his farm. That is of no use to the country. From what the Commissioner of Taxes has said, it appears to me that he is like a good many other Government officials, he is a splendid man to get a good balance on the right side of the ledger as far as his Department is concerned, but, as I told Mr. Coates the other day over that benzine-tax, he does not care where it comes from so long as he gets it. That is the principle adopted by Government officials. I have the figures, so I am confident that what I say is correct. Now, I should like to say a few words regarding the income-tax as it affects the small farmer, because it seems to me that you have heard a lot about the income-tax, but very little as to how it affects them. We will take an Auckland merchant and assume that his income for the year is £1,000. He may have 500 farmers as customers. On the goods that that merchant turns over during that time he will put anything from 7 to 10 per cent. on to cover his tax. What is the result? The producer, the very man that Mr. Massey and all of them are saying every day should be helped, is paying this merchant's taxation; and when the merchant has got all that 7 to 10 per cent. in over all the goods he has turned over in the year, in nine cases out of ten it does not cover his income-tax only, but it covers absolutely all his rates and taxes. So if you are going to put on to the farmer, especially the farmer in a small way, an income-tax and a land-tax, it must be borne in mind that he is not only paying his own, but he is paying the other's too. I look at it in this way: that you should recommend that the Government find some means of stopping that, because it is simply killing the man on the land. The farmer, especially the dairy-farmer, is simply being chased off his farm time and again by that, because that extra charge causes a great deal of the high price of goods. I can give you an instance, though this is only a small line. Take gramophone records. Lots of people buy them. The price in New Zealand, the merchants will admit to you, is 100 per cent. or thereabouts on the English price. I have bought a lot of them myself. I got three

boxes out from London a little time ago, and the sum total of the duty on that lot was a mere bagatelle. It was not £1 a box, and there were about forty in a box, and they cost me only a shade over half of what I could have bought them for here. That is the sort of thing the taxation of the merchant is causing. It is the result of the tax. It is not really the duty in the first place, because that is under £1 per box; but it is the result that falls on the purchaser. I will give another instance. The Excise office some months ago put an extra  $\frac{1}{2}$ d. per gallon on beer. The brewers passed that on to the public. But what did the publicans do? They put on 2d. per pint—they raised the price from 4d. to 6d. I have been assured of that by many men who are in the habit of taking beer, and I am certain it is a fact. That is the result of the tax. The  $\frac{1}{2}$ d. was a mere nothing, but it is in the result where you suffer. Those fellows are making a nice little pile out of that  $\frac{1}{2}$ d. per gallon. That is where this taxation pinches. Here is another instance, as showing how the small farmer is taxed through the railway. I belong to the biggest company in New Zealand—the New Zealand Co-operative Dairy Company. Before the war their boxes were sent to Auckland for about 1s. 2d. apiece. During the war, when butterfat went up to 2s. 6d., they were the first ones to suffer. The reason given was that butterfat was half a crown a pound, and it could stand a tax. I do not say anything about that; it could stand it. We all had to do the best we could, and so we put up with it. Mr. Massey promised immediately after the war was over that that would be brought back to level as nearly as possible. Time and again it has been asked that it be reduced, but it has never been reduced yet. We are being taxed on that half-crown box now, though we are only getting 1s. per pound—less than before the war; and it is the same with cheese. We are being taxed through the railways at a freight like that on 1s. a pound. Exactly the same applies to fares. There has been no reduction. I got word some three months ago that years ago England and America reduced their freights and fares by 50 per cent., and what was the result? Immediately the railways were used. I have had a good deal of correspondence with Mr. McVilly, and I had some interviews with him when he used to be Traffic Manager up here. He is another of these Government gentlemen. I wrote to Mr. Massey on the same subject only a few weeks ago and got a very nice answer. He is another one of these gentlemen that it seems impossible to make understand that eighteen tickets at 1s. 6d. are much better than eleven at 2s. That is how it affects the small farmer. I think that will do with the income-tax as far as I am concerned. I should like to go on to the assessment. As I was saying before, I went before an Assessment Commissioner, Mr. Justice Frazer, at Otahuhu some twelve years ago, and the Valuer-General was also there. At about this time—it was not on the same day—I went before the Court over the value. I have been before the Court every time I have been revalued ever since I have been in New Zealand. At every time I have beaten them. I put that down to this: it is simply a matter of the will to win, as our friend the Kaiser would say. At Otahuhu I beat them for a very large sum. I wanted a railway-station at Wiri, and the Government were rather inclined to want one there themselves. So that helped me a little bit. If I did not give eighteen chains of land, worth £200, the residents, in order to get to the station, would have to go about a mile and a half out of their road. I agreed with Mr. Herries to give this, on condition that there was a station put there. The valuer came out. The moment he heard of this, before the road was even surveyed, before there was anything definite, up went my value anything from 40 to 50 per cent. I brought this before Mr. Frazer. I said that nothing was settled, the road was not even surveyed. He said, "You have little less land—about 2 acres, worth about £100 an acre," and on that he put the value up. Then when it was talked about there were a few sections put up and sold. He immediately wanted to put the whole of my farm and others up to sectional value. I asked him, "Is that a fair proposition to put my farm up to sectional value or to put the value up 40 or 50 per cent. on the strength of a road that is only in the air?" I am glad to say that I had Mr. Justice Frazer on the bench, and he ruled them out; but we had a terrible fight with Mr. Flanagan, the Valuer-General, over it. Mr. Flanagan is another of those gentlemen who are very good at getting on the right side of the ledger, but he does not care how he does it. I do not think that these people really should go into the financial part of the business. They should value the land, and their duties should cease there. They should not go any further. If they are to go on in this way, one will go through the same trouble again and again. They get into a groove and they cannot be moved out of it. Now a few words with regard to the appeal. This appeal is really the most serious matter of the whole lot. When a man goes into the Appeal Court he simply gets the gag put on him straight off. I know that hundreds of farmers will never go there because they cannot afford a solicitor, and they say, "We will lose in any case."

*The Chairman.*] They should get you to appear for them. You have been successful in all your appeals?—I think it is simply will. Now, you go to the Appeal Court. You have filled in the form. The first thing the Magistrate asks you is this: He looks at the form, and he sees that the valuation is, say, £3,750, while you set the value down at £2,250, and he asks, "Will you sell at that price?" I say that when he asks that question we are going right back to the time of the Inquisition, and I have never been able to find a farmer who does not agree with me. There may be a thousand and one reasons why that question should not be asked. A man may be tied to a place for family reasons. He may have a big mortgage on it, and he says, "If I get out I shall not get enough to pay off my mortgage, and I shall have nothing to make a fresh start with." Asking that question amounts to hunting a man clean off his farm. I ask you gentlemen to do your best to see that that question is never allowed to be asked. Of course, the moment you say you will not sell at that price the decision is given, "Value sustained." The reason why I have won is simply that I have never had the whole of my property in the market, and on that ground I have refused absolutely to answer the question put to me; for one part might be worth more than another; and no attempt has ever been made to force me. That question should not be allowed to be asked by any Magistrate. It is the worst thing for the country that it should be allowed, because I have seen hundreds of farmers on that very point have their valuation sustained. My valuation is now £2,750, and the biggest offer I have had is £2,250. That goes to show that Mr. Flanagan's valuation was a long way out. I find that when

it comes to appealing, the Department writes you a letter and says, "We would rather settle it out of Court, if possible." But the moment you say you do not agree with that valuation, that is the finish; they say, "Let it go to the Court." There is no attempt whatever, in 99 cases out of 100, to settle it out of Court.

*Mr. Weston.*] How many cases have you had with the Valuation Department?—Five or six at the least.

MRS. EFFIE LUKE examined.

*The Chairman.*] You have a farm at Drury, Mrs. Luke?—No; only two acres.

You have written this letter to the Commission: "I beg to state my position in reference to taxation. Unfortunately, I am the owner of 2 acres of land situated in Wairoa, Hawke's Bay. The Government valuation is, unimproved £1,030, improved £25—£1,055 in all. The borough and harbour rates on this property are £18 15s. 4d., and land-tax £2 5s. 11d., which means over £21 for 2 acres of land being used for grazing purposes. This land is situated next a Government Crown block of 5½ acres, and the Government thought it wise to reduce their value from £2,200 to £480, and the lessee pays rates to the value of £6 14s.—a very great comparison. I am a widow, with a very, very small income, having to do domestic work for a livelihood. I would gladly sell my land to the Government at their valuation, or to any one. I beg your Commission will be the means of giving relief to people placed as I am." That is dated from Drury, 9th May, 1924.—Yes, sir.

*Mr. Clark.*] Have you any children dependent upon you?—No.

You are not debarred from earning further income?—No.

*Mr. Clark:* Then you do not come within the exemption provisions.

*The Chairman.*] What do you do on this land? For what purpose do you use it?—A Mr. Hislop has this land. I have let it to him on condition that he pays all rates and keeps the place in order. I do not get anything out of the land at all. Not this last tax payment, but the payment before, I did not get any statement in reference to the land-tax, and I did not know that I really had to pay land-tax until the summons came to the door.

You were summoned for it?—I was summoned for the tax, and, of course, that meant that I had to pay the summons and mileage and so much extra. And this last land-tax I got the final statement with 2s. or 3s. tacked on and a note saying that it was the final statement. I had not any previous statement in reference to land-tax. Of course, that all means extra to me. I have had to pay the tax myself.

How does your land come to be valued so high?—That is what I cannot make out.

*Mr. Clark:* It appears to be a matter of valuation.

*The Chairman.*] The trouble appears to be the high value placed on your land. It is only the land-tax we are concerned with. That is only a matter of £2 5s. 11d. Your real grievance seems to be that your land is valued apparently far too highly?—Yes. That land is valued at £1,055. Supposing I had that sum in money, I should not have any tax to pay at all. I am a poor woman and should not come under that heading at all.

Have you ever tried to sell your land?—Yes.

What is the best offer you got for it?—I had an offer just after it was revalued. I had an offer of just about half the Government valuation.

*Mr. Begg.*] You would be quite willing to sell at the Government valuation?—Yes, to anyone.

*Mr. Weston.*] At the next valuation you had better put in an objection. Then if you value the land only at £500, offer it to the Government at that price, and they will have to fix that as the value of the land?—I objected to the valuation.

*The Chairman.*] The last valuation?—Yes, and they wrote me asking if I was prepared to set up a Commission to settle the value.

*Mr. Begg.*] Was it not to appear before an Assessment Court?—I suppose so.

*Mr. Shirlcliffe.*] You are getting nothing out of the land yourself. Even if you sold it for £500 and invested the money you would get, say, £25 a year?—Yes.

And not be taxed?—No.

*Mr. Weston.*] If you desire to make this offer to the Government you have to do it within one month of your objection being disallowed by the Assessment Court. That is the best thing you can do, if you want to get your valuation reduced.

*Mr. Shirlcliffe.*] Is this land close to the township?—Yes, quite close to Wairoa. But then, why cannot a person own land worth £1,000 without being taxed? If I had the money I would not be taxed. Supposing the valuation is correct, if I had £1,000 I should not have to pay tax. I should not have to pay income-tax. I have not got the income to pay it on.

*Mr. Begg.*] We are thinking over these problems?—I think they ought to have been thought of before the penalty was put on poor people. They are penalizing people like me.

*Mr. Shirlcliffe.*] It seems to be really a question of valuation, and you have not known just how to go about getting the valuation reduced?—I went about it all right, but that was the answer I got. The Government have reduced the valuation of their land.

*The Chairman.*] Yes, very considerably, have they not?—Yes, they have. Why can they not reduce mine? I have a letter here from the gentleman who has leased mine.

*Mr. Weston.*] You have done everything by correspondence with the Valuation Department, have you not?—No. This is what he says: "I made a mistake in reference to the area of Government land. It is 5 acres instead of 5½, and they have reduced one portion of it £900 to £175, £750 to £130, £550 to £175, which means £490. The area is 5 acres, and the lessee now pays £6 14s. rates. Before being informed I went to the Borough of Wairoa asking for the rates on your sections to be reduced in like proportion, stating that the sections were being used for grazing purposes, and

received an answer that this had been forwarded to the Minister of Lands, who has up to the present time made no explanation or adjustment. . . . Having paid the rates in full and hoping to get a rebate, as I am now paying nearly 10s. per week in rate taxes, I find it is impossible to do so." If I have to pay the rates I do not know what I am going to do.

*Mr. Weston.*] Your tenant pays the rates at present?—At present he pays the rates. What would I do if I did not have a tenant?

*The Chairman.*] The Commissioner of Taxes is making a note of your case, and he will make a representation to the Valuer-General about it. That is all that can be done.

WELLINGTON: WEDNESDAY, 14th MAY, 1924.

GEORGE MITCHELL examined.

*The Chairman.*] You are the President of the Harbours Association, Colonel Mitchell?—Yes.

And you desire to make a statement to the Commission on behalf of the association, and also to express your own private views on the subject of taxation?—Yes. I want to make it clear that my own statement is quite apart from the statement I am making as President of the Harbours Association. The latter statement is as follows:—

STATEMENT BY THE PRESIDENT OF THE HARBOURS ASSOCIATION (COLONEL G. MITCHELL) FOR PRESENTATION TO THE TAXATION COMMISSION.

1. I am President of the Harbours Association of New Zealand, which is an association of New Zealand Harbour Boards constituted "to watch over and protect the interests of Harbour Boards, and to take action in relation to any subject or proposed or existing legislation affecting them." (See Rule 3 of copy attached.)

2. The membership of the association is as follows: Auckland Harbour Board; Bluff Harbour Board; Foxton Harbour Board; Gisborne Harbour Board; Greymouth Harbour Board; Hokitika Harbour Board; Kawhia Harbour Board; Lyttelton Harbour Board (Christchurch); Motueka Harbour Board; Napier Harbour Board (Port Ahuriri); Nelson Harbour Board; New Plymouth Harbour Board; Oamaru Harbour Board; Opunake Harbour Board; Otago Harbour Board (Dunedin); Patea Harbour Board; Tauranga Harbour Board; Thames Harbour Board; Timaru Harbour Board; Tokomaru Harbour Board; Wairoa Harbour Board (Hawke's Bay); Waitara Harbour Board; Wanganui Harbour Board; Whangarei Harbour Board; Wellington Harbour Board; Wairau Harbour Board (Blenheim).

3. *Land-tax.*—I respectfully submit that the present exemption of Harbour Boards from payment of land-tax be continued, for the following reasons: In certain cases Harbour Boards have been granted endowments by the Government for the purpose of assisting such Harbour Boards to establish and develop harbours. Without this initial assistance by way of rents from endowments granted by the Government it would not have been possible for certain harbours to have been developed. Many Harbour Boards are largely dependent upon the revenue received from these endowments to assist in establishing a sound financial position. Some Harbour Boards, in the course of carrying out reclamations for harbour purposes, have acquired areas of land which, not being immediately required for harbour-works, have been leased, and the rents from these lands have been of material financial assistance. If Harbour Boards were made liable, as owners of leaseholds, for land-tax such taxation would either have to be passed on to the tenant, if the lease provided for this course, or the amount of return by way of revenue from leaseholds would be reduced by the amount of such taxation.

4. *Income-tax.*—It is submitted that Harbour Boards should be allowed to retain their present exemption from income-tax. They are statutory bodies created to carry out certain administrative functions in regard to wharves and shipping. They are not trading concerns, and do not earn profits, their tariffs being fixed to return only sufficient margin of revenue over expenditure to provide for contingencies and safe finance. If Harbour Boards were to be taxed their financial position would be seriously interfered with, and it would mean that they in turn would have to increase their dues either on goods or on ships.

5. *Debenture-tax.*—It is submitted that the present taxation of Harbour Board debentures should be discontinued, for the following reasons: That the present taxation of debenture interest makes it more difficult for Harbour Boards to obtain the necessary money to carry out their obligations in regard to port-development; and that it is unnecessary, in that investors in loans, if taxable, are assessable up to the maximum fixed only at their own appropriate rate of tax, and, if exempt, are not liable at all.

6. *General.*—The Government, by statute, calls upon Harbour Boards to give exemptions and concessions in the following directions: Wharfage on Government goods; storage on Government goods; harbour dues on Government vessels; harbour licenses on Government vessels (hulks, &c.); wharfage on "baggage" of Government officers travelling on Government service; free office accommodation for Customs officers; resumption without adequate compensation of lands reclaimed or owned by Boards; harbour dues on mail-steamers under Government contract; wharf charges on goods per parcel-post. The value of these concessions and exemptions cannot be accurately estimated, but it undoubtedly amounts to a very large impost upon the respective Harbour Boards. It is respectfully submitted that the present exemption of Harbour Boards from the payment of land and income tax should be retained—in any case so long as the Government enforces its exemptions upon Harbour Boards, as indicated above. Harbour Boards are semi-government institutions, and taxation levied upon them can only be passed on to the goods or ships, and ultimately on to the consumer. It is submitted that this taxation should be imposed on individuals and not indirectly through the medium of Harbour Boards.

15th April, 1924.

G. MITCHELL,  
President, Harbours Association of New Zealand.

## WELLINGTON HARBOUR BOARD.

Return of Exemptions, &amp;c., New Zealand Government Account, October, 1922, to September, 1923.

		£ s. d.		£ s. d.	
<b>Imports—</b>					
General cargo (free)	..	..	..	200	11 0
Timber (free)	..	..	..	187	19 0
Coal (free)	..	..	..	2,572	9 0
				3,020 10 0	
<b>Exports—</b>					
General cargo (free)	..	..	..	484	9 2
Timber (free)	..	..	..	33	10 1
				517 10 3	
Imports—Difference between 4s. and 3s. 1d. per ton					
Storage	..	..	..	..	772 1 8
Berthage rate (mail-steamers)	..	..	..	..	1,100 3 10
<b>Harbour-improvement Rate—</b>					
Government cargo	..	..	..	1,910	18 2
Mail-steamers	..	..	..	1,381	5 0
				3,292 3 2	
Port charges: Mail-steamers					
				600 6 9	
H.M. fees: Mail-steamers					
				400 4 0	
				£9,957 10 3	

15th April, 1924.

J. E. GAMBLE, Accountant.

NOTE.—The above does not include harbour dues on Government steamers, harbour licenses, Customs Office accommodation, dues on goods through parcel-post, and other exemptions and concessions, owing to the difficulty in estimating the cost thereof.

## WELLINGTON HARBOUR BOARD.

Return showing Numbers of Investors liable for and exempt from Debenture-tax on Amounts invested in Wellington Harbour Board Public Loan Issues, compiled as at 13th October, 1921, on Information available at that Date.

Loan.	Rate of Interest.	Date of Issue.	Holders liable to Tax.		Holders exempt from Tax.						Total Number of Debenture-holders.
			Income over £300.		Income under £300.		Societies, &c.		Total Exempt.		
			Number.	Per Cent.	Number.	Per Cent.	Number.	Per Cent.	Number.	Per Cent.	
£100,000 (£100 debentures)	4½	1907	17	..	10	..	4	..	14	..	31
£50,000 (£100 debentures)	5½	1920-21	38	..	43	..	8	..	51	..	89
£150,000 (£100 debentures)											
Totals .. ..	..	..	55	45.83	53	44.17	12	10.00	65	54.17	120

*Witness:* I submit a table being a Return of Exemptions, &c., on New Zealand Government Account for the period October, 1922, to September, 1923. This is for the Wellington Harbour Board alone. You will see that the exemptions amounted to £9,957 10s. 3d. in the year under review. This does not include harbour dues on Government steamers, harbour licenses, Customs Office accommodation, dues on goods through parcel-post, and other exemptions and concessions, owing to the difficulty in estimating the cost thereof. It is submitted that if taxation is imposed upon the Harbour Boards, so far as the Harbour Boards outside the principal centres are concerned, their taxation would come out of their ordinary revenue. As far as the big Harbour Boards are concerned, such as the Wellington Harbour Board, if the Government imposed taxation on them and paid the ordinary dues imposed upon individuals, the Wellington Harbour Board would probably be on the right side of the ledger.

*Mr. Begg.]* On page two of your statement you point out that Harbour Boards have acquired areas of land in addition to their endowments?—In some cases they have.

And you propose that all of those lands should be exempt from land-tax under all circumstances?—Yes.

A Harbour Board could acquire any land which it chose, and such land would be exempt?—I am speaking of land for harbour purposes.

You think there should be no distinction between land which a Board acquires and land with which it is endowed?—Not if the land is for harbour purposes.

*The Chairman.]* Now, Colonel Mitchell, will you read us your statement setting out your own private views on the subject of taxation?—Yes, it is as follows:—

## COLONEL MITCHELL.

I believe our incidence of taxation to be unjust, and prepared this statement to come before you when your Commission first sat in Wellington, but you decided to postpone hearing my evidence until your return. My only desire is a happier and more contented people, which I believe a more just system of taxation would help to bring about. The principle of income-tax which calls upon each individual to pay a just share of their income towards the cost of the State is the fairest and most honourable system yet devised. It discriminates not between classes, trades, sects, or parties. If any individual has a taxable income the system demands that he shall pay a tax in accordance with that income, be it great or small, and no matter from what source it is derived. If there is no taxable income no tax is paid. Thus in principle income-tax is just to all. In the beginning our system was based on these wise principles. Unfortunately, however, there is a belief among a large percentage of people the world over that it is not dishonourable to avoid payment of

State taxes, or to pass on that payment unknown to some one else. Because of this natural objection to pay taxes political parties endeavour to find some roundabout way of collecting the money necessary for the purposes of State, and be able to tell the people they are lightly taxed and thereby secure political support. Again, on account of this tendency to evade payment of State taxes it is found easier and more convenient from the Taxation Department's point of view to appoint some one else to collect them. All these powerful influences have, in my opinion, undermined the basic principles of income-tax, until to-day it is only a travesty of these principles. It has become an income-tax system only in name, by which we provide means, directly and indirectly, for many rich to pass on their tax to the poor, and in actual practice all the poor are taxed, while many rich do not pay their share. By a true income-tax system all the tax is collected from those with assessable incomes. By our system one-quarter of the tax is gathered from salaried persons and others who cannot pass it on, while three-quarters is gathered by the tax-collecting companies from all the people, rich and poor alike. Thus the very principles of justice in taxation are violated. Not only does our system tax the poor, but some of those with assessable incomes must pay more than their share. Take the following cases:—

	Source of Income.	Income.	Income-tax paid.
Mr. Green .. .. .	Bank shares .. .. .	£ 2,000	£ Nil.
Mr. Brown .. .. .	Land .. .. .	2,000	Nil.
Mr. Black .. .. .	Profession .. .. .	1,000	54
Mr. White .. .. .	Salary .. .. .	1,000	54

As Green and Brown are relieved of their share of the income-tax some one else must pay it for them. It is, therefore, loaded on to all by the tax-collecting companies. Thus Black and White have to pay their own share and part of the other two who have been relieved. So one class is doubly hit, while another class goes comparatively free. Take another anomaly: Mr. Reid receives £1,000 a year from Gas Company debentures, and must pay his own income-tax. Mr. Ray receives £1,000 a year from Gas Company shares, and his tax is added to the price of gas and paid for him. Thus Mr. Reid pays £60 a year in taxation, while Mr. Ray pays none at all, although both are drawing the same amount at the same rate of interest from the same company.

*Earned and Unearned Incomes.*—It is a generally accepted principle, and one which in theory is adopted by our Government, that unearned incomes shall pay more than earned ones, but through the company-tax system this principle does not work in practice. Mr. Hunt may draw £5,000 from bank shares and pay nothing, the bank would pay it for him, while Dr. Sim, drawing the same amount from his practice, must pay £928. Thus the earned income is taxed while the unearned is free.

*Where the Burden is placed.*—Practically all the increase in the national burden during recent years is due to war, and as every section of the community is equally patriotic all should willingly pay their just share towards the cost of a war fought to defend them. These figures show where the burden has been placed. (I have taken the latest figures available in the Official Year-book.)

	1913.	1922.	Increase.
	£	£	£
Customs and Excise .. .. .	3,531,761	5,554,334	2,020,573
Death duties .. .. .	458,265	1,512,754	1,054,489
Other taxes .. .. .	425,173	1,662,625	1,237,452
Income-tax .. .. .	462,994	6,002,987	5,539,993
Land-tax .. .. .	728,636	1,637,816	909,181

Comparing the land-tax with the income-tax figures it will be seen that land was second highest in 1913. It is the lowest in 1922. In the former year it exceeded the total income-tax by £265,000, whereas in 1922 income-tax was the greater by approximately £4,500,000. The amount collected in land-tax increased by 125 per cent.; income-tax by approximately 1,200 per cent. It must be kept in mind also that only seven-sixteenths of the increase in land-tax, approximately £500,000, is paid by country landowners. The balance, £400,000, is paid by town-dwellers. It seems perfectly clear that the war burden was loaded principally on to income-tax, and now a certain section has been relieved of paying that tax, and, therefore, relieved from their share of the war burden. Recent legislation has freed all incomes derived from land from taxation. This, I understand, affected 4,602 landowners, who paid £221,000 in 1921-22. Six of these landowners had assessable incomes of over £10,000 each in the slump year. There may be double that number with double the income this year, but all are relieved of paying income-tax, and as they paid land-tax before the war they are practically back to pre-war conditions of taxation. In former years large blocks of Crown lands were let free of land-tax, but the holders paid income-tax. They have now been relieved of paying income-tax, and therefore pay no tax at all, even if their income be £40,000 a year, except, of course, that which is passed on to them in common with all others by the collecting companies. Our income-tax system has resolved itself into one of appointing compulsory collecting agents throughout the country, who are ordered to pay three-quarters of our total income-tax and to collect it from whomever they choose, no matter how poor the payers may be, or the number of children they must provide for. It is

stated that our income-tax exemption is the highest in the world, and that our poor are the least taxed. Any unbiassed examination of the facts will show that this is more apparent than real. Our system says to Jones, the labourer, "I am your friend and relieve you of all income-tax"; but it says to 2,000-odd compulsory collecting companies, "You must pay three-quarters of the income-tax I require. You can get as much out of Jones as you like, but do not tell him it is for me. I have told Jones he is not taxed, and told it so often that the people really believe it to be true." It is surely a travesty of justice when we relieve the poor of direct taxation but appoint collecting companies to do the work for us without the payers knowing it. In the year 1922 the total income-tax collected was a little over £6,000,000, out of which 2,417 companies paid £4,500,000, or nearly three-quarters of the total. Nearly all of these companies who can (and most of them can do so) pass on the taxation to the people. The coal company adds it to the price of coal, the gas company to the price of gas, the banks charge it to their customers, the mercantile companies charge it largely to the farmers, the shipping company adds it to the freights and fares, the timber company to the cost of the houses we live in, the woollen company to the clothes we wear and the blankets which cover us, and the flour-millers to the bread we must eat to live, and as the man with a large family must buy most, he, therefore, pays most income-tax. One constantly hears it advocated that we should tax the banks and other rich companies. You cannot tax the banks; you merely tax the people who use the banks. When taxation was highest the banks paid the highest dividend and bonus. They did not pay the tax, but merely collected it, with a little added for their shareholders, from the people. The same applies to practically every other company which is a tax-collector. It is necessary for these tax-collecting companies to have capital to carry on their business, and so that they will get that capital they free the money-lender from income-tax, no matter how large his income may be from investments in the company. There are only two sources from which a company may pay its income-tax—(1) to take it out of the dividends of its shareholders; (2) to pass it on to the people it is doing business with in the shape of higher charges. If it was taken from (1) and thus reduced the dividend paid below the current rate of interest the company's stocks would be depreciated, capital withdrawn from it, no new money would be available, and the company could not carry on. Directors, therefore, have no option but to adopt (2), pay their shareholders at least the current rate of interest, add the tax on to the goods and services and collect it from the people. Thus we have the income-tax free list. A man may draw annually free of income tax: £5,000 from bank shares, and the bank will charge the income-tax to the people who use it. £5,000 from the Wellington Gas Company shares, and they add the tax on to the price of gas and charge it to the people. £5,000 from shipping company shares, and the company adds the tax to freights and fares. £5,000 from coal-mining company shares, and they will add the tax on to the price of coal and charge it to the people. £5,000 from mercantile shares, and they charge the tax to the people, mostly struggling farmers, whom they serve. £5,000 from a woollen company shares, and the company will charge the tax on the clothes worn and the blankets used by the people. £5,000 from the Sugar Refining Company, and they will add the tax to the price of sugar and charge it to the people. £5,000 from land, and pay no income-tax. His tax will be collected from another section of the people. £5,000 from a leasehold run, and pay neither land nor income tax. If a man drew £5,000 or £50,000 annually from any of these sources, and there are many others, he would pay no income-tax whatever, because our system is such that his share is passed on largely to the poor, that he, a rich man, might go free. Thus Jones, with a wife and six children to support, on 14s. per day actually pays more income-tax than Brown with £5,000 a year if he had no dependants to keep, because we have passed Brown's share of income-tax on to everything which Jones and his family require to live. There are two classes of companies—those who can and do pass on all or most of their income-tax, and pay at least the current rate of interest free of tax to their shareholders, are sound and robust. Their stocks are strong, and money, their life's blood, flows freely to them as required. The other class is being slowly strangled by a tax they cannot bear themselves or pass on to others. They must continue to grow more pale and sickly, and the death-rattle may be expected at any time unless the incidence of taxation is altered.

*Industrial development.*—It may at first sight appear contradictory to say that many companies are flourishing under the present system of taxation, yet that system is strangling the industrial development of our country. But such is the case. The companies dealing with our own people who have combinations and monopolies, or who are protected by tariffs, can pass on their tax with interest. But quite a different set of conditions apply to a company manufacturing for export. Our wonderful country is abundantly provided with coal, water-power, and many minerals, and produces some of the finest raw material in the world. We have a strong and virile people, and with these natural advantages should be able to manufacture much of our own requirements and export some of the balance in a manufactured or semi-manufactured state, thus increasing our national wealth and giving employment to thousands of people. But only by a large capital outlay, which means grouping the capital of many small investors into a company, can such industrial development take place. This would bring such a company under the highest scale of taxation and make it impossible for our manufacturers to compete with manufacturers in other parts of the world where industry is not so penalized. Exporting industries could not compete, and therefore do not exist, and will not exist until the penalty on industry is removed. We continue to export our wool thirteen thousand miles to be made into cloth by a company which is not penalized on industry, bring much of it thirteen thousand miles back again in a manufactured state, pay duty to get in into our country, and put it on our backs, rather than encourage our own people to make it here and export their surplus. We could make all our own wool into tops and add two or three millions to our annual income by exporting them instead of raw wool, but our company-taxation system makes it impossible to compete with the outside world, so the industry remains undeveloped. It is wrong in principle to prevent by any kind of taxation the grouping of capital necessary for the industrial development of our country and the consequent employment of labour.

I believe I have made it clear that under our taxation system existing companies trading within the Dominion who can pass on the tax are flourishing and their shareholders go tax free. Others who cannot pass it on are sickening unto death, and those which should exist to manufacture from our raw materials for export do not and cannot exist. We are the only country in the world with such a system of company-taxation. Are they "all out of step but our Jock"? All wrong but we? Things at their worst must surely mend, and any system you can suggest will be more just to the country and the people than that existing to-day.

*Land-tax.*—The land-tax was imposed to prevent aggregation and assist in bursting up large estates and thus increase settlement. These are legitimate and proper purposes for such a tax, and in the interests of the country it should be rigidly applied to this object, but the purposes of the tax have been largely lost sight of. All land held over a certain value pays land-tax whether such is suitable for subdivision or not. Thus the land-tax is applied to one-man sections in the city or one-man farms in the country equally with large estates which are holding up settlement. I do not think the tax was ever intended to apply to small holders, and in actual fact the tax is a greater burden on the small struggling farmer than on the large landowner under present conditions of taxation whereby land-tax is substituted for income-tax. No penalty at all is imposed on the large estates, but only on the small ones, as I endeavour to show in the figures which follow. Recently the Prime Minister gave a table in which he endeavoured to show that the land-tax paid by individuals is greater than their share of income-tax. He capitalized the income at 5 per cent. on the unimproved value of the land. In a former article the Prime Minister stated that if a farmer had to borrow money it might cost even up to 9 per cent. It is surely out of the question, therefore, to capitalize the annual income at 5 per cent. As it refers to gross income it should be 10 per cent. on the Prime Minister's own showing. Again, the land-tax is only paid on the unimproved value of land. No farm can be worked without improvements, plant, and stock. These were left out of the calculation. It is on a par with capitalizing income on the draper's building and leaving out of account the stock he must carry to conduct his business. Estimating the value of stock, plant, &c., necessary to conduct the farm at 20 per cent. of the capital value, and capitalizing the income at 10 per cent. on all assets—that is land, stock, implements, improvements, &c.—the following shows what he would pay in income-tax in comparison with land-tax:—

Unimproved Value.	Capital Value of Land.	Stock and Implements.	Capitalized Value of Income at 10 per Cent.	Income.	Income-tax without Exemption.	Land-tax.	Per Cent. Excess of Income-tax over Land-tax.
£	£	£	£	£	£	£	
4,000	6,000	1,200	7,200	720	24 2 5	19 3 4	26
7,000	10,000	2,000	12,000	1,200	80 0 0	37 18 4	112
15,000	20,000	4,000	24,000	2,400	256 0 0	106 5 0	141
22,000	30,000	6,000	36,000	3,600	528 0 0	187 18 4	181
30,000	40,000	8,000	48,000	4,800	896 0 0	306 5 0	192
45,000	60,000	12,000	72,000	7,200	1,776 0 0	600 0 0	194
75,000	100,000	20,000	120,000	12,000	3,520 0 0	1,468 15 0	139

It will be seen, therefore, that a man with £100,000 of land, plant, and stock pays approximately one-third in land-tax to the State that he would contribute in income-tax had the same amount of capital been sunk in a factory or business and returned him the same income. It would seem, therefore, that the very purposes of the Act are being defeated, as there is no real penalty placed on the large holding in comparison with the income-tax, while, on the other hand, land-tax is imposing a burden on struggling farmers and others to which it was never intended to apply. In the year 1921-22 there were 54,700 who paid land-tax amounting to £1,637,000, while 4,602 farmers paid income-tax amounting to £221,000. I do not know how many of the 54,700 land-tax payers were farmers, but there must be many thousands. Many of those were having a struggle to exist, and there was a demand for some relief on their behalf, but the 4,600 income-tax payers are obviously the richest of the landowners. The effect of the recent legislation, therefore, was to remove the burden from the 4,600 rich ones and leave it on thousands of poor ones. It is obviously unfair that a small farmer on a single holding should have to pay land-tax designed to burst up large estates when he has no estate to burst up. If the law wished to help him the land-tax should have been removed from all one-man holdings, and not the income-tax from large estates. If this tax was intended to be a payment to the State for the use of the land, then it should apply to every bit of land held in the country, big or small, and it should be clearly understood that it was a payment for services rendered by the State—that is, the use of the land. But ground-rent did not appear to be in the minds of our legislators when the present Act was framed; it was, I believe, for a special purpose, to prevent aggregation and burst up large estates. It should therefore be rigidly and solely applied for that purpose. I am therefore of opinion that land-tax should not apply to town sections and small farms and country holdings not capable or suitable for subdivision. If more revenue is required it should not be raised by land-tax, but income-tax which every one should pay who has a taxable income. The large landowners are just and honourable men, and I do not believe that they asked for or expected to be relieved from their share of the war burden. I believe the land-tax has been largely diverted from the purposes for which it was framed, and the true principles of income-tax have been entirely lost sight of and replaced by the appointment of company collecting agents who are compelled to gather approximately three-quarters of our income-tax. Not only do I believe that the tax-collecting-company system is very unjust in so far as it taxes rich and poor alike, but it is a very grave menace to the industrial development of our country. It will be said that if the tax is removed from companies we have no guarantee that the gas company will reduce the price of gas, banks their rate of interest, coal companies the price of coal, and mercantile companies the services



they are rendering to the farmer. I believe that competition will do this on the one hand, and a sense of justice in most cases on the other. In any case it is not beyond the power of Parliament to see that the people receive the benefit and thus reduce the cost of living. It is better to reduce the cost of living to the worker than to increase his wages and thus continue the vicious circle.

Gentlemen, as a layman and one who endeavours to take a citizen's interest in the affairs of our Dominion and the people amongst whom we live, I have given this matter such time and thought as my circumstances permitted and have come to the following conclusion: (a.) The true principles of income-tax are largely being defeated. (b.) That there are so many exemptions and channels of escape that our system may appropriately be called "the income-tax-evasion system." (c.) That by compelling companies to gather three-quarters of our income-tax rich people are provided with channels for passing their tax on to the poor, who are supposed to be free. (d.) That the system thereby raises the cost of most services and commodities and makes living dear. (e.) That land-tax designed to prevent aggregation and burst up large estates is applied to small farm holdings and town sections to which it was never intended to apply. It is thereby imposing a tax on small farmers and others with no taxable income and who should not be taxed. I therefore appeal for a return to the true principles of income-tax whereby—(a.) Every one with an assessable income is called upon to pay tax in accordance with that income and not be allowed to pass it on to others. (b.) The income-tax should apply to every person in the land, and apply to all alike irrespective of calling, class, or section, or whether they live in the town or country. (c.) Companies should be taxed on their undivided profits, and not be made the compulsory agents for indiscriminate collection of taxes, because they violate the very principles of justice by passing the tax on to the poor, who should not pay. Every investor in a company should pay his own income-tax according to his income. (d.) That land-tax should not be applied to farms and holdings not suitable or capable of subdivision, nor to town sections, but solely for the purpose for which it was framed—to prevent aggregations and to burst up large estates. The amount collected in taxation from the people should be the lowest amount necessary for the services and functions of the State. If we take more we are not just to those who pay; if we take less we are not just to the State. If every one bears his fair share it would allow the rate of tax to be considerably reduced and make it easier for all to bear.

In making these suggestions I know we will never have a taxation system which is perfect, but any legislation must make the present one more just. I realize also that it will be much more difficult for the Taxation Department to collect income-tax from individuals than it is to collect it from the collecting agents, but the difficulties of enforcing a just system should not be an excuse for adopting an unjust one. I do not come here on behalf of any party or interest, but to plead for that which I believe to be common justice for all. For only by justice can we hope for a contented and tranquil people. I believe the greater part of our unrest to-day is due to the spirit of selfishness, want of consideration for others, and a general desire to place our burden on some other shoulders. We do not seem to have learnt from the great world lessons of the past that absolute justice is the only safe harbour from the gales of strife and turmoil. I believe that God has given us wealth and talents that we may use them for the good of our fellow-creatures, and all the wealth we may accumulate cannot atone for such duty neglected. The world cries aloud for that new spirit which the war was to bring. Did that spirit die with those brave men who fell on the battlefield and leave only selfishness, class bitterness, and strife to dominate the world? Or is the present state but one of the sorrows through which we must pass to that happier era when self will no longer the wavering balance shake, when men will not live for self alone, but use the talents and the wealth which God has placed in their keeping for the happiness and contentment of the human beings around them? I plead that we do away with camouflage and make-belief and have a just system of taxation, whereby each will pay their due share of the nation's burden in accordance with their income, and not take it from the poor man's home, where there may be little in the cupboard but children's heads looking for food, and to which the nightmare of poverty may be a frequent visitor?

*Mr. Weston:* There are one or two questions I wish to ask you, Colonel Mitchell. In your statement you say that recent legislation has freed all incomes derived from land from taxation, and that you understand this affected 4,602 landowners, who paid £221,000 in 1921-22. Then you say, "Six of these landowners had assessable incomes of over £10,000 each in the slump year. There may be double that number with double the income this year, but all are relieved of paying income-tax, and as they paid land-tax before the war they are practically back to pre-war conditions of taxation." Now, have you not overlooked the fact that the land-tax has been heavily increased?—It has been increased by 125 per cent. The actual rate of increase has not been increased very much, but more land-tax has been collected on account of more land being brought into cultivation.

You must admit that 125 per cent. is a substantial increase?—The actual amount of increase in land-tax is only £500,000 from country land. Whether the actual tax on individuals is any greater I do not know. Obviously, £500,000 of increased land-tax paid does not meet their share of the war burden.

Of course, in a statement like this one relies tremendously upon the accuracy of the facts and premises. Is it not rather an exaggeration to put it as you have put it there. On your own showing there is an increase in the rate of 125 per cent.?—That is not in the rate, but in the actual amount received: it is 25 per cent. greater than in 1913.

*Mr. Hunt:]* But the valuation is higher?—There has been an increase in valuations that would have taken place whether the war happened or not.

Has the rate been increased, Mr. Clark?

*Mr. Clark:* Yes, the rate has been increased. In 1912 the current rate was 5 $\frac{1}{2}$ d. in the pound on the unimproved value. The maximum was reached at £200,000. The present maximum is reached at £90,000, and the rate is 7 $\frac{1}{2}$ d. in the pound.

*Mr. Hunt:* The rates, then, have been increased?

*Mr. Clark:* Yes.

*Mr. Weston.*] Then, Colonel Mitchell, you have drawn attention to the fact that there has not been such a great increase in the total received from land-tax as from income-tax. Have you not overlooked this fact which came out at the investigation made by the 1922 Taxation Committee: that Mr. Clark pointed out that owing to the exemption limits the more subdivision of land there is the less land-tax we are going to receive, because the exemptions in favour of the small farmers are so large?—Yes, I know of that fact. But what I am pointing out here is where the war burden was placed, and I maintain that I am quite true to fact that it is clear that the war burden was laid principally on the income-tax. In my opinion, the gross amount received from land-tax would have increased in any case, and, obviously, the £500,000 paid by the country landowners and the £400,000 paid on the town dwellings does not represent any material contribution towards the war debt.

Now, dealing with Crown lands: you know that it was an oversight on the part of the House when the pastoral-lease holders on Crown lands were allowed to escape taxation?—I should think it was. I do not think the Bill could have been deliberately passed as it was.

It was an oversight. They were taxed prior to 1916, when they were freed from land-tax, and it was purely an oversight?—I take it that what the Prime Minister intended was that, as far as those who were paying income-tax before the war were concerned, they should not be relieved of income-tax if they were paying it prior to the war.

In your statement you say, "There are only two sources from which a company may pay its income-tax—(1) to take it out of the dividends of its shareholders, and (2) to pass it on to the people it is doing business with in the shape of higher charges." Could you not add to these "(3) economies in working, and (4) increased expansion"?—No, I would not say that. Money is worth a certain rate of interest. If the income-tax is going to be taken from the shareholders, then it should come out of their dividends, but these companies are not paying any less. They are paying usually more than the average rate of interest, and therefore the charge must be passed on. That is only a matter of competition reducing their charges.

We have had evidence before us to the effect that economical working has enabled some companies to meet the increased income-tax?—And also pay their shareholders a greater rate of interest?

Yes, but, anyhow, the rate of interest in this country is determined purely by the law of supply and demand. You will admit that there has been a substantial increase in the rate of interest since 1914?—Yes, quite.

Roughly, from 5 per cent. to 6½ per cent.?—Yes.

Surely any investor in companies will require the same increase in his return on his capital invested in companies?—Let me put it this way: if you were receiving 6½ per cent. on money that you had invested outside of a company you would have to pay your own income-tax, but if you received 6½ per cent. from a company they would pay your income-tax for you. Therefore the company pays the income-tax and passes it on.

Well, I do not follow your argument. You must admit that by competition the rate of interest to be derived from all classes of investment, irrespective of that portion of the rate which covers insurance against risk on investments, tends to become the same. For instance, if you get a better return from mortgages on land as compared with company investments, there would be a rush of capital to mortgages on land, and you would gradually pull down the rate of interest on companies. There would be less money available for companies, and that rate would tend to go up. You say you get 6½ per cent. from companies free of income-tax. Is it not a fact that most company shares are at prices which only gives you 5 per cent. as against the 6½ per cent. you get from mortgages?—Not in the robust companies.

But it is no good forming a theory and then fitting your facts to that theory, Colonel Mitchell. Take Government tax-free bonds: what is the price of 4½-per-cent. tax-free bonds?—I do not know.

About 97?—I do not know.

Take New Zealand Insurance Company shares: what return do they give on the present market value of the shares? 5 per cent. If you will work it out you will find that your assumption that the whole of this increased tax is passed on to the public is probably an exaggeration. It is certainly an exaggeration?—I did not say it is all passed on, but I say that all the companies that can do pass it on. I make it quite clear that those who can pass it on are the robust companies, and that those who cannot pass it on are the sickly companies. That is the principle I have set out, the principle of having company collecting agents to collect our revenue, and allowing them to get it from where they like.

You said that a large number of companies had paid increased dividends?—No, I did not say that. I said some of them had.

Have you carefully taken that out and verified it?—I only set out one case. I mentioned one case.

Have you taken the trouble to—?—I have taken a lot of trouble over this matter—more than I could really afford.

But have you got all your facts, or have you jumped to conclusions?—No, I have not jumped to conclusions.

You refer to coal-mining company shares, and your assumption is that the tax is passed on to the people by those companies. I know a little about coal-mining companies. In New Zealand the coal companies find themselves in competition with the State. They are also in competition with Australia, and as a geological fact the Australian coal-seams are so wonderful that they can produce coal cheaper than it can be produced in New Zealand?—Yes.

Do you know that steamship freights from the West Coast to Wellington are almost as great as from Newcastle to Wellington?—Yes; they incorporate the income-tax.

The result is that with Australian competition the price of New Zealand coal is fixed absolutely independently of the taxation?—The principle still obtains with them.

What principle?—That the tax is counted with the overhead charges, and they have got to take it out of their industry.

Yes, but it affects the dividends?—It may.

Do you know that there are only three coal companies in New Zealand that are paying over 7 per cent.?—Yes.

And that a coal company, with all the danger of loss of capital through explosion, is entitled to a greater rate of interest than  $6\frac{1}{2}$  per cent. What do you think would be a fair rate of interest for a coal company to return?—I am not competent to give an opinion upon that. But I still stick to the principle, and even if it does not apply to all the coal companies I still think that the more robust companies pass on the tax.

You start *a priori* with the principle that the tax is passed on, and you have built up your assumption on that?—That is your assumption, and you are entitled to assume that. I do not admit it.

But have you had any very great experience in the management of companies?—To some extent, yes.

What experience?—I have been connected with various companies.

In the course of your statement you say, "We could make all our own wool into tops and add two to three millions to our annual income by exporting them instead of raw wool": is not that more or less a general statement?—I understand that the addition to our income would be at least that. I have discussed the matter, and I believe that it would be at least that. Of course, it can only be a random shot, but I understand that is what it would amount to.

I suppose you have discussed this matter with that school of thought that thinks that New Zealand, owing to its distance from other countries, will always be at a disadvantage as an exporting country of manufactures?—No, I have not discussed it with any school of thought at all; I have formed my own opinions.

Then, in your statement you give us a comparison regarding incomes from land?—Yes.

As I understand it, you take the income as a net 10 per cent. of the capital employed?—The gross income.

But what do you take from that? Is it your taxable income or is it your gross income, with expenses to be taken off it?—Gross income.

Do you take working-expenses off that?—No. I think that is a fair comparison. It is showing the income. Of course, the ordinary working-expenses would be taken off.

Are these your own computations, or are they taken from the Taxpayers' Association? That association was formed for the purpose of fighting the company-taxation?—I understand there is a Taxpayers' Association, but I am not in league with them.

Have you taken your figures from their publications?—No.

They are your own working out?—Yes.

In your comparison you calculate that the farmer would have an income of £720: is that the net income, or have you to take the working-expenses of the farm from that?—No; that is after the working-expenses have been taken off.

So that you calculate that a man would get 10 per cent. from his farm?—No; that is the gross income.

What do you take off for working-expenses—labour, seeds, and all sorts of things?—Seeds would not come into it.

There would be working-expenses and manures; you must make allowance for these?—I have taken these figures as a general rule, after allowing the capital value, and for deductions of stock and plant, and the income he would derive on the same basis on the same amount involved in a business.

Where did you get these figures from? Did you get them from the Taxpayers' Association's report?—No.

I cannot understand it. You see, if you worked out your figures to get that income of £720 you would have to make some allowance for working-expenses?—(No answer.)

*The Chairman.*] Must not your gross income be more than £720?—That is what I took for the purposes of taxation.

Then, your gross income must be more than £720?—That is the gross income for taxation.

That is after you have paid your working-expenses?—Yes.

So that your gross income is more than 10 per cent. on your capital?—Yes.

*Mr. Weston.*] Do you honestly think that farmers are at present making 10 per cent. on the capital involved?—I took it from what the Prime Minister said—that the farmers had to pay up to 9 per cent. on any money they would get. If that is so, then to capitalize at 5 per cent. is out of the question. If they have to pay 9 per cent. they would have to get 10 per cent. to make it pay.

In an important question like this the great thing is to arrive at the facts. Is it not curious for you to say, "A man with whom I have had a conference" says so-and-so? You are not a practical farmer, Colonel Mitchell, and you have not gone into the question with farmers as to what return they do get from their land and improvements and stock. Do you not think that in putting 10 per cent. as the net income, after paying all expenses, you are stating something that is not in accordance with fact?—I say plainly that if the Prime Minister's statement is correct, and they have to pay 9 per cent., then they would have to get 10 per cent.

*Mr. Shirtcliffe.*] But what do they pay?—I am taking the statement of the Prime Minister.

*Mr. Weston.*] You have come before us to give important evidence, and is it not necessary for you to be very sure of your grounds that the farmer does get 10 per cent. The whole of your calculations fall to the ground if the farmer realizes only 5 per cent. instead of 10 per cent.?—And if the merchant in the town realizes only 5 per cent. he would be on the same basis as the farmer.

But you are giving your table dealing with the effect of taxation on the farmers, and largely your conclusions are based on the assumption that the farmer can make 10 per cent. net income on his capital?—I do not say that at all.

If they were based on 5 per cent.—?—The figures would be slightly different, I know.

In your statement you say, "It is obviously unfair that a small farmer on a single holding should have to pay land-tax designed to burst up large estates when he has no estate to burst up." But, you see, the graduation does not apply to the small farmer?—I forget what the exemption is.

*Mr. Clark*: It varies, beginning with £1,500 and disappearing at £2,500, and there is exemption in respect to all mortgaged land disappearing at £8,000.

*Mr. Weston*: You see, the graduation does not start until you get to £20,000.

*Mr. Hunt*: No: £5,000.

*Witness*: The point I am making there is that I say, "I do not know how many of the 54,700 land-tax payers were farmers, but there must be many thousands. Many of those were having a struggle to exist, and there was a demand for some relief on their behalf, but the 4,600 income-tax payers are obviously the richest of the landowners. The effect of the recent legislation, therefore, was to remove the burden from the 4,600 rich ones and leave it on thousands of poor ones. It is obviously unfair that a small farmer on a single holding should have to pay land-tax designed to burst up large estates when he has no estate to burst up. If the law wished to help him the land-tax should have been removed from all one-man holdings, and not the income-tax from large estates." I know what you are referring to—the man on the small holding whose unimproved value is very small, and who therefore does not pay land-tax. There are many thousands of those. But there are many thousands who are paying land-tax to-day and who would have no assessable incomes, and therefore land-tax is a burden upon them, and I do not believe that it was intended to apply to them.

*Mr. Shirecliffe*.] Do you think that if the incidence of taxation were shifted from companies to shareholders, shareholders would expect to receive larger dividends?—No, I do not think so, because the shareholders would naturally want the current rate of interest. If the tax were shifted on to the individual and the individual had to pay his own tax it would not matter whether he drew his income from a company or from outside a company; he would draw practically the same rate of interest, and he would have his own income-tax to pay. Therefore I do not think he would expect any greater interest from the company than he would expect from outside the company. If it were all put on the one basis, if each individual in the country had to pay his own income-tax, it would not matter whether his money was invested in a company or outside a company provided he was getting the same rate of interest.

Take the case of a company—and there are many—that is to-day paying a dividend that is only equal to or less than the current rate of interest?—It obviously cannot pass the tax on.

We will come to that presently. If the shareholder had to pay the tax out of his dividend, would he not feel that in order to do the best he could for himself he must sell out of that company and invest his money somewhere else?—Yes, that is obviously the case.

Might it not lead, then, to discouragement of investors to put their money into companies?—If he would not get as much interest out of his shares in the company he would obviously transfer his investment to where he could get a better interest. But I do not think that that would interfere very largely with the companies, because the companies would be supported by small investors who would have no income-tax to pay, or would pay on a very low scale.

Then, would you not come to this position: if the ultimate effect were to be as you now suggest, these large companies that are carrying on the business of the country, or perhaps 75 per cent. of it, would be largely escaping taxation themselves, according to your proposal, and their shareholders would be escaping taxation?—The shareholders should not pay taxation if they have no taxable income.

Then, it might be that the whole of the business, taking an extreme case, would pay no taxation? If the shares all gradually drifted into the hands of small investors—people who had to pay little or no income-tax—then it would follow that 75 per cent. of the business of the country would pay no taxation?—Then 75 per cent. of the business of the country would be done by the small investors that would pay no income-tax. Personally I do not see that that would be a very grave injury to the country.

How would you raise your taxation?—I take it that the same capital would be in the country, and if we have an income-tax, then it would probably mean a raising of the scale of taxation in order to get it from the individuals. But that should not make us go on with the company-taxation system by which we collect taxes from the very poor through the company. It would mean the raising of the taxes from those who can afford to pay them—the richest people.

You make a very strong point in your evidence about the passing-on of the taxation. You refer to the companies as tax-collecting companies. I understand from what you have said to Mr. Weston that you do not base that statement upon any actual experience of your own?—I have gone into it in one or two cases and have satisfied myself in my own mind. I may be wrong—I am not infallible—but I honestly believe that what I state is true, that the tax, so far as companies can pass it on, is passed on. I have gone into it in several cases and have found that it is passed on. Take one case now. I have mentioned this case before, and therefore I am not doing any injury to the company. The Wellington Gas Company, up till last year, I think, were quite candid about it, that they put on 1s.—I think that was the amount, though I am not quite sure now—they put on 1s. per thousand feet of gas to pay their income-tax. That 1s. went on to everybody in the city who used gas.

Is it quite a fair illustration? Is it fair to take a special instance of what is really a monopoly to prove a general argument? Is that quite fair?—I think that only typifies the general principle of our company-taxation.

That is really your theory?—Yes.

But you have no actual experience?—I tell you I have gone into it and it has been substantiated in several cases. I am not at liberty to give those cases, because the evidence was given to me in confidence.

Then you do not allow very much for the force of competition in keeping prices down?—No, because I know of my own knowledge to-day that business is largely carried on—various classes of business—by arrangement of prices and combinations. That has become a recognized principle.

Do you know that in what are known as the slump years very large losses were made by trading companies generally?—Yes.

If, as you say, trading companies can pass on the tax by arrangement amongst themselves, or by any means they can employ, why did they have to make those losses?—There is no way of guarding against a slump of that sort. I suppose that only such companies as the Gas Company and any other companies that had a monopoly could pass that on. The general run of business people had no option but to write off a very great loss. I am not making my statement on a slump year. I am taking the general principle.

You make the statement that as a matter of general practice the tax must be passed on?—Yes.

If companies can pass on taxation of 8s. 9d. in the pound, as it was a few years ago, what compelling force made them lose such tremendous sums in their trading during those slump years? Force of competition?—Simply because the whole bottom had fallen out of business, and they could not pass on all those losses. I am speaking of the income-tax. They passed on that, but they could not pass on huge trading losses when stocks of all kinds had fallen and the market was gone.

It comes to this, then: they can pass on one special form of loss in the shape of income-tax, but they cannot pass on an ordinary trading loss?—They make provision for ordinary trading losses and their taxation in ordinary years. In slump years nothing can save some companies, and nothing did save them.

Do you think the price of money has increased? We know it has increased from about 5 per cent. in 1914 to about 6½ per cent. to-day?—Yes.

Is that a proportionate increase to the income-tax?—I should not think it was, but I have not worked it out.

In that case, then, the whole of the tax cannot have been passed on as affecting the price of money?—I do not say that it has all been passed on, but I say that the general principle is to pass it on. All those companies that can, I make it perfectly plain, do pass on the tax. Those that cannot pass it on are having a struggle.

Does it not come down to this, then: that the companies that can pass on the tax are only companies that are dealing in a monopoly?—Yes, or that have combinations or are protected in such a way that they can pass it on.

*Mr. Begg.*] On page eleven of your statement you say, "I am therefore of opinion that land-tax should not apply to town sections and small farms and country holdings not capable or suitable for subdivision." Do you not think that leaving them out of the land-tax might lead to undue speculation and keeping land in idleness?—I have thought of that, and there is a danger there, but I do not think the land-tax will prevent that. I agree with Mr. Clark that one of the saddest things, one of the worst things for the country, is speculation in land. But I think that other means should be adopted to prevent that. I do not think that the land-tax should be kept on small estates for the purpose of stopping that speculation. I do not think it will. But I believe that legislation can do it and should do it.

Some other means but taxation?—Some other means but taxation.

WILLIAM BROOKLYN MATHESON, President of Wairarapa Province of New Zealand Farmers' Union, examined.

*The Chairman.*] You have prepared a statement setting forth the views of the Farmers' Union with regard to taxation?—Yes, sir. I dare say you will be pleased that the views of the Union are so briefly put. In 1922 they sent in a very much more elaborate thing, but you will realize the difficulty we have, with 400 branches and 10,000 members, in getting anything which is clear and unanimous. The wish of the Executive was only to send in what was the opinion of the Union as a whole. I regret also that it is not better worded, but as it is it is a unanimous opinion. There are two unfortunate omissions which I can only supply personally but which I am sure were intended to be here. I refer to the question of company-taxation and the question of forestry.

Will you please read what has been written, and then you can add what you desire to say about these other two matters?—The statement is as follows:—

#### EVIDENCE TENDERED BY THE NEW ZEALAND FARMERS' UNION.

1. We are of opinion that the land-tax, being a form of capital levy, is bad in principle, being a class tax, and we are in favour of its abolition, and that the income-tax should apply to incomes from all sources.

2. We consider that in the event of the land-tax being continued the special exemption should be raised to £3,000, seeing that the income-tax exemption is £300, which capitalized is £6,000. This suggested alteration in exemption is based upon a 10-per-cent. profit on £3,000 invested in land.

3. We consider that the present system of debenture-taxation should be amended so as to make the levy the same rate all round, giving no advantage to local bodies or any other section of the community.

4. Seeing that (a) during the past years the farmer borrower has been penalized under the present system (by the flow of money into less-taxed investments), (b) the prosperity of the Dominion so largely depends on the primary producer, and that (c) the settlement of the unoccupied lands is so vital, we consider that if any differentiation be made it should be in the direction of encouraging investments in rural securities.

*The Chairman.*] With regard to the question of company-taxation, do you express your own views on that, or the views of your executive?—I should like to give my own views separately when I have finished with the union, but as a member of the executive I can say that there is a strong feeling, though not a unanimous one, that company-taxation is thoroughly unwise and should be either diminished or swept away. That is so, though no agreement was reached as to the immediate percentage. The other point is in regard to forestry, which we feel may be touched by taxation. We feel that it is one of the very serious things ahead of us here, and that if a young industry deserves protection for the sake of timber for us all, and for the sake of water reserves, forestry should be encouraged.

*Mr. Hunt.*] The union for which you speak: it is just the Wairarapa Province, I understand?—No; for the whole of New Zealand. In other provinces you have had evidence given, and I think it should have been distinctly stated that it was provincial evidence. The executive from Southland to Auckland met last week, and this statement was the result of their meeting.

*Mr. Shirlcliffe.*] With regard to paragraph 3, relating to the debenture-tax, you think there should be no differentiation between income from debentures and any other income?—Yes, sir.

What is your view regarding the past issues of debentures? Would you consider that the Government would be justified in increasing the taxation in respect of past issues of debentures to a level with that on other income? Do you consider there would be any breach of faith?—No Britisher likes to go back on a bargain.

Do you think there was a contract?—I am a farmer, and not a lawyer, sir. To me it was a contract; but the State comes before the person, and I think the King must override his previous doings if he thinks it is for the good of the State.

You would not take the view, then, that investors in debentures invested their money with their eyes open to the possibilities of future legislation?—I think they would be justified in fighting it, and I think a very strong case should be made for changing any bargain. I should prefer not to change. That question was never raised by our body.

Other investors have to face the fluctuations in taxation, have they not?—I think, as I suggested before, that the necessity of the State for the moment and the righteousness of making taxation bear equitably may override previous agreements. There is no finality in our legislation.

When you talk of previous agreements, let me ask this: Was there any agreement beyond this: that during a certain year—and remember that taxation is fixed from year to year—the tax should be half a crown in the pound?—I do not know the wording of the Act of regulation. It may define a term of years. If it did not and the tax came in the Budget for the year, then I presume that it only legally covers the term.

*Mr. Shirlcliffe:* That is so, Mr. Clark, is it not?

*Mr. Clark:* That is so.

*Mr. Shirlcliffe:* It only covers the taxation for the one year?

*Mr. Clark:* That is all that the House can appropriate.

*Mr. Shirlcliffe:* Then next year it might be raised to 3s.?

*Witness:* Very well. It is just that I have not gone into the evidence. Always it seemed to me that if there is a balance in question the State should come before the individual.

*Mr. Shirlcliffe.*] But in view of the fact that there was no contract covering a period or term of years—?—Was there not in connection with those non-taxable bonds?

Those were tax-free. That was a contract?—Then, there is a difference in the wording.

That was a distinct contract. Investors were attracted?—I think I had that in my mind.

I am not talking about the tax-free bonds. They are in a different category altogether. I am talking about the company and local-body debentures, the tax on which is fixed from year to year and only for the current year?—Then I think it is perfectly justifiable that they should be taxed as is seen fit.

*Mr. Begg.*] Do you consider that if the debenture-tax is not abolished some differentiation should be made in favour of investments on mortgage to counterbalance it?—Yes, as an adjustment, but I think it would be a great pity. I think the other would be much the simpler thing to do.

You think that the principle of incomes being subject to the same tax, whatever the source of the income, is a right one?—I do.

*The Chairman.*] You have prepared a memorandum setting out your own private views on the subject of taxation?—Yes, sir.

Will you read that to us now?—I will read it, but with a good deal of diffidence, because it seems right that we should record our opinions if we have given any thought to the matter. It is as follows:—

“I have approached this question presuming—and I hope I shall be corrected if I am wrong—that your Commission is called on to suggest an ideal system of taxation, which is equitable and logical, and so adjust it to present conditions that it will be a possible amendment to present regulations and so educative that it will be likely to bring in time the ideal system you aim at. I say “educative” because the people on whose behalf our twenty-million revenue is collected and spent will never learn to live within their means as a well-balanced community until all voters pay some form of direct taxation. At present the majority pay no direct taxation.”

That is a point I am quite clear on, that the only way to bring responsibility back to the crowd is to see that they hand over some visible money for no visible return except administration.

"We cannot expect wise administration until the voting public realize that all public expenditures are a charge on community earnings and must reduce net wages. I presume there is no need to combat any evidence you have received, such as that given by the Hon. George Fowlds, suggesting that land-tax should absorb all value beyond improvement, or to submit evidence to show that such a course would be undemocratic and bad economics because it would drive country population to town. I noticed that the Commissioner of Taxes in giving evidence spoke of landholders as a privileged class, a statement which raised no question. Later, in Dunedin, Mr. Gow made the same suggestion, saying that unearned increment attached itself to land more than to any other form of wealth. I do not agree. I think there is a danger of forgetting that much of the increased value accruing to land comes from expenditure of local taxation in general and special rates. The acquirement of land in New Zealand has been on a market open to all. Large amounts have been lost in the past by enterprising settlers, who after years of labour had to give up their homes, and I submit that any special tax applied to land at the present time would be bad for the general community in that it would retard production."

I may remark that there has never been suggested the alternative, that there should be any compensation given where investment in land proved a great failure.

"Indeed, a land-tax in any form is a class tax, penalizing one form of industry, and that the one which it is the particular interest of the people should be invested in and developed. The serious trend of population from country to town should be to our administrators a guide, a taximeter indicating a need to relieve producers' taxation if rural population diminishes dangerously, or to increase the percentage of their tax if the reverse occurs. My belief is that if taxation is fixed on sound lines there will be no need for adjustment, but that natural laws will reasonably balance the town and country population. Company-taxation, so tempting in its simplicity of collection, is misleading, in that payments which their customers appear to make for goods or services are really contributions to public revenue. It is also bad in penalizing shareholders whose net income is a small one. For these reasons I would aim to abolish land and company taxation and make the chief source of revenue an income-tax. I would reduce the exemption from £300 to £200, and below that ask all voters to state their incomes for the past year and pay a direct tax of £1, the receipt form having attached to it a certificate of registration on the electoral roll."

I suppose that for a man who thinks he is a Conservative that is a very radical proposal, but I do believe there is a truth in it which will have to be arrived at eventually before we shall be thrifty in our expenditure. If a man pays some direct taxation over the counter he will feel a direct interest in expenditure in every direction, and it will make him more careful. We know how public expenditure is increasing. It means continual taxation every year, until it is in danger of overbalancing our finances.

"Death duties I think should be halved. They at present cause great hardship, in many cases disabling the survivors from living in the same conditions as before the death occurred. The present taxes on such luxuries as gambling and alcoholic drinks should be continued. Seventy-five per cent. of the revenue should be raised from incomes. And the balance of 25 per cent. should be met by voters' tax, death duties, taxation of gambling and liquor; any estimated deficiency being made up by a property-tax on all individual wealth exceeding £500."

That is using the capital levy, but I believe it is quite sound that all property-owners should have some further responsibility to the State than the man who only has an annual income. It is, I know, argued by business men that it is taxing the same man on his income and on the capital which provides his income. That is true, but it does not get away from the fact that, being by industry or good fortune the possessor of property, you are holding something which is protected by the State, and the State gives a good deal of public facility for handling and controlling it. May I add that it is a distressing thing to me to see the irresponsible way in which we as a community press for expenditure, and I am convinced that nothing will remedy it but direct taxation upon the public; and though it may not be a popular thing for any one to do, we do not know in New Zealand what a leader could do who put his case clearly before the people.

*Mr. Begg.*] You have no faith in painless taxation?—I have not. I think it is a demoralizing thing.

*Mr. Shirlcliffe.*] You would make each elector practically buy his right to vote?—I would not put it in that way. In the old American colony secession there was the cry raised, "No representation, no taxation." I think the other applies fairly in a modern community, that there should be no representation without taxation.

It comes to that?—That is not buying a vote.

An elector would have to buy his right to vote. He could not exercise a vote unless he paid £1?—He could not vote unless he paid his tax.

I am speaking of the small man who has no taxable income. He would pay a direct tax of £1, and in return for that he would get his right to vote. That is what you say?—No. He then surely becomes registered as a voter.

He could not become registered unless he paid the £1?—That is so.

*Mr. Weston.*] Would you abolish the Customs taxation altogether?—I would retain it on liquor or any other extreme luxury that I thought it was wise to try to steady.

You are referring to motor-cars, perhaps?—Certainly, if it can be shown that they are luxuries.

And tobacco: would you count that as a necessity?—Quite a luxury. There is no question about that if you go into science. If I were brave enough I should go still further and include tea under the heading.

WELLINGTON: THURSDAY, 15TH MAY, 1924.

ARTHUR SEED, Secretary to the Dominion Federated Sawmillers' Association, examined.

*The Chairman.*] You have prepared a statement setting forth the views of your association in connection with the question of taxation, Mr. Seed?—Yes.

Will you read it to us, please?—Yes, it is as follows:—

On the assumption that the purpose of the present Commission on taxation is to investigate all matters relative to taxation in New Zealand and to seek a conclusion as to what alterations in our existing systems or what amendments to our present laws are needful to ensure that every individual citizen shall contribute to the needs of the State that proportion of his means as shall be strictly just and as near as possible exactly proportionate to his ability to pay, and accepting the principle of a graduated tax, we unqualifiedly support the contention that the present system of levying income-tax on companies should be altered, and that the tax on the profits of companies should be levied on the shareholders or the actual recipients of the income derived from such profits—as individuals. It is unnecessary here to traverse arguments and reasons in support of this contention, as these have already been exhaustively dealt with by others; also this Federation placed before the 1922 Taxation Committee a report dealing in some detail with this subject, and what was said then is substantially true to-day. Copies of that report will be made available to the present Commission if it is so wished. We also wish to support the contention that by virtue of there being a large avenue of gilt-edge tax-free investment (Government loan) and a probably larger avenue of lightly taxed investment (local-body loans and company debentures) not only are wealthy investors able to escape their just contribution to the State, and thus is a heavier burden placed upon companies and those in receipt of "earned" income, but development of the Dominion and the community is retarded by discouraging investment in industries and development activities. The actual effect on the latter avenues is cumulative by virtue of the added burden due to the first.

*As more particularly affecting the Sawmilling Industry.*—Apart from those larger aspects of the taxation question there are several factors in the present system of assessing income for taxation purposes which are more peculiarly severe in their incidence upon those engaged in the sawmilling industry than upon those in any other industry or occupation in the Dominion. This is by virtue of the fact that sawmillers are dealing with wasting assets—not only in the bush, but in the mill, buildings, plant, machinery, and tramways; in fact, every item on which capital is expended. The result is that this industry is at present suffering a distinct injustice in respect to taxation that no other industry is called upon to bear, and we wish to enter the strongest possible plea for its removal. The question is one of the rate of depreciation allowed to be deducted from income for tax purposes, and the matter of local rating is, unfortunately, also involved. Prior to 1917 even standing bush was treated as part of the land for purposes of income-tax, and no deduction from income was allowed for bush cut out during the year, but this was altered by the Finance Act, 1917. This admitted the principle of the "wasting asset," but relief has stayed far short of complete justice.

*Tramways.*—To deal first with the question of depreciation of tramways, as this item bears particularly heavily upon some operators, and is not felt by others, which accentuates the injustice of the position. In very many instances—and these are very quickly becoming more numerous as the location of available bush becomes more and more inaccessible—it is necessary for the miller to expend large sums in constructing tramways to reach or open up his areas. These trams only have value so long as such areas last, and should be written off wholly within their actual "life" by equal annual amounts. Such writing-off was possible and allowable as a deduction for income-tax purposes till the legislation (the Land and Income Tax Act, 1923, sections 80 and 83) of last year precluded it, and reduced any "allowable" depreciation to 5 per cent. on the "capital value appearing on the valuation roll." Although the sawmiller as an ordinary business measure has to make yearly provision for the writing-off of his tramways as vanishing assets, he is yet required to pay income-tax on the amount so written off, excepting on 5 per cent. of the amount, if any, of the cost of his tramways that may appear on the valuation roll. He has no assurance that the amount on which he will be allowed such 5 per cent. will be anywhere near the cost of his tramways, or that for land-valuation purposes his tramways will be considered of much value at all. If they should be shown at a substantial value it may result in a large increase in the amount of local rates which he will have to pay. Under these circumstances it would be possible for a sawmiller, while actually losing money on his business, to have to pay substantial income-tax—and I have had experience of exactly such a case. If he should make taxable profits, the income-tax on such profits, by reason of the writing-off of tramways not being allowed, will be at a higher rate under the graduated scale than it justly should be, and the greater the expenditure on tramways, or the shorter the term of the probable life of his business, the more will this disadvantage apply. The unfairness of the present position will press unequally upon different sawmillers. Those who have to spend much upon tramways but who have a comparatively short period to run will feel it most heavily, while to those who have a large amount of timber available, and consequently a long period of cutting in sight, it will not be nearly so serious a matter. The sales policy of the State Forest Service in so severely limiting the "life" of a mill to from three to five years means that the income-taxation on tramway costs will press very hardly on the miller taking up State forest areas. The inclusion of tramways in land-valuation, which has not hitherto been general, will introduce a further element of inequality between different sawmillers, in that some will be locally rated on such tramway-values, while others, situated where rating on unimproved values obtains, would escape such charge. Sawmilling is a most precarious class of business, and though some sawmillers have made money a very large number have lost or made only a bare living. It is a business which is of the greatest value to the community generally, in the large amount of employment it provides, and from the fact that it turns to valuable



use a large amount of forest which would otherwise be burned. Many areas of existing forest, because of difficulty of access and length of transport required, are, from a sawmiller's point of view, on the border-line between a profitable and unprofitable venture. In such cases, where large expenditure upon tramways would be necessary for working the bush, the present method of penalizing such expenditure with income-tax would probably be enough to turn the scale, deterring the sawmiller from venturing upon such undertaking. If this would mean that such areas of bush would remain untouched for future use when better means of access may be available, there might, in the public interest, be no fault to find with such result; but in many cases, unfortunately, the bush would not be allowed to remain, but would be felled and burned, as many thousands of acres of splendid timber already have been in this country. Thus is the present restrictions on the amount allowed to be written off tramways diametrically opposed to the Government's alleged policy of "forest conservation." To illustrate this last contention and to show a concrete example of the injustice of the present position in respect to the effect upon the actual amount of tax payable on tramway depreciation we quote from a letter on the matter received from one member of this federation: "I may point out that the block now being milled was for long not looked upon as a paying proposition for sawmilling because of difficulty and expense of access. At the time the present owners purchased the block another man was considering it as a possible farming proposition. Had it been taken for that purpose the bush would have been felled and burned and employment for about fifty men (more at present) would have been lost to the country, besides the loss of much valuable timber. In the face of this we are to be taxed on income which we shall have to write off against vanishing assets in tramways, the effect of such unfair taxation (based on present rates of income-tax) being to increase our payments, spread over the estimated period of ten years' work, assuming our gross income to reach £5,000 per annum, by about £4,400. If we were able to make our gross income reach £6,000, the amount, taking into account the graduated scale of taxation, would be more, and would reach about £530 per year. These calculations take into account two tramways which we wish to write off. If we count only the main tramway which will be in use until we finish, the total loss to us, based on assumed total income of £5,000 or £6,000, would be approximately £350 a year or £430 a year. Not much encouragement this to try to push things along or to take on the anxiety of employing a lot of labour, is there?"

To further illustrate the great injustice and inequitable incidence of the present position, we may take, for example, the case of two millers, one with bush for five years' cutting, and the other with enough for twenty years' cutting at the same rate, each of them having to put in tramways costing, say, £5,000. In both cases provision would have to be made for loss of the cost of tramways within the period of cutting. In the case of the man with twenty years the amount on which he would unfairly have to pay tax would be £250 a year. The other man, with only five years to run, would have to pay on £1,000 a year, besides being taxed under the graduated scale at a much higher rate, in proportion to his actual profit, than the man with twenty years, thereby being placed at a great disadvantage in trade competition. Another point is that under the present conditions, which only allow the deduction of tramway costs from income for tax assessment purposes when such tramways are done with, it will often pay a sawmiller to cease operations when approaching the end of his timber-supply, earlier than he would otherwise do, in order that he may write off the cost of his tramways within his last full income year. He might have sufficient bush to keep his mill running for a further six months, but if he has a large amount of tramway it will pay him better to sacrifice the further cutting so as to close up within the year which will show sufficient income to allow of his writing off the cost of the tramways. This will mean the waste of much valuable timber, besides loss of employment for many men six months earlier than would be the case if the loss of the tramways were spread over the whole period of cutting. In this way the present position of the law, if not changed, will lead to heavy economic loss to the country, and the waste of timber in that way is specially to be deplored in view of the limited quantity there is in the country. The Commissioner of Taxes informed us that the amendment of law effected last year was not necessarily directed at sawmill-tramway depreciation, nor could he say that the effect of the amendments upon the matter of depreciation of tramways was taken into consideration when the amendments were brought down. There is now no way legally by which deductions can be allowed for writings-off of tramways other than by making no annual allowance for depreciation, and simply writing off their whole capital cost in the year they cease to be used. This would simply mean that—where a tramway has entailed a considerable capital cost and has a life of, say, anything over three years—such an amount would be written off in the year of its abandonment, that a material loss over the whole undertaking would be shown for that year, and obviously, as this would be the last year of operation, the more recent provision that any loss incurred in any one year may be carried forward and set off against assessable income for the three following years could not be made to apply, for there would be no "following years" in such case. There is provision in the Act for an allowance of a 5-per-cent. depreciation on the capital value of land which, if the value of the tramways were assessed and placed upon the valuation roll, would be allowed as a deduction. To place tramways on the valuation roll, however, as part of the capital value of the land would in most cases mean that county rates would then be levied on the total capital value shown (including the tramways), and thus the increased county rates payable would far outweigh any deduction in income-tax secured by an allowance of 5 per cent. for tramway depreciation. Moreover, in very many cases the miller has only "rights of access" or "tramway running-rights" over Crown or other people's land. Hence he has no interest in the capital value of such lands, and the owner would object to have the tram-values placed on the valuation roll, as he receives no benefit from them (apart from reasonable rent) and in most cases considers them anything but an "improvement" on the land. If a "tramway depreciation reserve" is created

by setting aside amounts annually out of profits to provide for the wiping-off of tramways at the termination of their life, then income-tax must be paid on such reserves; likewise if no such reserve be created and the total profits be distributed (and the total value of the tramway be written off later in the one year at the date of its abandonment), income-tax would necessarily be payable on the whole of such profits; so it appears there is no way of dealing with the matter without an amendment of law. There is, therefore, a manifest injustice, and sawmillers are placed at a distinct disadvantage as against other traders as the law now stands, for tramways are a rapidly wasting asset; and not only is it a matter of the injustice of having to pay income-tax on the annual amount of depreciation which should be written off these tramways, but the omission to write off the necessary depreciation creates a fictitious profit for income-tax purposes, and the amount of such fictitious profit in most cases would bring the total assessable profit to a figure which entails the payment of income-tax on the total income at a higher graduated scale than should be. This is wherein lies the greatest injustice of the law as it now stands. If the miller be allowed to write off exactly the correct amount from tramways each year he will still continue to pay his just share of income-tax, for such writing-off will merely ensure that his actual profits are disclosed each year, and in the final year he would also show a profit, instead of a loss, if the whole of the tramways were written off in the year of their abandonment.

*Buildings.*—To come now to the question of depreciation on sawmillers' buildings. Prior to last year an amount up to 3 per cent. of the original value was allowable as depreciation, but by the 1923 amendment 5 per cent. may be written off of such value as appears on the valuation roll. Admittedly the 3 per cent. was totally inadequate, and even the 5 per cent. is little better except perhaps in one or two rare instances. Substantially the same arguments and considerations apply in respect to sawmill buildings as to tramways, but in respect to buildings there is the additional hardship that the miller is compelled by law to provide accommodation for workers, and has to provide dwellings for married men even though he has but a three to five years' operation. Now, all such buildings are just as rapidly a vanishing asset as are tramways, for in the vast majority of cases they have no realizable value when the bush is cut out. Even if they had and had been previously wholly written off such realizable value would show as profit, and be subject to tax, in the year of realization. Also the same considerations apply to buildings as to tramways in respect to their value being placed on the valuation roll. In most cases the miller does not own the land upon which they stand, and, moreover, if he should do so, most probably he would have to pay more in county rates than would be saved in income-tax by having the buildings placed on the roll. The same wide inequality exists in respect to different mills or operations, for some millers near a town or city do not have to provide accommodation, and others "away back" have to provide every form of shelter and convenience. This aspect generally hits the "small man" hardest, as he is the one with small capital who takes up isolated patches of bush.

*Other Items.*—The schedule of allowable depreciation in respect to all other items of sawmill plant, machinery, &c. is also totally inadequate, for practically all the assets of a sawmiller are "rapidly vanishing" ones. As this question was fully dealt with in our representations to the 1922 Taxation Committee we cannot do better than repeat what was then said:—

"*Depreciation.*—The vexed question of assessing income-tax on net profit, as understood commercially, opens up the matter of proper allowance for depreciation. This is of vital concern to sawmilling, in which industry plant and machinery is a very important factor. Actual depreciation differs so widely in various industries that it is altogether wrong to apply, as the Commissioner does, the one rate to cover all machinery. It is acknowledged some measure of relief was granted last year (1921) by allowing higher rates of depreciation on certain items of plant; but of these only two, of minor importance (loose tools and carts or wagons), apply to our industry. So it may be taken the rate allowed to us is 5 per cent. on the diminishing value. Much publicity has been given to this phase of taxation in the past, so merely brief mention will be made here of the salient features in it affecting the sawmilling industry. It is borne in mind that allowance is made for any deficiency when plant or machinery is discarded or sold. This does not properly meet the position, as explained later. Plant and machinery in sawmilling is subject to heavy rough usage, and consequently rapid depreciation. Up to 1913 allowance was only 2½ per cent. on power-driven machinery, and from then to last year 5 per cent. on power-driven machinery—both rates on the diminishing value. So for the years up to 1913 at least there is an accumulation of depreciation not allowed to us. Also there is an accumulation of depreciation on general plant other than power-driven machinery right up to the present. Furthermore, the depreciation on diminishing value is quite inadequate, and is improperly spread over the life of the machinery. The life of sawmilling machinery is at the outside twenty years. At 5 per cent. on the diminishing value the allowance in the tenth year is 3.1 per cent. on original cost, while the average rate on original cost during that ten years is 4 per cent. In the twentieth year the rate reduces itself to 1.88 per cent. on original cost, and the average on that basis for this second ten years is only 2.14 per cent. The total allowance during the twenty years would leave approximately 36 per cent. of the original cost of the machinery not allowed for, provided profits have been made each year. At the end of the twenty years, or earlier, the miller may have cut out his bush and ceased operations, and the writing-off of his obsolete or discarded plant and machinery cannot be spread over more than three years prior. It must come into assessment of his last year of trading (probably the year of liquidation), because it would be in use until then, and the accumulation of the 36 per cent. or more, plus the accumulation from other causes mentioned herein, would create a loss which would not be covered by the profits of the last three years. Furthermore, it may take months or years to dispose of the whole of the plant, &c., in which case there may be no profits at all against which this loss of depreciation may be set. Again, the onus is thrown on the taxpayer

to show the loss is not one of sale. The only equitable basis is an annual allowance (brought forward when necessary) on the prime cost of plant and machinery, at such rate as would wipe off this cost during the "life" of these assets. The rate should be on the original cost. Under the taxing Acts the Department is fully protected against too great an allowance being given. Sawmilling is an industry working wasting assets, and in this respect requires differentiation in the matter of depreciation. Whether the depreciation is shown in the books or not, the fact remains that the proceeds from sales includes a return of the value of plant and machinery used up in production. Therefore the total allowance should equal the original cost of the assets less any residual value which may remain, and in justice this allowance should be spread over the years of useful life of the assets. What are proper rates of depreciation could be fixed by conference between the Commissioner and the central organization of the industry."

We would again most strongly stress this last suggestion.

*County Rating.*—As it will be seen from the foregoing that certain aspects of county rating have a distinct bearing on the incidence of taxation of sawmillers, it would seem that this question must receive consideration by the present Commission; more particularly so in that to secure that small measure of relief (in respect to depreciation) allowed by the 1923 Act the miller must take a step (placing tramways, &c., on valuation roll) which would but accentuate injustices he already suffers in respect to county rating. On this subject also full representations were made to the 1922 Commission, so again we repeat what was then said:—

"*Rating Bush as Part of Unimproved Value.*—The writer is not sure whether local-body rating comes within the scope of the present inquiry. Obviously it should do so. Standing bush is for the purposes of local-body rating treated as part of the unimproved value of land, and thus rates recur year after year on the same trees without any perceivable compensation in the way of increased value from growth. No other standing or root crop is so rated. Thus, because a tree is a tree it is isolated for this special charge. The principle underlying this special rating was fought out a few years back. Up to 1917 standing bush was treated as part of the land for purposes of income-tax, and no deduction from income was allowed for bush cut out during the period of the income-tax returns. The matter was challenged from time to time during a period of many years, and resulted in the tax being changed backwards and forwards between land-tax and income-tax. Each successive Minister agreed there was injustice and endeavoured to give some means of relief. After a test case had been taken to the English Courts the injustice was wiped out by the Finance Act, 1917, which allowed deduction from income to the extent of the cost of the bush cut out. The value of standing bush had been deleted from land-tax some years prior. In obtaining this relief in 1917 the fact was lost sight of that local-body rating still applied to standing bush. The Land and Income Tax Act directs the Valuer-General to separate the value of bush from that of the land, thus recognizing the two as separate entities. In the test case referred to above the House of Lords stated in their judgment that, briefly put, where no further growth to the trees was obtained by nutriment from the soil in which they stood the trees were considered as goods warehoused on the land. This is exactly what is claimed for the bush which sawmillers are cutting in New Zealand. It obviously is wrong that rates should be paid on what is in fact the raw material of the sawmiller's production. To create a similar tax every warehouse should be rated on the value of its stock.

"*Rating on Tramways of Sawmills.*—Another similar injustice is local-body rating on the tramways of the sawmiller. These are tramways connecting the bush or mill with the point of distribution or Government railhead. This is a most peculiar and inexplicable imposition, and one that is not made against every sawmill. These tramways are installed to take the place of road traffic, and serve in pioneering otherwise inaccessible country. In many instances throughout New Zealand large settlement areas have thus been opened up, the settlers' traffic going over these mill tramways. As settlement spreads, roads are opened up to take the near or light traffic from the farm, while the heavier and lengthy traffic continues over the tramways. It thus is evident that these tramways are a huge saving to the country, first in promoting settlement, and subsequently in minimizing road traffic and consequently in upkeep of roads through the territory they traverse. In spite of this the value of these tramways is included in the capital value of the land they occupy; and where the county in which they operate adopts a capital value for rating the sawmiller must pay rates on that which in itself serves very materially to reduce the county's expenditure. He gets nothing in return for these rates. Should the sawmiller not put in a tramway, but cart by road, he escapes this special rating, while his heavy traffic quickly damages the roads over which he carts. Similarly, should the sawmiller be fortunate enough to operate in a county where rating is on unimproved value he escapes this special rating. The position is brimful of inequalities and injustice and serves to create unfair advantage in competition."

*Taxation on Industrial as against Non-industrial Profits.*—Just too late to bring before the 1922 Taxation Committee as evidence, a suggestion was brought forward by one of our members which subsequently received the hearty approval of the executive and this federation. It was in respect to making a differentiation of income-tax as applied to industrial profits as against non-industrial profits. It must be generally conceded that the encouragement of labour employment on sound lines is desirable, and to this end it is suggested that a remission of 5 per cent. on all wages paid should be made from all gross assessable income of all labour employers whether large or small. The effect of this would be that profits made by financial companies, trading agents, and similar concerns, also all individuals that employ but little or no labour, would carry a comparatively higher income-tax while industrial undertakings would be relieved of an amount of taxes which would vary in accordance with the volume of labour employed. The general effect of this remission would be to induce capital into industrial channels and so stay the present tendency to invest in gilt-edge securi-

ties that carry little or no risk (and incidentally the income from which at present yields only a light tax or else is tax-free). Most of the capital invested in these latter securities is required for national or municipal services, which are sound only so long as there is sufficient production to maintain and use these services. For instance, a railway with no goods to carry becomes a liability. The encouragement to buy labour for productive purposes is an economic essential when it is considered that the creation of wealth can only take place by production, and, further, the employment of surplus labour by private enterprise has much to commend it when Government is seeking to absorb it by relief employment on works which in most cases have to be paid for by the taxpayer. We commend the suggestion contained in the above as one very worthy of serious consideration by the Taxation Commission.

*State and Municipal Trading.*—It is unnecessary to enter into the unanswerable reasons why State and municipal trading enterprises should be conducted on strictly business lines and should bear their full share of State and local-body taxation, as these are already well known and, we think, fully admitted by Government; but we certainly consider that, if there is to be any revision of our taxing systems at all, this should be one of the first matters put right. Apart from the question of these enterprises bearing taxation, however, even under present circumstances it should be imperative that all Government and municipal trading or industrial enterprises (and, in fact, all Departments) should be compelled to present annual balance-sheets, and disclose all figures relative to the capital cost of every branch or section of such enterprise or Department on purely business lines and according to strict commercial accountancy principles. As a case in point we would refer to the sawmilling activities of the New Zealand Railway Department, and though the actual competition from this Government enterprise has not yet been severely felt, it is quite certain that, owing to the huge scale on which the Department has now launched this enterprise and owing to the fact that their own channels of use for the product are chiefly for the higher classes of timber, the Department must inevitably throw upon the market a very considerable quantity of second-grade timbers (the disposal of which is already a serious problem to the private sawmiller) or else allow these qualities to be destroyed, which would be a grave economic loss. Writing on this subject some time ago one of our members in close touch with these Railway sawmills wrote as follows:—

“In the first place competition by the New Zealand Railway sawmills is utterly unfair as they pay no rates or taxes, though in the past their operations have been on comparatively modest scale, and for this reason the competition, though irritating, has passed without much protest. The Government is now, however, expanding its sawmilling business on quite a large scale. About £50,000 worth of machinery was purchased to equip the very large mill erected at Frankton Junction. The cost of installing this machinery together with the necessary land, buildings, sidings, &c., must have amounted to a very large sum, the total amount of which we can only conjecture. The Department has purchased at least one large block of timber privately and secured other blocks through the Crown Lands Department. The block privately purchased is one of 1,000 acres, situated in the Taupo district. The Department bought the block in August, 1919, for £27,500 from a party who had purchased the same property for £4,350 in June, 1918. The total capital involved in these mills and bush properties must be very large and sufficient to start a new State Department. The extraordinary thing is that no mention is made of these matters in either the Railway or Public Works Department annual statements, or in any other publications as far as we know. As sawmillers we resent the competition as unfair. As taxpayers we feel the country is entitled to the fullest information on the whole business. Many of us are not greatly impressed with the present Railway management in the conduct of railway matters proper, and we are naturally somewhat sceptical about the ability of the Department to successfully run an extraneous business such as sawmilling. In any case the New Zealand Railway bush and sawmill ventures are of such magnitude as to warrant independent investigation, and we suggest that advantage should be taken of the opportunity now offering.”

The figures mentioned in the foregoing are reliable and can be vouched for. To deal with the economic aspect of this matter, as to whether State enterprise in this direction were better for the community than private enterprise, would perhaps take too long, but it is significant that a recent Press cable reported that the New South Wales State sawmill ventures were to be disposed of by public auction, and it is well known the huge losses these enterprises made. The object in referring to this last matter is to bring prominently under the notice of your Commission the fact that huge sums are being spent, and liabilities contracted, by the New Zealand Railway Department in respect of sawmills and bushes without the knowledge of the public. We understand the Taxpayers' Federation has been instrumental in impressing upon the Government the necessity of each Department of State producing and publishing an annual balance-sheet on business lines, and that this reform has been instituted; but in respect to its sawmilling ventures the figures are quite unobtainable, as they are “smothered” in the general railway returns. We have made repeated attempts to secure the figures relating purely to the sawmilling, but they have always been refused.

*Treating Two Companies as One for Income-tax Purposes.*—Complaint reached us some time ago respecting the above matter, and it would seem that the present is a fitting opportunity to bring this matter forward again, with a plea that some recommendation should be made by the Taxation Commission for redress of a seeming injustice. The member complaining in this matter wrote as follows:—“In the matter of treating two companies (50 per cent. of whose capital is held by the same shareholders) as one company for the purpose of fixing the scale of graduated income-tax I may state that I am interested in a case where this may act most unfairly on the shareholders holding the other 50 per cent. of capital in each company. The latter 50 per cent. are in no way responsible for, and, indeed, may have no knowledge of, the fact that the former 50 per cent. has so committed them to a higher scale of taxation. At least only the former 50 per cent. should be taxed on the higher

scale, if that system is considered necessary, or the latter 50 per cent. should be entitled to claim a refund. In any case it seems most unfair where those two companies are in no way dependent on each other or where they would not be other than two companies if the graduated scale were not in existence."

We consider that no apology is necessary on account of the length of the foregoing statement, for the matters dealt with are of high importance, and we sincerely trust that our representations will meet with that full measure of consideration which their importance fully merits.

For The Dominion Federated Sawmillers' Association (Incorporated).

ARTHUR SEED, Secretary.

*Mr. Hunt.*] There is only one point to which I wish to refer. You refer to the depreciation of your sawmilling machinery and point out that it is worn out at the end of twenty years, but you still have 36 per cent. of the original cost to be written off when it is scrapped or when you are winding up. If you wound up and scrapped the machinery, that would be a loss of capital. Would it not be so, *Mr. Clark*?

*Mr. Clark:* Yes; we allow for loss on obsolete machinery or machinery rendered useless by wear-and-tear.

*Mr. Hunt:* If there were further use in the machines you would not allow for it?

*Mr. Clark:* No.

*Mr. Hunt:* So that it is even worse for you, *Mr. Seed*, than you make out?—(Witness) Yes.

*Mr. Clark:* That machinery is very often transferred.

*Mr. Weston.*] *Mr. Seed*, the great difficulty in your industry is to get rid of the inferior classes of timber?—Yes, that has become a serious problem, and we have very grave fears that when the Railway Department get the full cut at Frankton they will have huge quantities of second-grade timber that they will sell by public auction.

The fact that you have had to get rid of your second-grade timber at low prices has forced you to get better prices for your better-class timber?—Yes.

And in connection with this industry the municipal by-laws are having a hard effect?—Yes. I may say that there is to be a conference next month of all those interested, to go into the question of the revision and standardization of building by-laws throughout New Zealand, and we hope to get some relief in that respect from the result of that conference. But that is to be only a conference which may make recommendations to the local bodies: there is nothing mandatory about its findings. The great difficulty is that as the stumpage value of timber gets higher we have got to manufacture a greater quantity out of the log, and by taking the logs out of the top of the trees we convert practically all the inferior timber, and it has become more and more difficult on that account. We are forced, on the one hand, to produce more inferior timber, which increases the cost of production, and, on the other hand, our channels of use for it are being further restricted, particularly so by the prohibition of export. If export were not restricted we could probably open up a big market in Australia for all our second-class rimu for boxing, &c., but we are not allowed to do so.

That is the case where the Department is not sufficiently in touch with the commercial side to be able to appreciate the real conditions?—That is so. We want more practical men at the head of affairs and less theory in the Government Department dealing with these matters.

Was not there an inquiry into that purchase of land which you mentioned?—Yes, I think there was.

Do you know the result?—No.

*Mr. Clark:* With regard to the question of the depreciation of sawmilling machinery and plant, the only depreciation we can allow is that caused by wear-and-tear. We cannot allow loss on plant due to the working-out of the bush. There is no provision for that.

*Mr. Hunt:* Do you not think there should be some provision for it: it is an expense in earning income?

*Mr. Clark:* As a matter of fact, I could meet them if they could prove that there is greater loss by wear-and-tear than we allow. We have had no case put before us where our allowance has been insufficient. In some cases the allowance has been more than necessary.

*Mr. Hunt:* The point was that the tramways were of no further value after the bush was worked out.

*Mr. Clark:* That is not always the case.

*Mr. Shirtcliffe:* Is there no way of distinguishing between the life of a tramway that depends upon five years' cutting and the life of a tramway that depends upon twenty years' cutting?

*Mr. Clark:* No; that is a land-tax matter.

*Mr. Hunt:* They are allowed 5 per cent.

*Mr. Clark:* Yes, 5 per cent. on the capital value on the roll. But if they put the value of these tramways on the roll it would have the effect of increasing their local rates.

*Mr. Weston:* Do you allow the cost of erecting tramways?

*Mr. Clark:* No; that is capital expenditure. We overlook the cost of putting in spur tramways.

*Mr. Shirtcliffe.*] Have you had many complaints from sawmillers that their allowances for depreciation are not adequate?

*Mr. Clark:* I have had complaints, and if they can give me any proof that the complaints are well founded, then the matter is rectified.

*Mr. Shirtcliffe:* You have the complaints investigated?

*Mr. Clark:* Yes. The depreciation on buildings was cut out altogether. The buildings are part of the land, and there is 5 per cent. exemption on the capital value.

*Mr. Begg* : You are satisfied that there is no injustice being done at present under the law regarding depreciation. The fact that a tramway might simply be wiped out—that is classed as lost capital, but it is an expense attached to the industry and has to be allowed for?

*Mr. Clark* : It does not always follow.

*Mr. Begg* : Not always, but there are cases where it does?

*Mr. Clark* : Yes.

*Mr. Shirtcliffe* : Do they pay land-tax on buildings, less 5 per cent.?

*Mr. Clark* : No; they are improvements.

*Mr. Shirtcliffe* : How do they get an allowance made for the wasting asset represented by those buildings and tramways?

*Mr. Clark* : They get none.

*Mr. Weston* : Do they get no allowance in respect of those wasting assets?

*Mr. Clark* : No.

*Mr. Weston* : Then they do not want to make those improvements too high?

*Mr. Clark* : That is so.

*Mr. Begg* : There is another side to the county-rate business: most County Councils will tell you that they do not get enough rates from the sawmills to pay for one-tenth of the damage they do to the roads.

*Mr. Clark* : In the majority of cases the trams are only from the bush to the mill, and the sawn timber is carted by wagon.

*Mr. Shirtcliffe* : Have the sawmilling companies been doing well?

*Mr. Clark* : They have been doing pretty well during the last few years; since about 1920 they have been doing well.

*Mr. Hunt* : As a matter of fact, a good deal of the expense of laying down these tramways does filter into working-expenses, because they are put down by the men who are engaged in doing the sawmilling?

*Mr. Clark* : That applies to the branch tramways.

*Mr. Weston* : If the carpenter is putting up a gantry to handle his timber, to lift it up, would you allow for that: the spur tramway is in the same position?

*Mr. Clark* : Yes.

*Mr. Begg* : You actually have discretionary powers, Mr. Clark, to make an additional allowance if there is insufficient depreciation allowed?

*Mr. Clark* : Yes, for depreciation for wear-and-tear, but not through the bush being cut out.

*Mr. Hunt* : Then, there is the point Mr. Seed raised, about the allowance for the wasting asset of the bush?

*Mr. Clark* : We allow the actual cost of the timber cut out each year; that is all that he can get.

ARTHUR LEIGH HUNT, Company Director, examined.

*The Chairman.*] I understand that you have prepared a memorandum, Mr. Hunt, setting forth your views on the subject of taxation: will you read it to us, please?—Yes, sir, it is as follows:—

I desire to submit for the consideration of the Commission certain views on taxation, and particularly those contained in two reservations made by me as a member of the Taxation Committee, 1922, to the findings of that Committee, and published in its report on pages 16 and 17 thereof. In amplification of the recommendations then made I wish to submit the following observations:—

#### *Taxation of Companies (First Reservation).*

I find myself unable to fully subscribe, or to concur, in the recommendation of the majority report dealing with the above subject, and I consequently submit the following statement and recommendation:—

*Present System of Graduated Taxation.*—The present system of taxation of companies is both unscientific and unjust, the application of the tax graduated on the aggregate amount of profit being wrong in principle and unfair in practice. For instance, a shareholder with a small holding whose total income is less than the exemption (£300) pays through the company at the maximum rate of 8s. 9½d. in the pound equally with the large shareholder whose aggregate income would entail his paying the maximum rate. This results from the operation of the present system of graduation, by which a company is taxed on the aggregate amount of profit it makes, irrespective of the relation the profit bears to the amount of capital employed; that is to say, a company employing a large amount of capital and earning only a small percentage of profit has to pay the maximum tax (8s. 9½d. in the pound) because the amount of profit it makes exceeds a certain sum, whereas a group of companies making the same aggregate amount of profit would pay a much lower rate of tax, though their respective percentages of profit on capital employed are much greater. Large companies are commonly composed of large numbers of holders of small interests, whereas the holdings in small companies are usually much greater. To levy a tax according to the height or weight of the taxpayer, or to revert to the old English tax based on the number of windows in the taxpayer's dwelling, would be as reasonable as to perpetuate this method of graduated tax on companies.

*Equitable System of Graduation.*—The only equitable system of graduated taxation applicable to companies is a tax based on the relative proportion of profit to the shareholders' capital employed in the business; that is to say, a company earning 20 per cent. on its capital should bear a greater burden of taxation than a company earning only, say, 5 per cent., irrespective of the amount of the aggregate profit in each case. The fairness of this method of company-taxation was generally recognized, but evidence of the practicability of its application given before the Committee disclosed apparently insuperable difficulties. An alternative method which is equitable and readily practicable must therefore be found.

*Transferring Company-tax to Individual Shareholder.*—To entirely absolve companies from taxation would give them an undue advantage over the private trader with whom they are in competition, and who has to pay graduated tax on his trading profits. Consequently, the company being a separate trading entity should be taxed, if only as agent for its shareholders, but companies should be uniformly taxed. I am therefore unable to recommend the transference of the entire tax to the individual.

*Proposed Solution.*—To arrive at a method of taxing companies which will avoid the existing discrimination between large and small companies already indicated I suggest the adoption of a flat rate of tax on all the profits of companies, whether distributed or not. While this fairly adjusts the tax as between large and small companies, it does not, *per se*, adjust the rights of individual shareholders. To achieve this I recommend a modification of the British system (which may be safely followed) whereby the individual shareholder, after receipt of his dividend, may claim an adjustment of the difference between the tax already paid by the company as his agent and the graduated rate which he is entitled personally to pay.

*Advantages of Proposed Method.*—The advantages of this system are: (a) Graduation now unfairly applied to the aggregate profits of companies (irrespective of percentage of profit to capital) is abolished; (b) the tax is levied on an equal basis on all the profits of all companies; (c) the company is recognized as a trading entity which should pay tax as such, or as agent for its shareholders; (d) the collection of tax from companies, in first instance, enables prompt collection to be made at the source and reduces evasion to a minimum; (e) the provision for adjustments with shareholders ensures that the tax ultimately paid by the individual will be on a just basis, which should be the aim of any system of taxation; (f) the adoption of this system is *immediately practicable*, because it does not involve any revolutionary change in the present method of collection; (g) it fully ensures the provision of whatever revenue is levied through this channel, and eliminates the uncertainty which would inevitably attach to a reversion to direct taxation; (h) any loss of revenue that may be occasioned by the adjustments with shareholders could rightly be equalized by a variation of the graduated tax on individuals.

It has been argued that the work of making adjustments with individual shareholders will entail an expense incommensurate with the benefit to taxpayers, but this is a nebulous bogey, and should not be allowed to interfere with the equitable incidence of the tax. There would necessarily be a minimum amount of rebate fixed, as it would be absurd to make refunds which would be of no benefit to the individual taxpayer, and the retention of these fractions would easily counterbalance the book-keeping expense connected with the adjustments generally. From the fact that such adjustments are part of the established British system it is reasonable to conclude that they involve no undue expense, and that the principle is quite practicable and subject to no serious disadvantage.

*Urgency of Change.*—The present system of graduated company-taxation being unjust, it should be immediately abolished, its retention being intolerable. The alternative system here recommended makes it easily practicable for the change-over to be enacted during the present session of Parliament. I therefore recommend: (1) That the income-tax on companies be levied on the basis of a flat rate on the profits (whether distributed or not); (2) that provision be made for adjustment between the rates of tax payable by individual shareholders and that paid by the company.

While agreeing with the finding of the majority (of the 1922 Committee) that the present system of levying a graduated income-tax on companies is inequitable, my proposed method to remedy the defects differs from that suggested by that Committee. Without unduly traversing the ground covered by the first reservation, I am anxious to emphasize the fact that my proposals are based on English practice, and consequently must be taken to provide as safe and equitable a basis as is likely to be found anywhere. To entirely transfer the tax from the company to the individual shareholder (apart from the difficulties enumerated in the reservation) would necessitate a complete revolution in our taxing methods and create a political situation not likely to be sought by any elective Government. It is true that the ultimate effects of directly transferring the company-tax to individual shareholders and of the method herein suggested would be practically the same so far as the individual tax-paying shareholder is concerned, but the *modus operandi* now suggested has such practical advantages that it would divest the change of its political disabilities, while preserving its economic value, and it would involve no drastic alteration in the system now obtaining. To maintain that the consequent adjustments with the individual taxpayers would involve undue expense and confusion is to suggest that Great Britain, which has for years followed this practice, is labouring under, and persisting in, a cumbersome and uneconomical system. It may be readily accepted that if it pays the British Chancellor of the Exchequer to continue this method, with a population of which the average earning-power is much less than in New Zealand, "that the game is worth the candle," and this should demolish any contention that it would be impracticable or uneconomical to adopt it here. It may be contended that the partial adoption of the system of refunds here in relation to local-body debentures has been so troublesome that its general application would be unwarranted, but if the system were general instead of partial the disadvantages might be minimized and would only be unduly troublesome in the early stage of the change-over.

Here I want to urge very strongly that the incidence of taxation should not depend on its convenience to the Department charged with the collection of the tax, but rather on the equity of the tax and its proper and fair allocation. But it is apparent that it is the inconvenience to the Department in having to make adjustments, rather than the fair incidence of income-tax, that influences the retention of the present unscientific and haphazard practice in New Zealand, which has resulted in so much dissatisfaction throughout the country, and crippling enterprise, thus greatly reducing the tax-paying capacity of the community. Lest it should be urged upon the Commission

that the politico-economical aspect of any proposed change in our taxing system should not be taken into account in its deliberations, it is necessary to anticipate such an objection by pointing out that if this factor is ignored its findings must necessarily be simply academic. Any Government must necessarily take count of the psychological effect on the community of any proposed alteration in tax legislation. Companies are now bearing 66 per cent. of the total income-tax collected, which is in inverse ratio to the amount they should bear. While the assessable income of taxpayers other than companies is £38,000,000 (in round figures) their taxable income is only £13,500,000, and they only pay £1,232,874; whereas companies, out of an assessable income of £8,330,000, are taxed on £8,000,000, on which they pay £2,406,728. Even if it should be determined on the ground of expediency to continue to collect such a burdensome quota from companies in first instance, nothing in the system herein suggested will prevent this being done. If it is considered essential to continue to impose a graduated tax on companies, the only fair basis (*vide* clause 2 of reservation) is that which takes into account the proportion of profit to capital employed. It may be contended that the assessment on this basis would involve more labour than the present system, but the onus of furnishing correct information would be cast on the company and could be readily checked. I fail to see how this could be unduly laborious, for the balance-sheet of each company comes into the hands of the Taxation Department, and consequently the necessary data for computation is therefore already available. Even if additional labour were involved, surely that is a secondary consideration if it enables the tax to be placed on the shoulders of the companies making the greater ratios of profit, according to their ability to bear it. For tax purposes the amount of capital employed by any company can readily be determined from its balance-sheet, and it is a very simple calculation to ascertain what percentage the taxable profit bears to such capital. A return should be compiled classifying companies according to the capital employed, and the relative percentages of profit, when it would be largely a matter of calculation to determine the graduation of tax applicable to the varying percentages required to produce the desired revenue from this source.

In conclusion, I submit the following postulates: (a) That the present system of taxing companies is unsound and unjust; and (b) that the adoption of the English system provides the only safe and effective remedy.

*Reduction of Income-tax Exemption (Second Reservation).*

As I find myself unable to subscribe to the section of the general report dealing with the above subject, I submit the following statement and recommendation:—

In New Zealand the exemption (£300) allowed on income before taxable income is reached is higher than in Great Britain or in other parts of the British Dominions, as will be seen by the following: Britain, £150; Canada and New South Wales, £250; Queensland, £200; Western Australia, £156 for married persons and £100 single persons; Victoria and South Australia, £150; Tasmania, £156 for married persons and £125 for single persons.

There appears no reason whatever why this Dominion should adopt a higher exemption than obtains in the countries cited. I am not, however, prepared to recommend its reduction to married men, believing as I do that the burden on the family man is quite sufficiently heavy at the present time. I am, however, strongly of the opinion that the exemption should be lowered to £200 to unmarried persons, and it should be applicable to persons of either sex. I fail to see why persons having no family burdens, who are in receipt of an income of £200 or over, should not contribute their quota to the general expenses of the country. This view was supported by evidence of a number of witnesses before the Committee, and, in fact, the only argument that has been put forth against it is the cost of collection. I fail to see why the cost of collection should be greater in New Zealand than in any of the countries above mentioned. I further contend that in this Dominion the cost should be very much lower than in a densely populated country like Great Britain.

It is, in my opinion, reasonable to assume that the conditions prevailing in the Australian States are very similar to those in this country, and, further, that the policy of a much lower exemption adopted in Australia is sufficient ground for believing that the cost of collection is not excessive. In the case of Western Australia it is found that it pays the State to collect income-tax on an amount as low as even £100. I do not, however, suggest so low a limit.

If legislation provides a sufficiently heavy penalty for the failure to submit income-tax returns, then the cost of collection will be minimized, and should be no greater per taxpayer than it is at the present time. Moreover, the present system could be extended whereby every employer would be required to send in a return to the Taxation Department setting forth the salaries and wages of *all* employees.

It is impossible to secure any actual data on which to base an opinion as to the amount of revenue which would be derived from this source, but I contend that it may be reasonably assumed that the amount would be considerable and would go towards relieving the undue burdens of other classes of taxpayers. I therefore recommend—

That the income-tax exemption to unmarried persons be fixed at £200.

It is pointed out in the reservation that the £300 exemption obtaining in New Zealand is the highest in the British Empire. I have been unable to discover any logical or economic reason why this should be so. Great Britain, Canada, New South Wales, Queensland, Western Australia, Victoria, South Australia, and Tasmania, all find it a payable policy to collect income-tax on lower minimum (down even to £100 in Western Australia in the case of single persons), so that I find it impossible to believe that it would not be similarly advantageous to the revenue of New Zealand if a lower minimum than at present obtains were adopted as applicable to unmarried persons of either sex (without dependants). The contention that the cost of collection would be incommensurate with the results



appears incredible, while the assertion that the cost would amount to more than the tax from new taxpayers would appear to reflect unfavourably on the expense of collection in vogue in New Zealand as compared with that in the countries quoted. The above suggestion that the exemption should be lowered to £200 applies only to *unmarried persons without dependants*. If adopted it would have the following beneficial effects: (a) Increasing the revenue of the Dominion and thereby tending to relieve the burdens of those taxpayers who have family obligations; (b) tending to diminish the undue extravagance so prevalent amongst the younger members of the community, which to-day is more flagrant than prior to 1914 and as great as at any time during or since the Great War; (c) confer a sense of citizenship and responsibility on a great number of unmarried taxpayers, which would stimulate a greater interest in public affairs. I therefore commend this suggestion to your Commission and trust that in the course of its examination of witnesses it will especially seek expressions of opinion on this subject, when I am confident that this recommendation for the reduction of the exemption to unmarried persons without dependants will be endorsed.

*Graduated Land-tax on Undeveloped Second-class Rural Lands.*—I hold the opinion that to levy graduated land-tax on second-class lands during the period when it is being "broken in" is directly opposed to any progressive policy of land-settlement and of increased production, because it penalizes the enterprise of those who would otherwise be prepared to pioneer this highly desirable branch of land-settlement. The Dominion contains the following areas of undeveloped lands of the classes enumerated: Pumice lands, North Island, 6,000,000 acres; irrigable lands, Central Otago, 371,800 acres; gum-bearing lands, 800,000 acres: total, 7,171,800 acres. For the purposes of defence, development, and relief of the present *per capita* burden of taxation the Dominion urgently requires largely increased population. Britain has a large surplus population, and to assist migration to the Dominion is prepared to grant substantial financial assistance on exceptionally favourable terms. The Dominion's accession of population should be in the rural districts and not in the cities and boroughs. The Dominion's available first-class lands suitable for close settlement are almost negligible, and current values preclude any pronounced forward movement in the direction of closer settlement of such lands. To "dump down" British migrants on small holdings of second-class lands in a virgin state would court both failure and hardship. These lands can, however, be economically "broken in" or regenerated in large areas by organizations possessing sufficient capital, and after a period of, say, five years such lands are capable of being settled in small holdings. A suggested system for such development is contained in the attached leaflet, being a report of the Empire Trade and Development Committee of the Wellington Chamber of Commerce. Extensive development along the lines indicated in the leaflet has been favourably commented upon by the leading authorities throughout the Dominion. What, then, stands in the way? The answer is "the graduated land-tax." British investors are quite willing to pay a fair share of taxation on *profits*, but decline to pay the same out of *capital*. In other words, under the present law, years before profits could be expected from the development of such second-class lands not only would heavy land-tax be payable, but it would be on a penal (graduated) scale by reason of the large area which must necessarily be held and worked to make any such scheme economically sound. These lands are mostly idle to-day, and likely to remain so till outside capital is applied to them, consequently but trifling revenue to the State can be expected from this source. I contend, therefore, that *under proper safeguards*, where any such development scheme is undertaken for the purpose of settling British migrants, no land-tax (whether flat or graduated) should be levied during the period of initial development—say, five years. If this were done capital and population would flow into the country, and in a few years the gain to the State would be greater by a hundredfold than can possibly result from the present deterrent policy.

Believing that the introduction of British capital and migrants is the Dominion's most urgent need, I trust that the above suggestions will be fully considered and favourably reported upon by the members of the Commission.

WELLINGTON CHAMBER OF COMMERCE.

*British Capital for the Dominion.—Land-settlement and Immigration by Private Companies and Associations.—Report of Empire Trade and Development Committee to Council.*

In the report of the committee presented to the Council on the 16th October last dealing with land-settlement and Empire migration the suggestion was put forth that every effort should be made to stimulate these activities by means of private enterprise, supplementary to the efforts of the State.

In further explanation of this portion of the committee's report we now have pleasure in submitting further details of the suggestion.

With taxation difficulties removed and efficient organization there is in the opinion of the committee no good reason why an actual beginning should not be made next year on the lines as set out below.

*Private as against Government Efforts.*—Your committee would point out that there is nothing new in the suggestion, inasmuch as many of the early and successful settlements of the Dominion were on similar lines.

It has become so customary for the people of this Dominion to look to the Government as the sole force in national affairs that to-day the great majority of people believe that any effort outside that of the State must necessarily be abortive. Especially is this so as applied to those two great and interrelated questions—land-settlement and immigration.

It is not suggested that the State should cease its activities in connection with such matters, rather should it realize that the present progress that is being made is totally inadequate, and consequently it should immediately launch a forward policy and one complete in every detail and covering every contingency.

This report is, however, designed to show that *not in substitution therefor* but *supplementary* to the activities of the State there is a great opportunity for private effort, especially at the present time and in the peculiar position in which Great Britain stands to-day.

*Lands Idle and Unproductive.*—Up and down these sparsely populated Islands of ours are large tracts of idle or undeveloped lands owned by private individuals—gum and pumice lands, swamps, and lands requiring irrigation, all of which would respond bountifully to the application of capital.

In many cases such holdings are of doubtful benefit to their present owners, and, in fact, oft-times prove but a sink for good money in the shape of land and other taxes, local rates, &c.

The owners of all blocks of sufficient area should be made to realize that it is directly in their own interests, as well as in the interests of the Dominion, that the present affords an exceptionally favourable opportunity to profitably dispose of such lands to British companies and societies having capital at their command, for the express purpose of settling Britain's surplus population in the overseas Dominions. Organization and properly prepared data are, however, absolutely necessary to success in any scheme. British capital is, without doubt, available for such a purpose, but it is for us to put up the schemes.

*Sound and Practical Land-settlement.*—In addition to the ordinary Government land-settlement and immigration activities, it is suggested that the following is a thoroughly sound and practical method of largely assisting in both directions:—

- (1.) Select a list of twenty or more blocks of second- and third-class lands, including State and private lands, which would, after, say, three or five years of development, be capable of close settlement.
- (2.) Special legislation be passed next session to demarcate such lands as "British migration lands," exempting same from land-tax and local rates for the period of from three to five years.
- (3.) Prepare all necessary data—plans, soil surveys, reports on expert treatment, rainfall, necessary roading, drainage, &c.—and also plans showing how the land will be capable of subdivision for close settlement.
- (4.) Offer such lands (together with data, development reports, &c.) for sale to British companies, societies, or associations at the present market value.
- (5.) Such companies, &c., to undertake to forthwith develop all such lands purchased, not with the object of farming, but of providing capital to "break in" the lands ready for close settlement, and to resell to British migrants at the price which will provide interest on capital not exceeding 10 per cent. per annum.

*Modus operandi:* The Lancashire-New Zealand Settlement Company (Limited), purchases 50,000 acres of pumice lands in the Taupo district at £1 per acre.

The board of directors (located at Manchester) appoints a supervising director who will be resident in New Zealand. A competent experienced New Zealand farm-manager is appointed. British migrants arrive having been specially selected by the Board in England as suitable in age, character, and calling: First, sufficient roadmakers, &c., and carpenters to build living-quarters. Later arrivals at opportune time and suitable for work waiting them. Labourers, fencers, ploughmen, &c. All to be transported to New Zealand under the assisted immigration scheme subsidized by British and New Zealand Governments. Wages to be paid as arranged by company prior to engagement. In five years the labour imported (British migrants) by the company is 300, together with their dependants. The land is then sufficiently developed for close settlement—roaded, fenced, grassed, subdivided into 500 farms of 100 acres each, and houses built on each holding; butter-factories, schools, &c., erected. The employees of the company are given the first right of selection at, say, £6 per acre plus cost of house. Two hundred farmers and families are then brought out from England to occupy the balance at £7 per acre, plus cost of house. The land is sold on very easy terms, the New Zealand Government financing same under Advance to Settlers scheme. The company completes its mission—has relieved Britain of, say, two to three thousand of its surplus population, and settled them happily under the British flag, where they become potential customers for British goods to the extent of £12 per head, equal to £30,000 per annum. The company winds up and pays its shareholders 10 per cent. per annum for the whole period.

*Possible Extension of Proposal.*—Fifty of such companies are formed in New Zealand in 1924:—

- (a.) Result in five years, £12,500,000 British capital applied to developing the present waste areas of New Zealand.
- (b.) 125,000 new settlers trained and established on own holdings and bearing their share of national debt.
- (c.) Stimulating British trade by £1,500,000 per annum.
- (d.) 2,500,000 acres extra contributing to New Zealand exports—say, £15,000,000 per annum.
- (e.) National debt reduced from £162 to £147 per capita.

*Further Extension of Proposal.*—One hundred of such companies are formed in New Zealand in 1925:—

- (a.) Result in five years, £25,000,000 British capital applied to developing the present waste areas of New Zealand.
- (b.) 250,000 new settlers trained and established on own holdings and bearing their share of national debt.
- (c.) Stimulating British trade by £3,000,000 per annum.
- (d.) 5,000,000 acres extra contributing to New Zealand exports—say, £30,000,000 per annum.
- (e.) National debt reduced from £162 to £135 per capita.

These estimates are necessarily hypothetical, but there is no reason why they should not be practically realized or even exceeded.

*Great Opportunity regarding Financing of Companies.*—The latest proposal of the Imperial Economic Conference is outlined in the following Press cablegram. If this is finally adopted by the British Government (and it is reasonable to suppose that it will be, whatever change the coming elections may result in), then the prospects of the successful carrying-out of the scheme herein suggested are very materially increased.

— "London, November 2nd.

"The Economic Conference devoted a large part of to-day's sitting to consideration of the report of the Committee on Co-operation in Financial Assistance in Imperial Development. The Conference unanimously adopted the following resolution: 'The suggestion which the Imperial Government make is that, in order to facilitate the anticipation of work which otherwise would not be undertaken for some years, they should give a contribution towards the interest charges of loans raised for capital expenditure of this kind by public-utility undertakings—namely, communications, power, lighting, water, drainage, irrigation, &c. These undertakings might be under either public or private control and management. Assistance would be given in respect to the expenditure on orders placed in Britain, and would be applicable only to the schemes approved by the Dominion or Central Government concerned, and certified by it to be in anticipation of normal expenditure. Payment would be made by the Dominion or Central Government, which would be responsible for the payment to the ultimate recipients. It is suggested that the maximum grant be three-fourths of the interest charges for five years. In order to qualify for the Imperial contribution the scheme must be accepted by the Imperial Government within the next three years. The Imperial Government's approval would be given after consultation with the Treasury, Board of Trade, or the Colonial or Indian Office. It would be understood that priority would be given to schemes involving the earliest placing of orders.'"

*Mover's remarks.*—Mr. A. Leigh Hunt, chairman of the committee, in moving the adoption of the report, stated that it had received the unanimous approval of the committee at a meeting at which the following were present: Lord Strathspey, Major Greene (Salvation Army), Colonel Pow (New Zealand Farmers' Union), Mr. A. Varney (National Division Y.M.C.A.).

In explaining the following report the speaker pointed out that the scheme was intended to be supplementary and not in substitution for the activities of the Government. Large areas of these poor lands were in the hands of private individuals, but the scheme could embrace both private and State lands. There was no element of philanthropy in connection with the proposal, British counties, companies, societies, and associations with capital already subscribed were waiting for some such proposals. It is not anticipated that any difficulty would be met with in obtaining the necessary capital, more particularly as the suggested scheme was a sound and profitable investment, and at the same time provided the means of relieving Britain of a portion of her surplus population. The scheme was a mere outline, and, of course, details would necessarily have to be completed later. Safeguards would need to be established against the land speculator. The psychological moment to launch such proposals was undoubtedly near at hand, and if the Dominion failed to seize the present opportunity of accepting the British proposals with cheap advances, it was not likely to occur again.

Private enterprise was to be the motive force and the result was likely to be more satisfactory than State efforts.

Whilst accomplishing the main objective as regards immigration, the scheme was also calculated to be an early and sound investment.

The migrant would be selected in Britain by the representatives of the companies whose money was to be invested in the scheme, consequently the best class of people only would be sent.

The exact number would arrive at the opportune time for the actual work waiting for them.

The employment during the development period would enable the migrants to save sufficient capital to pay the deposit necessary to take up their holdings of land at the end of the five-year period.

"The man in the street" would say, "Where is the land available in New Zealand?"

The speaker stated that he held in his hand a memorandum from the Under-Secretary of the Lands Department giving the following information with regard to such lands as are at present available and suitable for settlement: Pumice lands, North Island, 6,000,000 acres; irrigable lands, Central Otago, 371,800 acres; gum-bearing lands, 800,000 acres: total, 7,171,800 acres.

All, therefore, that was required was a strong public opinion and efficient organization, and nothing would prevent the success of a strong forward movement in connection with land-settlement and immigration, which would undoubtedly result in opening up a new chapter in the history of New Zealand.

The adoption of the report was seconded by Mr. John Myers, the president of the Chamber, and supported by Mr. S. A. Longuet, vice-president, and carried unanimously.

*Mr. Weston.*] There is just one question I would like to ask: with regard to that idea of assessing different classes of companies at different rates, according to the return upon their capital, would there be a difficulty where one company was carrying on three or four different classes of business?—I should not think so. It is now levied upon its aggregate profit, is it not?

But would not you have to make an allowance for the different rates to the different companies, according to the class of business they are carrying on? You see there is that portion of the return which covers insurance against risk of loss. For instance, the sawmilling business would require a bigger return than another business because it has wasting assets?—Those details would have to be considered in some way, but, generally speaking, I can see no objection to the adoption of the principle.

You know that the system has been adopted in Spain and Italy, and the difficulty there was the classification?—I cannot see that there is any great difficulty in this country, because, with the exception of those companies dealing with wasting assets, there would probably be no others requiring discrimination.

*Mr. Shirlcliffe.*] Have you had regard to the wisdom of continuing the graduated land-tax? You have not made any special comment upon that?—To tell you the truth, I desired to confine myself to one or two points, but I have confirmed views on that point. I do not believe in the graduated land-tax at all.

You do not think it is necessary or advisable to continue it in order to prevent reaggregation?—No, I do not think so. There are other safeguards which can be adopted.

Such as?—Well, the law that makes a man use his land profitably.

Otherwise he pays extra taxation?—Yes.

*Mr. Begg.*] As to your suggestion that the graduation of the company-tax should be according to the rate of interest earned, what you really want is the abolition of the graduated tax on companies?—That is true.

In your opinion the graduated system of taxation on companies is not desirable?—That is so.

*Mr. Clark:* I want to take exception to the statement that the convenience of the Department has entered into the matter at any time.

*The Chairman:* That is, with regard to the reduction of the exemption or assessments on companies?

*Mr. Clark:* Yes. I would like to point out that it would simplify the work of the Department if the assessment of companies were abolished altogether and we assessed only the individual. The simplest assessment we have to make is the assessment of salary, and if we assessed individuals on the dividends it would be equivalent to making a salary assessment. We would get the returns of the companies and check them with the returns of the individual taxpayers, and it would do away with all question of depreciation, and what is earned income, and what is income earned outside of New Zealand. You would do away with all the most complicated questions we have to deal with. While we would have to deal with a few more taxpayers, an average junior clerk could make anything from ten to one hundred assessments of individuals while the average clerk was making one assessment of a company.

*Mr. Hunt:* But Mr. Hunt's scheme would not get over the assessment of companies too; you would be assessing both companies and individuals.

*Mr. Clark:* It would not add to the difficulties of the Department in any way. But the abolition of the assessment of companies would enormously simplify the work of the Department, and we might possibly be able to reduce staff owing to the simplicity of the assessments. I say this because I notice that that statement has gained currency and has appeared in articles in the newspapers, and I want to make it clear that it is contrary to fact.

*The Chairman:* When the matter was before the Taxation Committee, you were not in favour of reducing the exemption to £200 on unmarried persons, as suggested by Mr. Leigh Hunt?

*Mr. Clark:* No.

*The Chairman:* What are your reasons?

*Mr. Clark:* The reason is the ill-feeling that would be created amongst taxpayers by the evasion of people with just about that amount of income who are peripatetic. Although the exemptions in Australia come down as low as £150, the question arises whether the tax is collected from the taxpayers, and it has been remarked by writers on taxation that you want to know how a law applies in a country where it has been enacted—whether it is carried out. It has been stated that it is not carried out in America, and I doubt very much if the whole of the people liable in Australia for income-tax, or anything like the whole of them, are assessed.

*Mr. Shirtcliffe*: In the case of casual labourers, it would be a very difficult matter?

*Mr. Clark*: They are shifting about from State to State. They shift from Australia to here.

*Mr. Shirtcliffe*: Shearers, for example?

*Mr. Clark*: Yes.

*Mr. Begg*: Does not that apply to the present position in New Zealand?

*Mr. Clark*: Not so much at £300. Very few of those men earn as much as £300 in the year. We had returns of all the waterside workers, obtained from the employing authorities, and in the best year very few of them would earn over £300 in the year. Although they might get high rates their time is broken.

*Witness*: Regarding the last point, I suggested in my evidence that that difficulty might be overcome by asking employers to make returns. It is quite obvious that if employers desire a lower rate of income-tax themselves they must assist to collect additional revenue. There is no reason why, when a man joins a firm, the employer should not be compelled to take a statement from him as to what he has earned elsewhere during the previous portion of the taxation year, and send in a return accordingly.

CHARLTON DOUGLAS MORPETH, Accountant, Wellington, examined.

*The Chairman*.] You have some views on the subject of taxation?—Yes; I have considered for a good many years. I saw that you were taking evidence, so I thought I would come up.

What are the points that you propose to deal with?—It is more particularly in regard to the company income-tax that I wish to speak.

Will you tell us your views on that subject, then?—Yes, sir. I will start off with portions of a letter that I wrote some time ago: "Whereas in 1914 the total income-tax collected in New Zealand was a little more than £500,000, last year's total"—this was written in 1921—"exceeded £6,000,000. And where does the bulk of this come from? It comes from the earnings of the public companies of our country. Why does it come thus from these companies? Because their accounts are easily got at and easily verifiable, and the powers that be openly defend its imposition for this very reason. . . . The question to be asked is not 'What is the easy way?' but 'What is the correct way?' In the minds of the majority of people the term 'principles of taxation' at once arouses memories of Adam Smith and his four famous canons—equality or ability, certainty, convenience, and economy. It is because in our incidence of taxation these principles are abandoned that we hear the present outcry against the unjust and onerous taxation on companies at all, or nearly all, meetings of public companies, and at all gatherings of business men, as well as in the everyday talk of men of business on all sides. The present scheme of taxation was launched by the National Government as a war measure in war-time, and by its authors undefended on principle but excused on grounds of expediency. It was said, and the community admitted the validity of the argument, 'Money we must have for the salvation of our liberties, for the preservation of civilization,' and the people said, Yes. As a result, the obvious quick and simple way was to take it where it could be got promptly in large sums, and that was to treat the companies as individuals and tax them as such. Like the issue of war loans 'free of income-tax,' this is pure expediency and equally indefensible on grounds of true principle. Taxation may be looked at from three aspects—(1) That of the taxpayer, (2) that of the Government acting for the community in its executive capacity, and (3) that of the community as a producing or economic entity. The aim of the Government should be to effect the best practical compromise between the three standpoints as the particular circumstances will allow. Never, as to-day, has the problem been so acute and required such skilful handling to find the exact taxable limit of the community, the limit which swells the Consolidated Fund to its greatest degree, but beyond which taxation defeats its own object, or, in homely words, 'kills the goose that lays the golden eggs.' 'They will grumble, but they will pay,' said King Charles. He was right to a point, but, failing to recognize the limit, paid the penalty with his head. There is nothing surer than that if the Government persists in its wrong principle of taxing companies as if they were individuals the result will be, first, the drying-up of the source of revenue, and, last, the failure and/or liquidation of many of the industrial companies. In this morning's paper the business notes from Wellington state, 'There are buyers of a great many shares, principally banks, insurance, financial, and meat. There is comparatively little inquiry for industrial shares.' Why is this? Because the business men can see the writing on the wall. While the war was on, the companies engaged in the industrial activities of our country were, through the exigencies of shipping, practically free from outside competition, and the load of company-taxation could be passed on. Enough money could be made to pay the taxation, pay a reasonable dividend, write off the necessary depreciation, and put something to reserve. That day is over. Competition is coming in from outside, prices are falling, goods are selling even in some cases at below replacement values; and what is the outlook? Far, very far indeed from satisfactory. The statement is made that the companies are not reducing their dividends; but is this true? I think not. No board of directors is anxious to face its shareholders with a report that the dividend must be passed or reduced, and yet this is coming and in some cases has come. I know of several cases where this has happened, and of others where the dividend though paid has not been earned, but is being paid out of reserves for equalization. This is a well that will soon dry. If disaster to our industrial companies is to be avoided we must get back to true principles." Those are the points that I wished first to put before you. I understand that you are dealing with all questions of taxation?

*The Chairman*: Land and income.

*Witness*: With regard to the land-tax, I have got nothing prepared, but I should like to be permitted to express the opinion that the graduated tax in regard to land is wholly wrong from an

economic point of view. Its only defence can be from the political point of view, and that is the trouble, it seems to me, that faces us all in considering this question of the incidence of taxation. While one strives to do what is fair and right for everybody it is very difficult indeed to avoid many anomalies and many injustices. But so far as the question of the graduated tax upon land is concerned, it surely was invented as a political expedient to break up large estates. Its effect upon business in many cases has been entirely unforeseen, and is very onerous indeed. You can take the case of businesses such as, shall we say, the New Zealand Express Company or the banks or any big insurance company, which businesses of necessity have to have well-appointed and well-situated premises in all the principal parts of our country. The land of such businesses is expensive, because it must be convenient, and simply because they are compelled to have these holdings of land they are mulcted in graduated tax. Then there is the further cause of injustice which is now operating in a number of directions in regard to mortgages. Many of these large institutions have lent money out on mortgage, and have recently had the unhappy experience of having to foreclose upon a number of these mortgages and take the properties over. The result of that has been, of course, to add the value of the foreclosed properties on to their existing properties and increase their graduated tax. I do not think for a moment that that was ever contemplated in the legislation. And yet I know it has happened. The mere fact that it has happened shows that the tax is not doing what it was intended to do. If from a political point of view it were deemed necessary that large estates should be broken up, some other way should be got at and the matter tackled directly, either by limitation of area or some other direct action, instead of indirect. That was the point about the land-tax that I thought I should like to put before you for consideration. Of course, the whole income-tax is of the nature of a capital levy, inasmuch as you are not allowed to deduct it in your next year's statement of income. It therefore necessarily becomes a capital levy. Indeed, the authorities plainly say—and, of course, it applies all the world over—that it is a capital levy, and from their point of view you are not to look upon it as a payment from profit and loss at all; it has got to come from capital. So it has all the inherent evils of a capital levy. You must have seen many scores of articles in the economic and banking papers during the last year or two since the proposal for a capital levy has been brought forward; and when the income-tax reaches the very heavy figure that it reached in New Zealand it is beginning to be seriously a capital levy, with the evils of a capital levy. So far as the incidence of the income-tax is concerned, I do not know whether it would be right to suggest that consideration might be given to a reduction of the minimum exemption of £300. Under certain circumstances it seems to me it might very well be made less than that. Another point that might be considered is the graduation fraction. We start now with one one-hundredth, and then go to one two-hundredth. Perhaps if it started at one two-hundredth and went to one three-hundredth and one four-hundredth it would ease the graduation—make it not so sharp. I think that is all I have to say.

*Mr. Hunt.*] You object to the graduated system of land-tax. Would you suggest abandoning the land-tax and making it all income-tax?—I would support that myself. I would abandon the land-tax altogether. Let all the landholders, whether they be freeholders or leaseholders, pay by means of income-tax. That would get rid of a number of anomalies.

*Mr. Shirlcliffe.*] With regard to the income-tax on companies, would you suggest that companies be relieved entirely?—No. I think that a fair company-tax would be a flat rate—say, 3s. or 4s.—on the undivided profits for the year. Let the individual shareholders each carry his own burden. As Kipling puts it, "Let each herring hang by his own head."

How would you meet a case such as this: A company might pay a dividend out of profits this year and pay tax on its undivided profits. Next year it may have a bad year, but it still wishes to pay a dividend, and it pays it out of its Appropriation Account?—That would be all right, surely, because the shareholders would then pay upon the dividend which they earned the previous year, but did not receive.

But there would be double taxation, would there not?—In that case there would be.

Would you propose to meet that in any way? It is not an uncommon thing?—It is quite a realizable position. The only thing to do would be to make an exemption. Whatever had already been paid should be allowed for.

*Mr. Clark:* It was tried in Australia and abandoned.

*Witness:* Was it? It is very hard, I know. I know the extreme difficulty of doing what is fair all round. We all realize the intense difficulty of it.

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GERALD FITZGERALD, Civil Engineer, Wellington, examined.

*The Chairman.*] You have made a study of the subject of taxation, or have devoted some consideration, at any rate, to it?—I should have to qualify that statement by a becoming sense of modesty. I may say that I appear here with a considerable amount of diffidence, because I am deeply sensible of the fact that the members of this Commission individually must know quite as much about taxation as I do, and some of them considerably more. I only desire to be helpful, so far as I am able to be.

You have prepared a statement setting forth your views: perhaps you will be good enough to read that to us?—I have separated the papers according to the several different taxes that I propose to criticize, beginning with the land-tax.

#### *Land-tax.*

*Principle.*—When the land-tax was first instituted it was meant to be partly a producer of revenue culled from a supposedly wealthy or comparatively wealthy class, and partly to act as a brake upon

the aggregation of landed property then believed to be greatly upon the increase, and therein assumed to be pernicious; and this belief found expression later on in the stiffening of the graduation and the increase in the general scale. Since then and up to the present day the belief that aggregation can be prevented by a tax has suffered a continuous decline, as the facts do not support such a conclusion. It is true that many large landed proprietors have subdivided and sold their land when the market prices appeared to indicate that it would be profitable to do so, or when the inconvenience of devising wealth in this form presented an embarrassment to an aged owner; but, on the other hand, it was found that the imposition of the tax did little or nothing to prevent the continued acquisition of properties by capable and vigorous investors who were confident of being able to make them pay a satisfactory profit in addition to the enhanced rate of taxation. In seeking the aid of taxation to prevent this particular abuse there is little doubt that an important economic principle was disregarded in that taxation should be invoked for the purpose of providing revenue, and should never be used as a substitution for remedial legislation. Its failure in this regard, therefore, is not so much a matter for regret as it is an inevitable result that might have been foreseen. In the meantime, however, the failure of the tax to prevent aggregation which stood in the way of closer settlement of the land had seemed to require that the powers of resumption should be adequately increased, and at the present time such powers are apparently ample for the purpose. With such powers of resumption as an instrument of administration it is plain that this particular function of the land-tax (apart from being wrong in principle) is no longer needed, and that, being no longer useful, it might as well be abrogated. It remains to consider whether as a producer of revenue it is worth while to retain this particular tax as well as the income-tax. Upon general principles it is usually conceded that if one tax will achieve the desired result it is no advantage to have more than one, and if the superior merits of the income-tax be admitted this argument would appear to be unanswerable.

*Inequitable Incidence.*—So long as the tax was being paid by the landed proprietors who could afford to pay it out of the incomes derived from the products of the land the operation of the tax was not seriously called in question; but with a sudden and remarkable fall in agricultural and pastoral prices, resulting in widespread losses, it became obvious that in a great many cases no incomes could be made from the land out of which the tax could be paid; but since nevertheless it had to be paid it was plain that the tax would have to be paid out of capital, and this brought into a strong light the difficulty of applying the tax to the changed circumstances above mentioned, and firmly established its inherent inequity as well as its pernicious effect in depleting capital, and thus acting in restraint of trade. There have been from time to time modifications of the land-tax in connection with the income-tax in the alleged desire to secure an equitable adjustment, but as all such changes were more in the nature of expedients supposed to meet some particular emergency, and were in no case the development of a principle, they need not here be considered, except as changes the frequency of which create inconvenience.

*Graduations.*—In the mistaken belief that the machinery of the land-tax was an instrument to be used for the prevention of aggregation, the graduation was apparently framed with an eye to pastoral and agricultural properties; but whatever may have been said in defence of such a design its application to city properties seemed to bring its inherent injustice into strong relief. It is by no means easy to understand why a large business occupying a large city section for which a large price must have been paid should be penalized to any greater extent in proportion to a small business occupying a small allotment for which a small price had been paid. But that is not the worst. As if in order to emphasize the inequity of any attempt to conduct business upon any but the most insignificant scale, it was ordained that the graduation should take no account of mortgages. The peculiar injustice of this provision is realized when it is remembered that a property mortgaged belongs in equity not to one person but to two. Nevertheless the owner of the equity of redemption was assessed under the graduation not only for his own interest, but for the mortgagee's interest as well. If this invidious distinction can be said to have any merit it is certainly not easy to discover it.

In view of the foregoing it is submitted that there can no longer be any real objection to the abandonment of the land-tax, and the consequential enlargement of the income-tax with the unquestioned advantages of placing the burden of taxation upon the shoulders best able to sustain it, thus ensuring the payment by each individual according to the means at his disposal.

#### *Income-tax.*

*Non-permissible Deductions in Assessment.*—It is a rule of the Tax Department that in assessing incomes subject to tax no deductions are permissible other than those incidental to the earning of the income, and amongst those so disallowed are taxes. It is submitted that this is a dogma rather than a principle, and that it does not rest upon a sound economical foundation. Local-body rates are allowed as a deduction, and it does not appear that any real distinction can be drawn between rates so allowed and taxes that are so rejected. The Department's rule implies that taxes must be treated in an appropriation account which deals with the subsequent disposal of the income, and not in a profit and loss account which deducts the charges from the gross income; but all business accounts reject this rule and deduct taxes in the profit and loss account as one of the charges incidental to the conduct of the business pursued for the purpose of producing the profit. It is a common practice to set aside out of profits a reserve to cover taxes, and out of this account taxes are paid. This clearly emphasizes the business rule, that it is only the net income after the payment of all charges (including taxes) that is distributable as profits; and it is submitted that it is this net distributable income that should be the amount assessed for tax, rather than the partly gross amount at present assessed under the rule of the Department that is here challenged. If the system of individual taxation were brought

into operation in substitution for the corporation-tax as elsewhere recommended, this particular difficulty would entirely disappear, since the tax would then be assessed upon the income after it had been distributed into the hands of the several individuals entitled to receive it. It is respectfully submitted that it is the several persons who receive the income who should severally pay the tax thereupon assessed, and in proportion to their means to do so.

*Possible Increase in Income-tax.*—It has been stated that the abandonment of the land-tax would involve a considerable increase in the income-tax, since the revenue so lost in the land-tax would have to be made up in some other way to the required amount. This is admitted. It is, however, submitted that this alteration is not of necessity a disadvantage, since it is immaterial whether the revenue is derived from one tax or from several, provided that the incidence is not unfair. The only real principle at stake is that the tax however applied should be equitably borne by the several classes of people who may be called upon to pay it. It is not disputed that the tax should be assessed upon some scale of graduation whereby the richer people should pay more in proportion than the poorer people who may be less able to support the burden. This principle would not be affected by an increase in the income-tax; and it is plain that those who were relieved from payment of land-tax could well afford to pay more by way of income-tax. The outstanding merit of an income-tax is that it is only payable out of profits, and that the individual who has not been able to make profits cannot be called upon to pay any tax. Economists have never been able to suggest any other form of tax which reaches the high level of abstract equity. It is admitted that if the income-tax were to be relied upon to supply practically the whole of the revenue its orbit would be considerably extended, and as a consequence the expense of collecting it would be—for a time at least—materially increased. It is submitted, however, that this presents no real impediment, since in other places where the same difficulty has arisen it has been met by improvements in administration, and it must be obvious that the removal of the land-tax would lead to a great saving in administrative expense, so that it is quite possible that the net increase in cost would, after all, be negligible. It is probable—and is here recommended—that some reduction should be made in the amount of the exemption (now £300) to provide a small payment of tax by a large class who derive all the material benefits of citizenship and the protection of the law from the organization supplied by a stable Government. It is not unreasonable to expect that such people should pay something, even if only a small amount, towards the cost of administering the country that maintains them in safety. It is, however, admitted that practical considerations require an exemption, since the cost of collecting tax from the very poorest would exceed the value of the tax collected; and hence it may be supposed that the revenue payable as Customs dues is an adequate expression of the taxing possibilities in this direction. If this is a correct statement it follows that the regulation of the exactions by way of Customs dues should always be upon the broadest possible base, and should never fail to include the elementary necessities of ordinary households. Viewed in this light the political cries such as the “free breakfast table” appear to be devoid of practical meaning. It is regrettable that changes in the form and application of the tax have in the past appeared to be a necessity, and not the least among these is the change by which the farming industry was recently relieved from the payment of income-tax. It has always been regarded as an exceedingly dangerous experiment to differentiate between classes in the application of a tax, and hence it has not caused surprise to read the very severe criticism that descended upon this particular change—the more so since it appeared that wealthy tenants upon Crown leaseholds were enabled altogether to escape the payment of tax, such titles not being assessable for land-tax. A distinction has in the past been made between the income due to personal effort styled “earned income” and that produced by the investment of capital, and this—not being in any sense a class distinction—has been found to be acceptable as a recognition of the superior quality of the toiler as distinguished from the otherwise inert investor in the labour of others. It is submitted that this element should not be disturbed.

*Profits and Losses per contra.*—It was at one time a rule of the Department not to allow as deductions from the individual assessment the losses made in one business from the profits made in another, but this embargo was subsequently withdrawn, leaving only the extreme difficulty in understanding how such a singularly unjust rule ever came to be adopted. It is submitted that the only income to be assessed for taxation payable by an individual should be the net amount after taking into account the several losses and gains of the business as a whole notwithstanding the extent of its ramifications.

#### *Corporate Taxation.*

*Principle.*—The present system of taxing corporate bodies such as companies as if they were individuals is still the subject of controversy. Those who support it have adopted as a dogma the statement that incomes should be taxed “at their source,” and at first sight it would seem that this particular phrase lacks defined meaning, since the sources of income are so many and so widely diffused as to be incapable of distinction. If any defined meaning can be given to the words they probably mean that the “source” of the income is its first appearance as an aggregated profit whether in corporate hands or in individual possession. This is, of course, not by any means a correct literal construction, but it seems to be the best that can be imported into the phrase used by those who wish to retain the present system. It will at once be seen that these words, whether rightly or wrongly used, do nothing towards elucidating the theory of the system of taxation, so that it becomes necessary to trace its effect in its application to the conditions of established business. The public mind has now firmly grasped the fact that all corporate bodies subject to taxation pass on the tax to their clients or consumers, unless they are prevented from doing so by the fixing of prices abroad or otherwise beyond their control. In the first case the goods produced or the services performed are rated at a price calculated to cover the ordinary charges as well as the tax which is therein included.

In the commercial sense the tax is regarded as one of the ordinary charges incidental to the conduct of the business, and any firm or company neglecting to make provision for this element of expense would not long survive in competition. In the second case, where it may happen that the charge cannot be passed on in the selling-price, the tax must come out of the profits otherwise distributable to shareholders. The only exception from this rule is in cases where the purchasing-price for the goods handled can be reduced by the purchasing company to provide for the tax they will have to pay. In both cases the incidence is unfair, since the service to the community is rendered too costly, and the tax ultimately falls not upon the wealthier class who are able to bear it, but very largely upon the poorer class who are not otherwise within taxable reach. It will thus be seen that if the principle of exacting tax from those best able to bear it is sound, then the present system is far from complying with that standard. Accepting the principle, however, as being economically unassailable, it seems that the dogma above mentioned should be paraphrased into the collection of tax "at its destination," which is sound—whether literally, economically, or practically—since it implies that the payment of tax should be made by the person who receives the income. Another phrase in common use by the supporters of the present system is that the tax should be collected from "the unit" that makes the income, and for the purpose of this contention a company or other corporate body is regarded as a "unit." Some difficulty will be found in attaching any precise meaning to the words in question, since the literal construction as applied to companies is unquestionably wrong. The true distinction is in the fact that a company is not a unit, and it never receives any income in the individual sense. It is an aggregation of individuals, only collecting income in order to hand it over to the persons severally entitled—*i.e.*, the shareholders—who have provided the capital from the use of which the income is produced. The company does not itself own this capital. It owes it to the shareholders from whom it was borrowed, and when it is no longer required—*i.e.*, in liquidation—it has to be returned. Since the company can in no sense be regarded as an individual it seems to be clear that the tax ought to be paid by the shareholders or such of them as are assessable for tax, whereas at present the rich investor in shares altogether escapes by passing on his tax to the company's consumers. Apart from the inequity manifested by the tax thus falling upon the wrong people, many of whom are not otherwise taxable, the fact involves the sale to the consumers at prices which are higher than can be morally justified, and the complaints of the consumers in this regard is seen to be a real grievance calling for adjustment.

*Practice.*—A practical illustration of the foregoing will assist to make the meaning clear. The Wellington Gas Company (Limited) paid in income-tax £1,771 in 1914, and £21,298 in 1921, more than twelve times as much, or, measured per 1,000 cubic feet of gas, an increase of from 1.3d. to 11d. The price of gas per 1,000 cubic feet to the consumer was raised from 5s., to 8s. 9d. and in order that the price should not be made too high to the consumer the shareholders agreed to accept a reduced dividend in the years 1918, 1919, and 1920 of 5 per cent., instead of the customary 10 per cent. previously declared. If the shareholder in view of the circumstances had not agreed to accept a reduced dividend the price of the gas to the consumer would necessarily have been much higher. The large bulk of the consumers are not taxable, but under the system then in force and still subsisting they nevertheless paid most of the tax, and would have paid much more but for the forbearance of the shareholders. If the individual tax had been in force the price of gas could have been largely reduced to the consumer, and the tax thus removed have been paid by those of the shareholders who happened to be taxable. In this case there can be very little doubt that the individual tax would have been very much less unfair than the present system. It has been urged by supporters of the present system that if companies were relieved from taxation they would use their freedom to pay increased dividends. This would certainly not be the effect in the Wellington Gas Company (Limited), since the reduction in income-tax recently made has gone to reduce the price of gas to the consumer, the policy of the company being always to sell gas as cheaply as possible; and it is submitted that, unless in special circumstances where losses were being made, it would not be the case in any other company that could claim to be prudently managed. Another section of the supporters of the present system has indicated that companies when relieved from the payment of tax would *not* raise their dividends, and that shareholders who would then be called upon to pay the tax would not in such circumstances be adequately recompensed. This would apply to preference shareholders. It is submitted that inasmuch as the poorer and untaxable shareholders would not be in any way affected the tax could only fall upon the shoulders of the wealthier shareholders, and that the small difference made by the suggested alteration in their general assessment would thus be negligible. It is, of course, incontestable that the tax paid by the wealthier classes, whether shareholders or not, would inevitably be greater than heretofore, and it is submitted that such a result would be no more than a just and proper incidence. It is further submitted that the importance of selling to the purchasing public the products of company organization at the cheapest possible price has not theretofore received adequate consideration, and that so far as may be practicable it should be maintained as a principle, in that no system of taxation should be framed to its disadvantage. It has been alleged that the removal of company-taxation would tend to drive small traders out of existence, but this belief will be found upon examination to be largely illusory. The small trader, if he owned the whole of his business, would be no more or no less taxable than if he owned the whole of the share capital of a company, since it is the beneficial interest that would be taxable whether produced by a company or otherwise. The small trader receiving the whole income would thus be taxed according to his assessed rate and scale, and he could have no real cause for complaint. If it should happen, however, that small traders (no matter from what cause) could not supply the needs of the public as cheaply or as satisfactorily as larger aggregations of capital, then there can be no sound economic reason for their survival, but it is submitted that this is not in fact the case. Thus the laundry companies have never been able to oust their smaller rivals. The automatic bakeries



have the same competition as formerly, and the small dairyman is still flourishing in spite of his municipal competitor. It is submitted that in none of the cases mentioned can there be discovered any sound reason for rejecting the great and unassailable principle that the tax should be paid by the individuals enjoying the benefits of the income, and in proportion to the degree of the benefits so enjoyed.

#### *Debenture-tax.*

*Principle.*—This tax offers a curious instance of how inconsistencies arise when revenue is sought by expedients rather than by application and maintenance of principle. It might naturally be supposed that in accordance with the method adopted in the case of companies the tax upon the interest payable upon the debentures would be a liability of the corporate body; but that is only superficially the case, since the income is finally assessable to the owner for the time being of the debenture. Thus it is really an individual tax (and, being such, no objection thereto is here recorded), but the question may well be asked as to why the company should be taxed in one case and the individual in another. This singular inconsistency seems to be unaccountable, and hence it is submitted that the difference should be eliminated, and that one method should be adopted. Some further confusion has arisen from the striking of different rates—one for local-body debentures and another for company debentures—such difference being the subject of much criticism. This, however, is a minor matter and only useful to illustrate the danger of resorting to uneconomical expedients in substitution for the application of economical principles.

#### *Municipal Trading.*

*Principle.*—It is alleged by private trading concerns that it is unnecessary and unfair to allow municipalities to trade in competition with them, and it is alleged that the further special unfairness is seen in the freedom from tax enjoyed by the municipalities. This grievance has lately tended to become more acute as the activities of municipalities have extended beyond the usual public utilities and invaded the region of direct trade. Thus the Christchurch City Council is the exclusive agent for a certain motor-vehicle that is being sold in competition with others, and the Electrical Department there, and also in other cases, undertakes the supply of electrical fittings and machines in competition with private traders. Municipalities, of course, are not called upon to pay rates, nor usually rent, upon any of their premises, which is an initial advantage of great consequence; and the freedom from income-tax and land-tax is such a further advantage as to make the complaint of the private trader in competition with such immunities a grievance of the first importance. Moreover, the loss to the State in not exacting tax from these illegitimate trading adventures is so great as to merit the closest scrutiny. It has been stated that municipalities if assessed for income-tax would so frame their profit and loss accounts as to show little or no income and so evade assessment. This possibility is admitted; but it is also plain that such evasions could easily be met by a special method of assessment under which no escape would be possible. A special form of assessment would in any event be required if the company-tax were abolished in favour of an individual tax; and in such event municipalities would probably have to be regarded as individuals, since they have no distributable profits as in the case of companies, and are the direct recipients of the income accruing from the result of their activities.

#### *State Trading.*

*Principle.*—There is a generally accepted belief that it is a mistake for the State to enter into trading enterprise, especially in competition with private undertakings of a similar character, but comparatively few people have taken the trouble to examine the foundations of this theory, and the slackness of the public mind in this regard has made it easy for successive Governments to submerge the principle at several different times under the pressure of some superficially attractive financial expedient. It is usual when discussing this subject to meet with the preliminary concession that a few special Departments such as Postal and Railways are properly State monopolies which it is implied are beyond criticism, the discussion then being carried forward to the consideration of other utilities. It is not here admitted that this view is correct or that it can be supported by material facts. Indeed, there has been from time to time a good deal of controversy upon the subject of State management of the railways, which are now stated authoritatively to find great difficulty in earning 3½ per cent.—a very poor result for a monopoly—and there are other more serious aspects of the case hereinafter appearing. The Postal Department has never had competition of any kind, so that there is a dearth of evidence affecting its management; but if the competition in other directions is any guide to the formation of a correct judgment it is by no means certain that private management could not produce a better result. However, for the purpose of this submission it will be sufficient to consider the application of the principle to the concerns in which private trading is usually adventured. The greatest difficulty in the way of all State trading is that large Departments sooner or later have to adopt a classification scheme for its employees. All such schemes contemplate promotion in a particular manner, and practically eliminate dismissals except for grave misconduct. The result of this is that good men find the rate of promotion too slow and are easily tempted to accept other employment, while, upon the other hand, the rate of promotion exceeds the merit of inefficient men for whom no other employment is offered. This inevitably leads to the survival of mediocrities and incapables, and reflects upon the administrative ability of the whole staff. Such lowering of the administrative capacity together with the apparent impossibility of freedom from political interference probably accounts in some measure for the trading losses that appear to be inseparable from all Government trading adventures. There is, however, a more serious menace in the creation of large bodies of Civil servants who have apparently discovered the advantage of banding themselves together in associations of various kinds, which for all practical purposes are really indistinguishable from trade-unions; and these several associations are not blind to the advantages to be obtained from mutual

support for the purpose of furthering some common objects such as the rates of pay or the hours of work. It is easy to imagine an extension of such services that would practically enable the employees to dictate their own terms, particularly at times when there might happen to be a slender balancing of political factions. There have been several instances where such attempts have been made, and there can be small doubt that with a greatly increased Public Service such instances would tend to multiply.

*Practice.*—If it could be shown that notwithstanding the above-mentioned difficulties in the way of State trading the outcome in public benefits justified the acceptance of risk, then the question would perhaps be determined by the measure of practical result. This, however, is very far from being the case, since the contrary is now being published in several countries. England, Canada, Australia, United States of America, and even New Zealand have all had to admit more or less serious losses in State trading, some running into many many millions; and against this there are no instances recorded where gains have been made or where superior efficiency has been achieved. Statements are now being published that one country after another is abandoning State trading as fast as possible, and frank recantations of such heresies are being bracketed with admissions that trading adventures are most successful and most useful to the public when they are left in private hands. The essential vice of all State trading seems to be the fallacious doctrine that profits may be disregarded in favour of a service giving certain conveniences to the public, and in pursuit of this entirely unsound principle the safeguards usually required in the establishment of sound business are seldom erected. This method of conducting a business sooner or later results in losses that have to be passed on to the taxpayers—a wholly unjustifiable proceeding.

*Payment of Tax.*—For many years it was contended that State trading should not be subject to taxation, but the palpable injustice of competition with private traders upon such terms gradually forced itself upon the public notice, and now the principle that State trading should be taxed upon the same terms as private undertakings is generally recognized, and in most of our State trading departments income-tax is now payable. There are still some exceptions which it is submitted should be eliminated if the system of State trading is to be maintained. The State, however, still refuses to pay local-body rates, even in cases where it has compulsorily acquired large blocks of land for housing purposes upon which rates were paid by the previous owners. It is submitted that this manifest injustice should receive consideration. There is another very important fact connected with the payment of taxation by the State trading departments in that the amount of such tax when paid by the State concern is very much less than the amount that would be assessed to a private trader; an example of this is given to illustrate the significance of this fact. It will be seen that if the service is entrusted to the State Department the loss of revenue is considerable.

COMPANY.		£
Capital ..	1,000,000	
Debentures ..	1,000,000 at 5 per cent.	
	<u>£2,000,000 lent at 6 per cent produces gross</u>	<u>£ 120,000</u>
Expenses .. .. .		10,000
		<u>110,000</u>
Taxed at debenture rate of 4s. 6d. in the pound on debentures ..		50,000
Taxed at full graduated rate on .. .. .		60,000
STATE ADVANCES.		£
Borrow £2,000,000 at 5 per cent. .. .. .		100,000
Lend £2,000,000 at 6 per cent. .. .. .		120,000
Gross profit .. .. .		20,000
Expenses .. .. .		10,000
Taxable balance, as net profit .. .. .		<u>£10,000</u>
Company-tax :		
£50,000 at 4s. 6d. in the pound .. .. .		11,250
£60,000 at 5s. 10 $\frac{1}{2}$ d. .. .. .		17,600
		<u>£28,850</u>
State Advances tax :—		
£10,000 at 5s. 10 $\frac{1}{2}$ d. .. .. .		<u>£2,933</u>

I have one other note which I made since I prepared that paper, in further pursuit of the Department's refusal to allow the deduction of taxes from the assessment. I put it in this way:—

The application of the rule of the Tax Department in refusing to allow taxes to be deducted in the profit and loss account has another peculiar effect which is very often overlooked in weighing the disadvantages incidental to this practice. The amount that is taken from profits to pay the tax, whether previously set aside as a reserve for that purpose or otherwise, being in the first case a profit,

is itself subject to tax. So that in such case a tax is paid upon the tax. The apparent injustice of this double taxation suggests the probability that in framing the rule here under criticism this particular result could not have been foreseen.

I have not attempted to flood you with statistics or anything of the kind, because the figures that I could have used are all in print, and this Commission has access to them. But I do not know whether it is worth while reminding you, in regard to State trading, of these statements that have recently appeared:—

“The State Treasurer of New South Wales says that Australia has lost £7,000,000 in various State enterprises. This was one cause of the high taxation.”

“The Washington correspondent of the *New York World* says the sale of the Dollar line resulted in a loss to the Government of 26,000,000 dollars.”

“Mr. Bruce, Federal Prime Minister, stated that the Commonwealth fleet, which cost £15,000,000, was then estimated to be worth £4,500,000. This loss was in addition to the running losses, which were as follow: To June, 1922, £1,171,569; to June, 1923, £1,626,150.”

“Up to June 30, 1920, America lost on her mercantile fleet and stores 211 millions sterling.”

“Canada lost on her mercantile fleet in 1922 £1,800,000.”

“Seven New Zealand coal-mining companies paid in income-tax in 1921 £146,256.”

If they had been in the hands of the State that income-tax would not have been paid. With regard to municipal trading, in the case of the Auckland tramways it is reported that they paid in income-tax £30,000, and in addition £20,000 in royalties to the City Council. Now, the Dominion loses £30,000 in taxation and the City Council £20,000 in royalties, and the fares are higher and the service no better, or, if any, very little better. The Christchurch Electricity Department showed a profit of £14,385 in 1922, and to this date they have built up a Reserve Account (“Sinking fund”) of £49,766. None of that pays anything to the State. In 1921 the following gas companies, privately owned, paid in rates and taxes as follows: Auckland, £35,307; Wellington, £21,297; Christchurch, £16,944—making a total of £73,548. If those had been municipal undertakings the State would have lost taxation. The following expenditure out of loans is from 1913 to 1922, New Zealand municipal bodies: Tramways, £1,652,781; lighting and power services, £1,922,251; State coal-mines, £227,000; loans to Power Boards, £5,636,500: total, £9,437,532.

*Mr. Hunt.*] With regard to the land-tax, let me ask you this, though I have not really digested your statement: What do you think of the suggestion of abandoning the land-tax altogether and making the whole thing income-tax?—That is my submission. I said first of all that it was wrongly termed: there was a confusion of ideas when it was started. Instead of regarding it only as a revenue proposition, they also tried to include in it a repressive measure against certain supposed abuses. My claim is that they were wrong there. It is obvious that they must go wrong if they do that, because if they wanted revenue they would ask the Commissioner of Taxes how he would provide it; but they could not well ask him how he would repress certain supposed abuses. He would not have any views on that subject.

*Mr. Shirtcliffe.*] Have you any view as to the advisability of placing the tax on debentures on the same level as the tax on any other income?—I cannot see any reason for differentiating between income derived from debentures and income derived from anything else. The gist of my submission is that the whole of a man's net income should be merged and taxable on whatever scale is laid down, without differentiating in the sources of the income, except so far as it is earned or unearned. I think that concessions should be made there.

Assuming that for taxation purposes debentures were placed on the same footing as other sources of income, would you consider it any breach of faith towards debenture-holders if the alteration were made retrospective—to apply to past issues of debentures?—I should not encourage the passing of any legislation that would affect contracts already made. I regard contracts already made as possessing a certain sacred value, and it would be a breach of faith, I think, to interfere with contracts where they were specially made.

In the case of the tax-free war loans there was clearly a contract?—Yes.

They could not be interfered with, and I am not referring to them in any way?—No.

But I am referring to local-body and company debentures, the issues of which were made presumably subject to the ordinary fluctuations in taxation. There was no contract as between the Government and the issuing bodies as to what the rate of tax would be, except for the year then current. Do you suggest that there was a contract?—No, sir. In those cases in which I myself was concerned in the issue of debentures I specially removed every evidence of contract of that kind, because I knew that legislation might subsequently affect that, and I wished the person who had the debenture to be subject to the same class of legislation, and to the same extent, as any one else. So we refrained, in every case in which I was concerned, from making any contract by which any person but the debenture-holder would pay the tax.

Then I come back to the point, Would you consider there was any breach of faith with that debenture-holder if the rate on past issues of debentures were raised to a level with the tax payable on other income?—I would not consider there was any breach of faith, for this reason: any person undertaking to pay, by the receipt of an income, must remember that he is always subject to fluctuation changes in the incidence. I have been careful to preserve that principle wherever I have been personally concerned. I may remind you that the difficulty has cropped up in another way in the case of wills that have been drawn specifying the relief of certain persons from paying certain taxes, such as the old property-tax; but I think it has been held that that did not apply when taxation was changed and land and income tax came in; that was not covered. The beneficiaries had to face that difficulty.

*Mr. Begg.*] I gather that you think the distinction between earned and unearned income should be maintained?—Yes. That is very important.

You think that is an important matter?—Yes; because there are some people who wholly or in part derive their incomes from investment, and they do not contribute to the necessities of the community. I do not think they ought to be in the same position as a person who works.

Take the case of a man who is living on his income derived as a result of his past savings. He has, under our classification, an unearned income. He did not inherit it or get it by gift, but he worked for it all?—Yes. I am afraid I could not advocate carrying the exemption to those cases, because in that case although the man may, for the time being, be enjoying the receipts of his past exertions, we ought to remember that he has become a man of another class. Before a man retires from a business he would put aside a certain sum which he considered necessary to provide for certain changes. He has become a man of another class. A man who sits down and enjoys the advantages of other people's labour becomes a man of another class, and the moment he steps from one class to another he should become subject to the taxation of that class.

In the case of an inheritance, do you not think that that advantage is discounted for in advance by death and succession duties? In the case of one who lives on the income from an inheritance, has his advantage not been already discounted by the payment of death and succession duties before he got the inheritance?—No; I think that is a different question altogether. The payment of death and succession duties is a disability that applies to the possession of all wealth that is transmissible, and sooner or later, inasmuch as every one must die, every one must face the imposition of that impost. You cannot carry that into the discussion of the possession of money from an estate.

You favour the differentiation between earned and unearned income?—Yes, sir. My submission is that a man who is working is the more useful member of the community, and should get whatever advantages are attached to that position.

*Mr. Shirtcliffe.*] With regard to debentures, assuming that the tax on debentures was raised to correspond with the tax on other incomes, would you apply that to local-body debentures?—Yes, sir.

You see no reason why they should be specially treated in connection with local bodies?—I cannot see the smallest reason. If a local body has to enter the market to borrow capital, the security for which is its rates, whatever service is produced for the money so borrowed should be of the same value as services produced as the result of money raised in any other way. A municipality should not be placed in any better position than any other body.

You agree that local bodies coming on to the local market for large sums of money are taking that money from the ordinary commercial channels of employment of money; there is so-much less money left available for assisting the primary industries of the country?—In a large view, yes; but as most municipalities try to borrow in a larger market than is here available—abroad, where money is more plentiful and available at a lower rate—as far as it effects the local market, there is no doubt that the local body is in competition with other borrowers, and I am distinctly against a municipality being able to compete unfairly with private traders.

Large blocks of money have been floated by local bodies in New Zealand?—Yes, they have.

And to that extent they have depleted the market of money in New Zealand that would have been available for assisting private industries?—I have no doubt that that is a fact, and that money is now dearer partly as a consequence of that.

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EDWARD COLLINS JACK, Secretary of the New Zealand Forestry League (Incorporated), examined.

*The Chairman.*] You have prepared a memorandum, Mr. Jack, setting out the views of your League in connection with taxation; will you read it to us, please?—Yes, my statement is as follows:—

#### *Taxation of Plantations.*

I am asked by the New Zealand Forestry League to present to the Commission the views of the League on the subject of the taxation of lands devoted to the growing of trees for shelter, for ornamental and utility purposes. In 1912 the Valuation of Land Act was amended to provide for the exemption of plantations, but the alteration did not go far enough. As a matter of fact, any benefit received was far more than counterbalanced by increased valuations, and whilst it can be said that such plantations are exempted, the fact remains that there has been no reduction in the taxation paid on such lands. In our opinion, there was left in the Act a clause which went a long way towards nullifying any benefit in that the definition of "land" still included "all timber growing or standing thereon." In the proviso the clause was intended to exempt such reservations and plantations, but has been interpreted to mean plantations only of native or exotic trees, and to exclude indigenous stands of timber. I would like to say here that in 1912, when the Act was amended, I was secretary to the New Zealand Farmers' Union, which took an active part in the representations made to get the Government to take this matter into consideration. It is my belief that at that time the Government intended to completely exempt growing timber from taxation. When the proviso was put in the clause defining land it was made to read that native bush or trees planted should be exempt, but in the definition the words "all timber growing thereon" were left, so that the idea was largely nullified. I understand that since then a decision has been given to the effect that that proviso meant native trees or exotics planted. Therefore it nullified to a large extent what we thought we were getting and what we considered the Government intended at that time. What we desire is to see proper encouragement given to the setting-aside of areas of land for the production of timber, and if in the meantime the trees are used as shelter-belts, ornamental belts, or merely

reserved for their prospective value as fencing-posts, rails, sleepers, or building-timber, we consider it absolutely necessary in the interests of the Dominion that there should be no tax collected until the timber is used or sold and the profit is secured. We are not here to ask for any reduction of the revenue derived annually from taxation, but to urge that the taxes should fall equitably on the taxpayers. We submit that it is unreasonable to expect landowners to set aside areas of land for periods of twenty-five to thirty-five years without an annual return, and to expect them to pay a tax on the land equal to that on land which produces an annual income. The principle of taxation should be to extract for administrative purposes a portion of the revenue earned during the year of assessment, and though it is true that the increment in the growth of the trees is calculable and is realizable in the event of a sale, it is of no benefit to the owner of the property until it is harvested. Any benefit he may derive by way of shelter or ornament is well paid for in the taxation levied on the farm as a whole. The effect of the present method of valuing reservations and plantation lands is detrimental to the interests of the Dominion and is resulting in farmers destroying native bush and exotic plantations and deterring landowners from either conserving areas of forest or planting fresh ones. When it is considered that the landowner has probably paid £10 to £15 per acre and the unimproved value is possibly £8 to £10, every acre set aside for this purpose means that he is deferring an income of about 10s. per acre per annum for twenty-five to thirty-five years. This alone is a serious obstacle to extensive planting or reservation, and we submit should not be added to by a tax. Further, the tax on such lands does not stand alone, but increases the taxation on all other land used in the production of the owner's annual income. Assuming a man to own 525 acres of sheep-country valued at £12 unimproved value and he desires to set aside 25 acres of standing bush or to plant 25 acres with exotics. He is taxed on £6,300 at the rate of  $1\frac{5}{8}\text{d.}$ , or £33 4s., whereas if the planted or reserved land were free he would be taxed on £6,000, or  $1\frac{3}{8}\text{d.}$ , or £31 5s., equivalent to an additional tax of  $1\frac{1}{2}\text{d.}$  in the pound on the 25 acres.

It is said that taxation of plantation lands is based on grazing-land value only, but grazing-land may be valued from £3 to £30 per acre, and we have yet to learn that valuers make any distinction between planted and unplanted lands except for arriving at the value of improvements. We would remind the Commission that the income-tax payer under a £400 income is exempted to the amount of £300. As this means approximately  $6\frac{1}{2}$  per cent. on £6,300—and a landowner does not make that percentage on the average—it should follow that he, too, should have exemption up to at least £4,500 unimproved value. We would also stress the fact that the value of land in plantations is heavily affected by the erroneously termed "unimproved" values. Improvements to be deductible must be visible, therefore every improvement as it disappears from view is added to the unimproved value, and as plantation land in nearly every case adjoins such land its unimproved value correspondingly increases, so that the taxation on land, the revenue from which is deferred for twenty-five to thirty-five years, becomes an almost unbearable burden on the owner. The remedy we suggest is to defer taxation till the crop is harvested, and to levy a tax in the form of a small royalty on the milled or extracted timber. A royalty of 3d. per hundred feet would produce a tax of £3 15s., assuming a growth of 30,000 superficial feet per acre. This, when the timber is sold, would not be oppressive and would return the Government a substantial tax revenue. We would suggest that the exemption should apply to any area up to a value of £15 per acre. This value is put in simply with the idea of keeping it down to grazing-land. Many lands would be more highly valued, but it is not desirable to keep high-valued lands to be maintained in forest. There are in New Zealand some 50,000 acres of private plantations, excluding native-owned lands. The Selywn Plantation Reserve contains about 15,000 acres, and this being a public body no taxation is payable in respect to these lands. In support of our contention, let me quote the recommendation of the Director of Forestry in this regard, *vide* Report, 1920, parliamentary paper C.-3A :—

"It is recommended by your adviser that a thorough and exhaustive investigation be made as soon as possible by the Forest Service into the incidence and burden of taxation on forests and forest lands, and that a uniform system of State-forest taxation be adopted by legislation, a system which will ensure the best use of the land and will be uniformly applied throughout the Dominion. The taxation measure should adopt the principle of a deferred-yield tax on the growing forest stand, and, if expedient, a surtax on forest lands not protected or managed in accord with sound forestry principles as expressed in the regulations and standards set by the State Forest Service. An equitable forest-taxation law as has been suggested should overcome those serious objections so often expressed by private owners—*i.e.*, that present taxation impositions are so heavy, unjust, and so out of proportion to the incidence of public burdens on other forms of property that private forestry is impossible. A measure of this kind should go a long way to making possible the successive growing of trees and the practice of conservative exploitation by earnest and public-spirited citizens and companies."

And again in 1922, parliamentary paper C.-3, he wrote :—

"*Forest Taxation.*—A most serious bar to the planting and operation of private forestry and tree farms is the incidence of taxation on forest lands and plantations. A scientific method of taxation whereby the major burden comes at the culmination of the crop will stimulate to fuller participation by the public in this profitable business of growing trees for profit, shelter, and domestic use. You are advised, sir, to authorize a thorough investigation of the matter with the presentation of a plan of equitable forest taxation."

I would like to add here, sir, that the State Forest Service have made a statement in one of their publications that the requirements of New Zealand timber will be about 1,000,000,000 ft. per annum. They expect the private owners to produce 20 per cent. of that, so that you can see the extreme necessity for encouragement being given to extend the area of planting. At present there is only 50,000 acres planted, which will require to be extended to 150,000 or 200,000 acres. I would

mention that the Right Hon. W. F. Massey, in reply to a deputation from the League, expressed the view that "It was imperative that propaganda should be undertaken to urge farmers and landowners to carry out plantation work in the interest of the timber requirements of the Dominion." Undoubtedly, a few enthusiasts may set aside considerable areas, but the average landowner is not philanthropically inclined, and will only do so if he sees a profit in it. The risks from fire, winds, and climate are heavy, and the owner is easily dissuaded from incurring the loss of revenue from the land, plus the cost of planting and plus the taxation. It not infrequently happens that a small immediate benefit is a stronger incentive than a large but distant profit, and on this ground alone the exemption asked for should be granted, especially as it would not mean loss to the Government—in fact, the ultimate gain would be to its advantage. No one, or at least very few, object to pay taxation on an actual income, and the suggested royalty would not unduly oppress any one, whereas the present method of taxation is a hardship and a serious deterrent to the extension of private effort in tree-planting or the reservation of native forests.

To sum up :—

- (1.) We ask that all lands devoted to the growth of trees not exceeding £15 unimproved value per acre be exempted from taxation, both national and local.
- (2.) That the definition of land in the Valuation of Land Act be amended by the deletion of the words "all timber . . . growing thereon."
- (3.) That the proviso to the definition of "land" in the Valuation of Land Act be amended to read, "Provided that reserves of native bush or plantations of indigenous and/or exotic trees," &c.
- (4.) That taxation on land devoted to the growing of trees on any area not exceeding an unimproved value of £15 per acre be deferred till the timber is used or sold, and that a royalty not exceeding 3d. per 100 superficial feet be then paid by the owner.

We commend these views to the favourable consideration of your Commission.

*Mr. Begg.*] You do not suggest, do you, that plantations, if sold, should pay a tax when they change hands, but only when the timber is millable?—No, I do not suggest that they should pay tax when sold, for the simple reason that on the sale of such a property the buyer would naturally consider the fact that he would have to pay tax when the timber was reaped, and consequently his price would be so-much less, and there would be no loss to the Government in that they would get the tax when the crop was harvested.

How do you arrive at the figure of 3d. per 100 superficial feet as being fair?—Approximately, by taking what would be the present tax over the period, at compound interest.

You have worked that out, and it comes to 3d. per 100 superficial feet?—Yes. It would depend, of course, a good deal upon the growth, but 3d. per 100 superficial feet would not be far out.

It would come to about the same as the land-tax to-day, so that all that you are asking for is that it be deferred till the harvesting of the crop?—Yes.

WILLIAM DRUMMOND STEWART, Superintendent in New Zealand for Messrs. Dalgety and Co. (Limited), examined.

*The Chairman.*] You have written a letter to us on behalf of your company on the subject of taxation; will you read it please, Mr. Stewart?—Yes. My statement is as follows :—

As the chief executive officer in New Zealand for a British company whose ramifications extend all over Australia and New Zealand I wish to refer principally to the question of double income-tax within the Empire. The disability under which companies such as mine operate by reason of our New Zealand income being subjected to tax by both the British and New Zealand Governments was fully submitted to the Taxation Committee which inquired into the incidence of taxation in 1922, and was dealt with as follows in that Committee's report :—

"The question of dual taxation on British companies operating in New Zealand was considered. New Zealand is, and will be for many years to come, in the development stage, and the Committee thinks it most desirable that outside capital, and particularly British capital, should be attracted and not discouraged. The Committee was informed that a satisfactory arrangement had been arrived at between the British and Australian authorities with regard to the taxation of British capital invested in Australia. The Committee has been unable to learn exactly what this arrangement is, but feel satisfied that it is not in the interests of New Zealand to permit conditions for the investment of British capital in New Zealand to be less favourable than in Australia. The following resolution was carried unanimously: 'That the question of dual taxation be further considered with the British authorities, and arrangements made that will result in British capital invested in New Zealand being placed in a position at least as favourable as in Australia, provided that such arrangement does not put British investors on a better footing than New Zealand investors.'"

Although two years have elapsed since the above recommendation was made to the Government we have heard of no arrangement being made in the direction of affording the relief suggested. Partial relief is already granted by the British authorities, so far as double income-tax between Britain and New Zealand is concerned, which was the outcome of the following recommendation made by the Royal Commission on income-tax in Great Britain in 1920 :—

"Firstly, that in respect of income taxed both in the United Kingdom and in a Dominion, in substitution for the existing partial reliefs there should be deducted from the appropriate rate of the United Kingdom income-tax (including super-tax) the whole of the rate of the Dominion income-tax charged in respect of the same income, subject to the limitation that in no case should the maximum

rate of reliefs given by the United Kingdom exceed one-half of the United Kingdom income-tax (including super-tax) to which the individual payer might be liable; and, secondly, that any further relief necessary in order to confer on the taxpayer the relief amounting in all to the lower of the two taxes (United Kingdom and Dominion) should be given by the Dominion concerned."

The present position is that British companies, who have rendered valuable service to the Dominion by providing a large amount of capital utilized in the development of the country, are placed in a disadvantageous position by having to pay 2s. 9d. in the pound more income-tax (at maximum rate) than purely New Zealand companies by reason of the taxes levied in Great Britain (including corporation-tax) and New Zealand. I would also point out that the relief now granted by the Commonwealth of Australia, under section 18 of the Income-tax Assessment Act, 1922 (No. 37), practically means the elimination of double taxation as between the United Kingdom and Australia, as an amount equivalent to the lower of the two rates is rebated, partly by the Commonwealth and partly by the British Government. The existence of a reciprocal arrangement between Australia and Great Britain, and the absence of a similar arrangement between New Zealand and the Mother-country, as pointed out by the Taxation Committee in 1922, must have the effect of placing New Zealand at a serious disadvantage (as compared with Australia) in the eyes of the British investors. The existing position in the case of investors whose incomes are subject to the maximum rates in Great Britain, and also in Australia or New Zealand, appears to be that as between Australia and Great Britain the maximum combined rate amounts to 4s. 6d. in the pound (plus 6d. in the pound corporation-tax), whereas between New Zealand and Great Britain the rate is 8s. 1d. in the pound, plus corporation-tax—i.e., 10s. 4d. in the pound, less 2s. 3d. in the pound relief granted by the United Kingdom.

*Contributions to Pension Funds.*—Under section 82 of the Land and Income Tax Act, 1923, the Commissioner of Taxes may allow a deduction of any amount set aside or paid by the employer or to a fund to provide individual personal benefits, pensions, or retiring-allowances to employees of that employer, provided that the Commissioner is satisfied that the fund has been established or the payment made in such a manner that the rights of the employees to receive the benefits, pensions, or retiring-allowances have been fully secured. My company has established two funds to provide pensions for its employees—(a.) a Staff Pension Fund, which covers the company's staff who have joined the service since the 1st January, 1915. Each member contributes to the fund on a percentage basis, the company subsidizing the fund to an amount equivalent to the members' contributions. In this case the Commission allows the company's contributions as a deduction for income-tax purposes. (b.) a Staff Provident Fund. This fund has been in existence for over twenty years, and has been entirely built up by the company itself, by annual allocations, which still continue, and it now stands at £165,000. This fund is reserved to provide pensions for members of the staff who joined the service prior to the 1st January, 1915, and they are not called on for any contributions. The fund is invested in the business and is credited with interest at 5 per cent. The Commissioner, however, cannot see his way to grant as a deduction from our New Zealand income a proportion of the contributions made to this fund by the company. He has stated that he is not satisfied that the rights of the employees to receive pensions are fully secured; but this, in my opinion, is an altogether too strict interpretation of section 82, and I might here mention that the Commonwealth authorities allow the deduction from our Australian income. There are a number of former members of the staff at present in receipt of pensions from this fund, and others will receive them when their time comes for retiring. If the Commissioner is not prepared to grant us the relief under the existing law, I feel that some amendment of the section should be made whereby *bona fide* contributions to a fund, such as above, will be allowed as deductions, or, as an alternative, provision made in the Act for the right to deduct from the employer's assessable income the actual amounts paid out as pensions. Although I have quoted the case of my own company I am submitting this evidence, also, in the hope that it may be of some assistance to other employers similarly situated. I feel that it should be the aim of the Government to afford every inducement and encouragement to employers to make provision for their employees in their declining years, and contend that all payments legitimately made for their benefit should be immune from taxation.

*Land-tax on Business Sites.*—It is generally recognized that the principle of graduated land-tax was introduced for the specific purpose of forcing the subdivision of large country properties, but this principle should not apply to lands used for business purposes in the towns and cities, which are also subjected to high rates levied by local bodies. A reasonable flat rate would be more equitable, for there appears to be no cogent reason why land-tax on city properties should be graduated any more than local rates.

*Mr. Weston.*] You suggest that you should take the maximum rate of tax payable in New Zealand and divide it by two, one-half going to the British Government and the other half going to the New Zealand Government?—I am not content with that.

*The Chairman.*] What arrangement is made between the British Government and the Commonwealth Government?—It is virtually set out in this letter. It is adjusted generally upon the scale that the company should only be subjected to the higher of the two taxes. An adjustment has to be made.

How is it adjusted as between the Commonwealth and Great Britain? How does it work out in practice?—It would be rather difficult to say. There are varying rates in Australia, the Victorian rate, the New South Wales rate, and so on. Assuming that the maximum Australian rate was 4s. 6d., the Home Government would rebate 2s. 3d.

*Mr. Clark:* It goes to the shareholder.

*Witness:* No; Dalgety and Co. receive this 2s. 3d.

*Mr. Clark:* The British authorities would remit 2s. 3d., and any further rebate the company wished to obtain would have to be obtained from the Colonial Government.

*Mr. D. M. Morgan* (Chief Inspector, New Zealand Loan and Mercantile Agency, Limited): I have a pamphlet here which gives a number of examples. It works out the state and Commonwealth taxation and the adjustments. [Pamphlet put in.]

*Mr. Begg.*] Then, Australia does make some sacrifice to meet the conditions of companies trading in the Commonwealth which pay income-tax in Great Britain?—(Witness) Yes; if the rate in Australia was as high as in New Zealand it would require to do so, but the rates in Australia are very much lower. As far as I have been able to follow it, the combined Commonwealth and State tax (Victorian) is 2s. in the pound. As far as New South Wales is concerned, the Commonwealth tax is 1s. and the State tax is 2s. 6d., making a total of 3s. 6d. in the pound.

So that the 2s. 3d. which you would possibly get as a rebate from the British Government is more than Australia actually claims in the way of tax, so that they do not make any sacrifice there?—That is so.

*Mr. Clark*: They would only get the amount of the Dominion tax.

*Mr. Morgan*: The higher tax in either place would be the maximum tax.

*Witness*: I have here a statement made by Sir Joseph Cook, High Commissioner for the Commonwealth. It is dated the 1st February, 1922. He is reported to have stated, "I am glad that the double impost has been at last destroyed. It never could be defended, and has been finally relegated to the limbo of worn-out and forgotten things." He goes on to say, "Broadly speaking, the effect of the arrangement is that where the British tax is greater than the Commonwealth and State taxes combined the taxpayer will pay in the aggregate only the British tax, but where the combined Australian rates exceed the British rates he will pay only the combined Australian rate. The higher rate will always be charged, and the lower tax will be rebated."

*Mr. Begg.*] Supposing New Zealand were willing to do what Britain has done, it would still leave you to find the 4s. 6d.?—Yes.

*Mr. Shirlcliffe*: Could Mr. Clark tell us whether any action was taken on that resolution which was passed by the Taxation Committee of 1922?

*Mr. Clark*: No, there was nothing done. I might explain that the British authorities were asked by the Taxation Committee to enact the same provision that we have in section 89 of our Act, and that the income should be assessed at its source, but they could not see their way to do it. We have had that provision since 1916, that income derived in the United Kingdom or a British dominion should pay tax at its source and not pay again. The Committee asked that that provision should be put into the British Act, instead of which the present provisions were enacted.

*Mr. Shirlcliffe.*] That suggested arrangement would be very much more in favour of ourselves than of Great Britain. We do not invest a great deal of money in England, whereas there is a great deal of British money invested here. So that we could hardly expect them to look at it as favourably as we do?—(Witness) That is so; for every shilling of our money invested in England there is a pound of English money invested here.

Still it is surprising that some provision has not been made to get New Zealand placed in as good a position as Australia?—Efforts have been made in that direction. The matter was placed before the Taxation Committee of 1922, and, in addition, other steps were taken. When the Prime Minister was in London in August, 1921, a deputation from the New Zealand and Australian Agents' Association waited upon him, and at his request furnished a memorandum stating their case in detail. Then in October, 1922, representatives of the stock and station companies interviewed Sir Francis Bell in London on the same subject, when Sir Francis promised to lay their views before the Prime Minister and the other members of the Government on his return to New Zealand. So that the matter has been followed up.

You have heard nothing pursuant to that?—We have had no official advice.

*Mr. Clark*: The loss of tax involved was regarded as too great: it would be £350,000.

*Witness*: We are quite a young country, capable of a great deal of further development in respect of primary products and industries, and if we shut the door to British money this country is not going to develop as it should, and as far as taxation is concerned I think one has got to take a broad view of these matters. Of course, I can see that any shortage which might result in meeting the British companies must be made up. It would be forthcoming by reason of the influx of British capital if it were not subject to those heavy taxation conditions.

*Mr. Weston.*] Your trouble would be mainly with the bank; any remissions we gave would affect the National Bank, which has its headquarters in London, the Union Bank, and the Bank of Australasia?—Yes.

*Mr. Clark*: In many cases it is not the company that is concerned, but the shareholders in the company. I have to supply certificates to people who have shares in the companies, to the effect that the company in which they have shares has paid a certain rate of income-tax and has paid a certain dividend; these certificates are produced to the English authorities to claim their rebates.

*Mr. Clark* (to witness): You pay your dividends free of income-tax?—(Witness) Yes.

*Mr. Clark*: Others do not.

*Witness*: The amount involved is very little, and it is hardly worth chasing. They get the rebates, but only on their shares in British companies.

*Mr. Shirlcliffe.*] In reference to the Staff Provident Fund, would it meet the case sufficient'y if a deduction were allowed for *bona fide* pensions actually paid?—Yes.

You would be satisfied with that?—Yes.

*The Chairman*: What is the reason for not allowing that, Mr. Clark?

*Mr. Clark*: It does not come within the scope of this provision. It is quite gratuitous on the part of the company to give pensions in that case. The employee has no claim on that particular fund.



*The Chairman :* That is the reason why you do not allow any deduction in respect of the payments ?

*Mr. Clark :* Yes.

*Mr. Shirtcliffe :* That is only because it is not covered by the Act.

*Witness :* I would suggest that the matter be considered, because I look upon it as inequitable that, in addition to paying pensions to our employees, the amount of the pensions we pay should be subjected to taxation. We would be prepared to accept as a deduction from our assessable income the actual amount we pay in pensions.

*Mr. Shirtcliffe :* I suppose there would be no possibility of evasion there, would there ?

*Mr. Clark :* Not as far as I can see.

*Mr. Begg :* If a private individual gives a pension to an old and valued nurse, you would not take it into consideration, Mr. Clark ?

*Mr. Clark :* No. It is treated as a gift. It is the same anywhere else. In all other countries where income-tax is assessed the same thing applies ; such a payment is treated as a gift.

*Mr. Shirtcliffe :* What sort of evidence would you require that these were *bona fide* pensions ? Simply a declaration by the company ?

*Mr. Clark :* Yes.

*Witness :* You could get the individual receipts. We could get receipts in duplicate.

*Mr. Begg.—*Have the employees any rights to these pensions at all ?

*Mr. Clark :* Not with this fund.

*Witness :* It is at the discretion of the Board. If in any year the pension was not paid we would not be able to produce the voucher to claim the deduction.

*Mr. Clark :* As it stands at present, the company might cancel that fund altogether at any time it chose ; or if it got into difficulties it might have to use the money.

*Witness :* I speak not only for my own company, but it appears to me that everything possible should be done to encourage these staff pension and superannuation funds, and that is our reason for bringing this up. The deduction is allowed to us in Australia, where the Act is word for word the same as in New Zealand, and still we are refused the deduction in New Zealand.

*Mr. Clark :* Is there not sufficient encouragement in the Act as it stands at present for the creation of any pension fund ? They are comparatively new with most employers.

*Mr. Shirtcliffe :* There is a distinction between these two funds. One is a Staff Pension Fund, which applies only to men who have joined the service of the company since 1915. The other was established prior to that and applies to men who joined the company's service prior to that year.

*Mr. Clark :* The company might meet the difficulty by throwing the old fund into the new one. It is quite easy to alter the constitution of the fund. It would then come within the provisions of the Act.

*Mr. Weston :* Would you be content with this : supposing there was a contractual relationship established between the employees who joined prior to 1915 and the company so that they could sue ? Your objection is purely that there is no contractual relation ?

*Mr. Clark :* That is so.

*Mr. Weston :* You would not want them to set aside the investments, or anything of that sort, so long as there was a definite undertaking between the company and all employees who joined prior to 1915 that the money would be paid ?

*Mr. Clark :* That is so.

*Mr. Weston :* As it is, Mr. Stewart, I take it that your Board has a discretion as to whom it will grant pensions to ?—Yes.

And there is no definite scheme laid down by which a man could say, " I come within that " ?—It is quite correct to say that the granting of every pension has to be confirmed by the Board, and it is also correct to say that it has never been refused. This fund is exactly on the same scale as the Staff Pension Fund.

*Mr. Shirtcliffe :* But the Staff Pension Fund has practically to be allocated, has it not, to the individual beneficiaries ?

*Mr. Clark :* Yes.

*Witness :* Yes, a portion of it.

*Mr. Shirtcliffe :* The employees' contributions and the company's contributions have to be credited to each man ?

*Mr. Clark :* Yes, and it must be quite clear—

*Witness :* No ; they are not credited to each man.

*Mr. Shirtcliffe :* Do you keep your Staff Pension Fund in one sum ?—(Witness) Yes.

*Mr. Hunt.]* What are the grounds that constitute a claim to a pension under this fund ?—Any employee of the company can retire optionally at the age of sixty or over, when he is entitled to a pension.

*Mr. Clark.]* Is that the old fund ?—Yes. It applies to the new fund too.

*Mr. Hunt.]* Is he entitled to the pension ?—He is entitled to it from the Staff Pension Fund. He has to have it confirmed from Head Office with respect to the old fund. The question of vesting the old fund in trustees was brought up. I took it up with my company in London but the objection was that they considered it to be in the interests of the fund and the beneficiaries that this should not be done. The money at the present time is invested in the company's business and is credited with 5 per cent. per annum. If that money were vested in trustees we could not do so well for the fund.

Could it not still remain invested ?—Not if it were vested in trustees. If the fund were vested in trustees, the trustees would not have power to invest the money in the company.

*The Chairman* : You could create a trust and authorize the trustees to invest the money in the funds of the company.

*Witness* : Evidently that is not the view that is entertained by my general manager in London. [Witness read from a letter an extract which he requested should not be made public.] That is his view.

*The Chairman.*] That was not written after consultation with your solicitor, was it?—I think so. I could not say for certain.

*Mr. Shirtcliffe* : I think there is a way out for you. I should like to have a chat with you about it.

*Witness* : I should be pleased. One of my reasons for bringing this matter up was that it might possibly prove to be of interest to other companies.

*Mr. Weston* : How many English companies are there operating in New Zealand, Mr. Clark? Have you any idea?

*Mr. Clark* : No, I could not tell you offhand. Probably there are fifty or sixty—fully that number.

*Witness* : The only other point that I wish to refer to has been, I observe from the newspaper reports, before the Commission already. I mention it in the last paragraph of my memorandum—namely, the land-tax on business sites. It is rather a hardship. A number of similar concerns to my own have numerous small areas throughout New Zealand which they have acquired for building-sites. For the purposes of taxation the unimproved values are combined in one total, with the result that the maximum rate of 7 $\frac{7}{10}$ d. is levied on even the smallest area, including lease holds, and it means a heavy impost. If we required for the convenience of our clients a small section in Taihape or Ngaruawahia or anywhere else and acquired an acre or a rood of land we should be assessed on the maximum scale of graduated land-tax obtaining in New Zealand. I do not think the graduated tax was ever intended to apply to business premises.

*Mr. Shirtcliffe.*] You have not offered any evidence, Mr. Stewart, with reference to the land-tax itself?—No.

Would you care to let us have your views as to the wisdom of continuing the land-tax on a graduated scale, or a flat rate, or abolishing it altogether?—It is supposed to affect farming interests more than town interests; but that is hardly the case, because I think there is probably two-fifths of the land-tax contributed by town and city dwellers as compared with about three-fifths by the country.

*Mr. Clark* : About six-thirteenths comes from the towns.

*Witness* : That is very nearly one-half; but for some reason or other throughout the country there seems to be an impression that our country friends are paying all the land-tax. That is not the case, according to Mr. Clark's figures. They are paying about one-half. So far as the farmer is concerned, my opinion is that if it is possible to grant the farmer relief, he will receive a greater measure of relief by a reduction in the land-tax than by exemption from income-tax, for the reason that I do not think that more than 15 per cent. of the farmers of New Zealand paid income-tax.

*Mr. Shirtcliffe.*] What would you say if we suggested that the land-tax be abolished and that a graduated income-tax be imposed in lieu of it?—Personally, it would not appeal to me. I do not see why the land-tax should be abolished altogether; but I think that a reduction in the land-tax, if it could be made, would benefit the farmer more than exemption from income-tax.

You would not suggest both taxes—a reduced land-tax plus an income-tax?—Yes, I think that that would be fairer to the great majority of the farmers.

Would they not be paying double taxation then?—That is what we are all paying.

Are we?—Business people are paying both, are they not?

It applies to business people who own land, of course. Do you think the land-tax can be said to retard the development of the country districts?—Yes, I think it does. I think that but for the land-tax more people would be inclined to take up land.

Would there not be this advantage in the substitution of the income-tax: that a farmer or wool-grower would only pay tax when he made an income, whereas under the land-tax he has to pay whether he makes an income or not?—Yes, that is perfectly true.

*The Chairman.*] Are there any other points you wish to mention?—There is one point which did not occur to me but which I should like to take the opportunity of mentioning. I have noticed that while the Commission has been sitting in the other centres a good deal has been said about the passing-on of charges, and I do not think the public generally are aware to what a small extent in very many businesses there has been any of this passing-on done. I got a few figures prepared in my office, which I think I can ask you to accept as correct. I was making a comparison between charges in pre-war times and to-day in connection with a portion of our business—that is, the sales of wool and live-stock—and I found that, taking wool in the first instance, the commission that a stock and station company charges for the sale has not been increased since pre-war times. What is known as the receiving rate—that is, the handling charge—for which outside casual labour has to be employed, has been increased from  $\frac{1}{8}$ d. per pound to  $\frac{1}{4}$ d. per pound, less 10 per cent. That is entirely to cover the higher cost of labour, but it does not provide in any respect for the higher income-tax and the higher cost of running all business. That is the only little increase that has been made in New Zealand in selling wool, and that works out at 3s. 4d. per bale on an average bale, or, in other words, at  $1\frac{1}{8}$ d. per pound. As far as wool is concerned, therefore, I do not think it can be held that the charges have been passed on. As to sales of live-stock, I have a table here showing the rates in the Manawatu and west-coast districts, which show that in almost every case there has been no increase in the selling-rate of commission. There has been an increase under two headings from 3 $\frac{1}{2}$  to 4 per cent., and in another case from 2 $\frac{1}{2}$  to 3 per cent.; but in the great majority

of cases there has been no increase whatever. There has also been no increase in the commission charges for selling land. They are still at pre-war rates. In those departments of business which stock and station agents are conducting there has been very little passing-on of charges indeed.

*Mr. Shirtcliffe.*] Can you say, then, that the tax has been paid out of your normal margin of profit?—No; I would hardly go so far as that. I think the tax has been paid very largely out of the economies which we have been forced to effect.

*Mr. Begg.*] Though the rate has not increased, or has increased only to a slight extent, the average actual receipt from a given sale has increased considerably, has it not, owing to the higher average price all along?—That applies to this last year. Three years ago our average prices of wool and stock were lower than in pre-war times.

The average price of stock and wool since 1915 would be very considerably above a similar period previously, would it not?—During the last two years it has been higher. The year before it was very much lower.

I am taking the period from 1915 up to date. I think that stock and wool would average considerably above a period before that date?—Of course, during the commandeered wool did average higher.

*Mr. Shirtcliffe.*] If there had been no income-tax at all your rates would have remained the same?—Yes.

No matter how much you were obtaining for the country's produce?—Yes.

So it may be said that you have not been able to increase your charges to the community on account of the weight of the income-tax?—We have not done so. There is an impression, I think, that rates have been increased and that those charges have been passed on. I think I have been able to show that they have not, or only to a very small extent.

*Mr. Hunt.*] From 1915, ever since the commandeered commenced, the values for both stock and wool have been very much higher than in corresponding pre-war years, except the two years 1921 and 1922: is that not so?—I do not think it is in respect of frozen beef.

If you take the years 1916, 1917, 1918, 1919, and 1920, beef was very much above pre-war years in those five years?—Yes.

Beef since then has been lower; but mutton, lamb, and wool were all very much above, were they not?—Yes.

Since then, with the exception of the two slump years, wool and mutton have been very much above pre-war?—Yes.

Therefore the total commission that we are getting is a good bit more on the same line of stock or the same quantity of wool than we got in pre-war years, is it not?—Yes.

And it was all through the commandeered?—Yes, with the exception of the slump period.

There was a reduction made in the commissions right through the Wairarapa, was there not, from the present 4 to 2½ per cent., at the end of the war?—I do not remember.

As a result of the slump it was put back to 4 per cent.?—Yes.

So it is hardly right to say that we are just getting the same commissions that we got in pre-war days?—We are getting the same rate.

It is quite on the cards that if it had not been for the slump the 2½ per cent. commission rate might have been operating throughout the North Island? It was put back again during the slump because 2½ per cent. was not profitable?—I think the 2½ per cent. in the Wairarapa came about through some particular competition, and it was found impossible to carry on business at that rate, and it was put up again.

*Mr. Weston:* May we take it in this way: supposing there had been no income-tax, who would have got the income-tax money—the company or the public? You would not have reduced charges in order to give it back. It simply means that your profit would have been greater?

*Mr. Morgan:* Competition might have forced that reduction—new companies coming into existence. To a certain extent new companies did show their preparedness when there was a sufficient margin to justify their existence.

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DAVID MATTHIAS MORGAN, Chief Inspector, New Zealand Loan and Mercantile Agency Company (Limited), examined.

*The Chairman.*] What is it you desire to say, Mr. Morgan?—I thought perhaps it would interest the Commission to know what the effect of the graduated land-tax is on a company such as that with which I am connected, carrying on business in a large number of centres in New Zealand and finding it necessary to have premises, saleyards, &c. The effect of the graduated land-tax—I have had it calculated in the office—is that we pay a little more than four times the amount that we would have to pay if the taxation were assessed on each one of the premises separately and without regard to the graduated tax. It is an indication of the disability which a large company has to face in carrying on business in New Zealand, and it has a bearing on a question that was dealt with by Mr. Stewart: as to whether encouragement or otherwise is to be offered—which is a matter of broad and general interest—to companies to introduce more capital or to continue to conduct business in the Dominion. That is just one point. Another matter, which I consider an extremely important one from the point of view of companies which have a considerable amount of capital invested in New Zealand, is the question whether, in fixing the rate of income-tax, regard should not be paid to the percentage of profit which the institution earns on the amount of capital involved.

*The Chairman.*] That question was raised by Mr. FitzGerald in his statement this morning. He favoured that.

*Witness* : It is quite obvious that, whatever the rate may be, where the total profit available for payment of income-tax and for the payment of dividend is comparatively small, as it is in the case of certain companies carrying on certain classes of business, it leaves a very small margin of profit for distribution. Take an extreme case. Supposing that £1,000,000 were invested and there was only £10,000 profit made, which would really only represent 1 per cent. on that capital, about one-third of that, at the present rate of taxation, would go to the Commissioner of Taxes, and would leave less than 1 per cent. for distribution amongst the shareholders. That is an extreme case.

*Mr. Shirlcliffe.*] Very extreme?—Not so extreme as you might think if you saw some of the balance-sheets. I could refer you to quite a number that have been published.

£10,000 profit on £1,000,000 capital?—Only in that relation; because they have not been able to distribute anything at all. If you go to the other extreme and assume that they are making 20 per cent., that would leave the amount available at 14 per cent., which would not be so great a hardship. But take the amount available for the payment of income-tax and distribution of dividends as 6 per cent., that reduces it to 4.23. Your Commission will be quite aware of the fact that in Queensland, where they have been the pioneers in the introduction of the principle of taxing companies as distinct from individuals, they take that principle into consideration. Where the rate is 6 per cent. I think their charge is 1s. 3d. in the pound, and it advances according to the rate of the dividend. That seems very reasonable.

In Queensland it is 4s. 9½d. on the full profits?—On 7 per cent. of the capital it is 1s. 4d.

*Mr. Clark* : Those are the maximum rates you have, *Mr. Shirlcliffe*.

*Witness* : The principal rates there are 7 per cent., 8 per cent., and 9 per cent. The percentage of tax increases in accordance with the rate of profit earned. That seems to be equitable. A large company only consists of a great number of small shareholders. It does seem more equitable, because owing to the nature of their business it does not permit of more than a moderate profit being earned, or owing to the conditions being such that it is difficult for that class of business to earn profits, that they should not be taxed at the maximum rate when the percentage of profits is moderate on the amount of the capital involved. I think that it is a reasonable view of the position. That is another factor in regard to the encouragement of large companies, or otherwise. If it were considered that large companies are undesirable factors in a community, then it would probably be a very excellent way to induce them to withdraw from the Dominion—by taxing them at the maximum rate. But I take it that nobody holds that view. It is necessary for every inducement to be given to them to develop the country. This is a matter that should receive serious consideration.

*Mr. Hunt.*] In connection with your rate of profit, how would you arrive at that? Would you calculate the rate of profit on all the capital used in the business, or merely on the shares receiving the dividend, less the borrowed capital?—You mean, only on the shareholders' capital or debenture capital?

You might have a company earning £100,000 on its share capital and making 10 per cent., and another company using £50,000 of debentures, and that would leave £50,000 capital getting 15 per cent.?—I would not make any distinction, because I would regard the debentures just as borrowed money from the bank. I would take the interest and deduct it as part of the charges, and estimate the profit on the total capital. Debenture capital is only a loan.

You would treat those two companies in the same way?

*Mr. Clark* (to witness) : You would not be able to do that; you would have to take the paid-up capital.

*Witness* : Possibly; I have not considered that question, but I would take it on the capital that the company had introduced into the country.

*Mr. Clark* : You could not do that; you would have to exclude the debentures.

*Mr. Hunt* : How would you treat the preference shares?—(Witness) I was talking about the broad principle.

Have you any details as to how they work it in Queensland?—No, but I could get them.

It would be very useful to us?—I could get it very quickly. I could cable for it. You would have to eliminate the debenture capital, as *Mr. Clark* says.

*Mr. Begg.*] Is the Queensland tax based upon the rate of dividend paid?—Yes. They fix a certain maximum rate—I do not know whether that is on the dividend or on the profits—and what the profits are in relation to the capital involved. I do not think there is the same principle in operation in any other Australian State.

*Mr. Shirlcliffe.*] The New South Wales tax is 3s. 6d., in South Australia it is 3s. 3d.—State and Commonwealth—and Victoria is the lowest?—One shilling is the Commonwealth rate. That is on companies, and there is the individual tax as well.

*Mr. Clark* : The State individual tax in Victoria is 7d.; with the Federal tax it may run up to 7s.

*Mr. Shirlcliffe* : What is the amount which qualifies for the maximum tax?

*Mr. Clark* : Under the Federal law it is £5,000. It is 5s. in the pound on the excess over £6,500, and 53½ per cent. on to that. It is graduated up to 5s. in the pound, and then 53½ per cent. on all the excess. That would make it pretty nearly 7s. 6d. on £6,500. The maximum tax in Victoria is 7d., so that it would not amount to 8s., but it would be between 7s. 6d. and 8s.

*Witness* : The company tax is 1s. in the pound on the total profits.

*Mr. Clark* : The Federal rate is 1s. in the pound, with additional on dividends to shareholders, but that would not apply to your company with its shareholders outside.

*Witness* : No; with the Commonwealth and New South Wales tax it would be a maximum of 3s. 6d., the Commonwealth tax being 1s. and the New South Wales tax 2s. 6d.

*Mr. Clark* : Unless the inclusion of the dividend brings the shareholder over that the shareholder would have to pay the difference.

*Witness*: There was just one other point I would like to mention, and that is the question of tax paid by companies like ours on debenture interest. I do not know whether it is possible to make any adjustment. Our capital employed consists of share capital and debenture capital. In respect of debenture capital we are granted an allowance of income-tax of the amount that we pay on that proportion. But, then, we are constituted the agents for the debenture-holders. I do not know whether any relief can be given, but it is one of the disabilities we labour under. We have to pay a considerable amount of tax in this connection, and there is no means for us to recover it.

*Mr. Shirtcliffe*: Cannot you deduct it?—No, there does not seem to be any means by which we can deduct it from the debenture-holder. He is entitled to the amount we have contracted to pay him—that is, a resident outside of New Zealand. As a matter of fact, we have to pay an amount which represents on that item alone about  $\frac{1}{4}$  per cent. of the total capital we have invested in New Zealand. Taking that in conjunction with the land-tax you can state it in this way: that we have to pay 10s. per cent. on account of those two items on every £1 of capital we have invested in New Zealand.

*Mr. Weston*.] But you have an allowance on the assessable income of 5 per cent. on the unimproved value of your land?—Yes.

That equalizes the land-tax to a great extent?—No.

It will, when you are making 8 per cent. profit?—No.

What you suffer in income-tax would about balance what you pay in graduated tax?—No; the figures would be the same, whatever we make in profit.

Supposing you pay land-tax on £20,000, you are allowed to deduct from your income 5 per cent. on that £20,000?—It will not alter the position in the future. Nothing that can happen in the future can alter the position as far as that is concerned.

*Mr. Shirtcliffe*.] In regard to debentures, you were able to obtain that money at a substantially lower rate?—Yes, when we did it originally, but that would not have any bearing on the principle.

Except that it leaves you a margin above which you can pay. The greater the amount we paid on the debenture capital we raised, the greater would be the deduction from the income-tax.

But in all probability you have been able to borrow that money on debentures at a much lower rate than any company could have floated that money?—I do not think that has any bearing on the principle. It is to a certain extent connected with it, but I do not think that would be any reason as bearing on the question I have raised. There is no redress for us. If we were in a position to make a deduction from the debenture-holders New Zealand would probably not get the capital. That is the broad way of looking at it.

WELLINGTON, FRIDAY, 16TH MAY, 1924.

SIR JOHN GEORGE FINDLAY, K.C., Barrister and Solicitor, Wellington, examined.

*The Chairman*.] You have written a memorandum setting forth your views on the subject of taxation?—Yes, sir.

Will you be good enough to read it to us?—Mr. Chairman and gentlemen, I desire to submit to the Commission my views on the following taxation proposals:—

- (1.) Progressive income-tax.
- (2.) Land-tax.
- (3.) Graduated land-tax.
- (4.) Mortgage exemption in land-taxation.
- (5.) Company-taxation.
- (6.) Debenture-taxation.
- (7.) The incidence of taxation.

I would first premise a few general observations upon the nature of and justification for taxation. These are topics far from being intelligently understood by the great mass of the community. The orthodox economists defined taxation as a compulsory contribution levied by the State to defray the expenses of government incurred in conferring some common benefit in which all persons subject to the tax have a right to participate. For many years what is called the "benefit theory" prevailed. According to this theory, the benefits conferred by governmental activities upon the individual was the test of the extent of his taxation: in other words, that taxation must be proportional to these benefits. This theory was long held by many earlier economists, but has for a number of years past been abandoned as impracticable of application, and in modern times has almost completely given way to the theory of progressive taxation according to ability, or—as it is more commonly called in America (following the word used in Latin and French)—according to faculty. But if we admit that the benefit theory failed to provide a practical and reliable basis for determining the tax contributions of each individual, it nevertheless contained an important truth that is very apt to be overlooked. The commonly accepted view grudges the payment to Government in the shape of taxation the small fraction of the income it has undoubtedly created by its activities and which is shared in different proportions by the taxpayers. Taxation is all too commonly regarded as an encroachment on the individual rights of property—a compulsory contribution by the taxpayer from a fund (for example, his income) which it is assumed is entirely the product of his own enterprise and operations. This view was strongly reflected in the legal rule that taxing statutes must be strictly construed in favour of the taxpayer. The extent to which governmental activities of all kinds have co-operated with the taxpayer's enterprise and operations in the production of his income is commonly ignored; but

undoubtedly these governmental activities have created an income which belongs to them, but which coalesces unseen with the income which the individual claims as entirely his own product. The Government must in the national interest safeguard and enforce its right to this coalesced share. Take one simple illustration. Our railways are run at a loss for the immediate benefit, at any rate, of certain classes of their users. But that loss is represented by an element of profit in the returns from probably every industry using the railways, and that loss is borne by the people as a whole. That element of profit created by the Government activities—the railways—properly belongs to the Government service; and so far as its payment to the Government is exacted in the form of taxation it is payment for what is already due for services rendered. The co-operation of Government activities with the operations of the taxpayer is far wider than is commonly recognized, and once this is clearly seen taxation loses much of its aspect of an encroachment upon individual rights and assumes that of a proper claim for services rendered. It may be objected that all do not pay for these services—at any rate, in the shape of direct taxation; but that merely introduces the question of ability to pay: it does not affect the nature of the obligation. If our industries are to be viewed nationally, governmental activities and services must be regarded as analogous to the head-office expenses of a great commercial concern with many different branches.

I now proceed with my views upon the seven taxation topics which I have already enumerated. Taking these in order, I commence with *progressive income-tax*; and it may be well to first point out that you can have no ideal tax—that is, none to which serious objection may not logically be made. You have to be content with rough equities and the adoption of that form of impost which, on a fair consideration of its pros and cons, presents the least injustice. After trial in the world's history of many forms of taxation, and in controversies which fill books on economics numerous enough to constitute a large library, theory and practice have come in modern times to favour more and more ability or faculty as a test of fiscal contributions. This test, and the progressive income-tax system which it has produced, can be subjected to various serious criticisms; but (provided it is qualified by conditions which remove its harsher results) it appears clearly to be the best form of taxation the State can adopt. It is based upon two conceptions: ability to pay and equality of sacrifice. Ability, or faculty, is the larger of these conceptions, and sacrifice the smaller. After much controversy it is now generally conceded that the distinction should be recognized between earned and (as they are called somewhat ineptly) unearned incomes. This distinction is raised by the question: Does the income depend on the taxpayer's personal exertions for its continuance, or does it stop when he dies or his efforts cease? The distinction is commonly criticized in this way: If by my personal effort and by rigid saving, I accumulate £10,000, from which I get £500 a year, is that reward for my refraining from consuming my income, and for my waiting and abstinence, any less an earned income than it would be had I used the income from which the savings were drawn, in consumption? Should that reward rank on any lower plane than the reward I get directly from personal effort?

There is no doubt much in this criticism; but, still applying rough equities, the distinction is justified. The reward of personal effort ceases with the effort; the reward in the shape of interest on savings continues independently of the taxpayer's effort and does not cease on cessation of his exertions. But what the distinction mainly aims at is not at the savings from personal effort, but at the income-producing sources which have been inherited or which have come to the individual without what may be properly called individual effort. It is seen that income dependent upon personal exertions has to make provision for the precariousness of employment, sickness, old age, and other infirmities; and that to make no distinction between income which must be used for such purposes, and income which is not subject to the necessity of making this provision, is plainly unjust. And so on the balance of considerations pro and con the distinction has been established. If, while preserving the distinction, limitations of qualifications upon it can promote a larger measure of justice, these should be applied; but I cannot see or suggest any that would be satisfactorily workable.

Another important question is the amount the State should take under a system of progressive income-tax. Assuming as I do for the moment and only for the moment that the higher or highest amounts of income-tax paid by individual taxpayers are not passed on to the public, it is clear that the progressive rate should not destroy or endanger the source from which the tax is drawn; in other words, that it should not cripple or paralyse industry. There is no ideally just rate of progression, and I can suggest no improvement on the method of graduation employed in our present taxing system.

Another feature of this tax is the question of at what amount of income it should begin, and what variation in its rate should be made, to allow for the responsibilities and expense of maintaining wife and family (if any). We begin at a higher rate than in England; but we have not carried the variations in the rate to provide for the expense of the responsibilities I have mentioned as far as they have been carried there. The English taxing law varies the rate according as the income is (a) earned or unearned—commonly in England called investment income; (b) according as the taxpayer is married or single; (c) married, without children; (d) married, with three or more children. In our present land and income tax we vary the amount of deduction according to the number of children under eighteen years of age dependent upon the taxpayer; and we allow a deduction not exceeding £50 for contributions made by the taxpayer towards the support of his widowed mother. Sir Josiah Stamp in his recent work on the "Principles of Taxation" applies five tests with which income-tax should conform. I will content myself just now with but one of these. He points out that the base of the tax must be a long enough period to give a fair average indication of income. The period almost universally taken just now is the year's income; but he shows that in many cases this period is too short, and he says that in view of the unjust results in these cases the authorities of the United States of America are considering the abandonment of "the previous-year method" for a system of an average of three years. I think, however, the present provision in section 81 of our Land and

Income Tax Act, 1923, is sufficient to so reduce the hardships mentioned by Sir Josiah Stamp as to render a change in our system unnecessary.

The next subject I desire to discuss is that of *land-taxation*. I agree with those who think that we should abolish the present ordinary land-tax altogether, and impose on farmers the progressive income-tax now imposed on other businesses. This allows a minimum subsistence deduction of £300 a year, with small other deductions which I need not refer to. But when the farmer under our law was taxed on his income he was allowed a deduction from it of 5 per cent. on the value of his land—a deduction allowed to all other taxpayers using land to produce income. But there was imposed upon him a tax of 5 per cent. on the unimproved value of his farm. I consider this tax unjustifiable. No tax can be supported except upon the basis of contribution from revenue or income, and unless there is income sufficient to cover the minimum subsistence deduction no tax should be paid. If there is any class in the community that deserves the indulgent consideration of the taxing authorities it is the small farmer class, and if he really makes no profits beyond the minimum subsistence deduction he should pay no tax. The argument based on land as a monopoly and on its ownership as a special privilege should not be made applicable to a struggling small farmer who is making every reasonable effort to earn a living, however applicable that argument might be to the larger owners. But it is said that unless you insist upon the ordinary land-tax there will be a grievous loss of revenue from small farmers falsely representing that they have made no profits above the minimum subsistence deduction. The answer is that this class of false representation is not confined to small farmers, but is indulged in by all classes. There is provision in our present Act to deal with such false representations, and if such provision is inadequate for its purpose let it be stiffened and amplified to achieve it. To tax a small farmer who has made no profits beyond the minimum subsistence deduction is to tax him on his capital, and this offends against one of the most firmly established canons of taxation. To tell a small farmer in this country who slaves from daylight to dark, and yet fails to make over £300 a year, that he is enjoying a special privilege in owning his small area which justifies special taxation savours decidedly of irony. It is true that bad farming is economic waste. It is true that if a farmer leaves his land idle, or inadequately farmed, his neglect should be visited by some penalty; but provision for such a penalty is a different thing altogether from imposing a penalty in the shape of a tax upon a man who fails from no fault of his own to make a profit above the minimum subsistence deduction.

I turn now to *graduated land-taxation*. Subject to some modifications, I am in favour of the retention of this tax. The Commissioner condemns it on two grounds: First, because it offends against the canon that taxation should be for revenue purposes only and not for the advancement of an entirely different social policy; secondly, that whatever justification it had when first imposed, its justification has passed away, because the heavy gradations on the land-tax now tend to destroy the land-tax as a revenue-producer at all. "For several years past," says Mr. Clark, "the amount of the extra tax that has been realized by increased valuations has been just about counterbalanced by the subdivision of the land, and it is being split up and transferred to small holders, most of the holdings being mortgaged and exempt from land-taxation." Further on in his evidence he says, "I may say that the subdivision of these large estates which (without a special charge on them such as a land-tax) might develop into an evil has brought about what I believe to be a far greater evil in this country, and that is speculation. That speculation has been encouraged to a great extent, first by the allowance of deduction for a mortgage, and latterly by a mortgage exemption. That mortgage exemption covers holdings up to £8,000 of unimproved value, and it is in holdings of that size that there is an enormous amount of trafficking." Mr. Clark concludes that "This has been a far greater curse to this country than aggregation has ever been." For these reasons Mr. Clark advocates that an owner should be allowed to increase his holdings for farming operations to the same unlimited extent as a man in ordinary business can do, as he thinks there is no distinction between the two. The only limit Mr. Clark seems to think justified is the limit of the owner's ability to use the land properly.

My answer to Mr. Clark's contentions is this: First, the canon of taxation to which he refers merely lays it down that revenue should be the primary object of taxation. Its secondary object, all leading authorities agree, may well be some other and further purpose. I have sometimes found it difficult under this canon to decide which is the more important purpose. In any event, the canon is artificial and should yield to exceptional circumstances. It must, of course, be conceded that the purpose of a graduated land-tax was not mainly revenue; it was mainly the breaking up of large estates. Rightly or wrongly, successive Governments in this country have regarded the holding of large estates of first-class land as inimical to the best interests of the people as a whole—as, indeed, a social evil which should be repressed. It matters really very little whether the evil is repressed by means of a graduated tax (really a penalty) or by direct prohibitions enforced by penalties, properly so called. The graduated-tax system gives the owner the option of holding on to his large estate if he prefers to do so. Direct prohibition enforced by penalties would give him no such option.

Again, I join issue with Mr. Clark in his contention that there is no difference between allowing a landowner who can profitably farm the land to extend his holdings indefinitely and that of allowing a manufacturer or merchant to extend his business indefinitely. In the former case, as Mr. Clark himself points out, "the land has a monopoly value" and (as he himself says) "a man holding land is at an advantage as compared with a man who has no land." Indeed, he justifies the exaction of a land-tax on the ground that it "is payment for the peculiar privilege held by the landowner." These admissions themselves seem to me clearly to differentiate the two cases. In Mr. Clark's view a wealthy landowner capable of profitably using the land should be free to extend his holdings indefinitely. Taken to its logical conclusion, his view would permit the buying-up by one man of the whole countryside of cultivable land. But this reverses the policy of every successive Government of this country for years past; and it is opposed, I think, to the view of the majority of those who

have examined, on the one hand, the evils of land-aggregation, and, on the other hand, the national advantage of settling more and more small farmers on cultivable areas. In my view it would be little short of disastrous if large, wealthy landowners were left free, in the absence of a graduated land-tax, to go on aggregating their holdings until the amount of cultivable land available for closer settlement was enormously reduced. It may well be that, if unlimited holdings were facilitated by the absence of the graduated land-tax, the total wealth-production from the land might be higher than it would be in the hands of a number of small holders; although I think it could be shown that experience proves contrary result.

But assuming a greater production could be achieved under unrestricted land-aggregation, that by no means decides the question at issue. The well-being of every nation—and especially of a young nation like this—depends upon the well-being of the people, upon their health and character; and there is abundant evidence in the world's history that wealth may accumulate and men decay, and also abundant evidence to show from the days of the *Latifundia* of Roman days down to the present time that land-aggregation has the one uniform result of forcing or inducing migration from the country to the centres of population, tending to undermine the physical stamina and prejudicially affect the moral character of the people. These are far broader and higher considerations than mere wealth-production, and any change in our fiscal policy which would favour or permit such a migration as I have referred to should, I think, be strongly resisted. All legislation which makes for closer settlement on our rural lands is adding to the stability of all that is best in our social system. I think, however, that where large holdings are necessary owing to the quality or character of the land the Commissioner should have power to reduce or entirely remit the graduated land-tax, but such reduction or remission should be made only on the application of the owner and on proof that the largeness of the holding is necessary for profitable farming and that the area is not immediately suitable for closer settlement.

I want to make it clear, however, that a graduated land-tax should not be carried beyond the plain and avowed intention of those who originated it. It was clearly intended to force subdivisions of large rural estates for closer settlement purposes; it was never intended to apply to city lands occupied for industrial and commercial purposes. I think, therefore, that the operation of a graduated land-tax should be limited in its operation to rural lands, and to the aggregation of town and suburban lands for merely speculative purposes to the injury of the national enterprise and interest.

*Mortgage Exemption in Land-taxation.*—We often hear the loose phrase of “a mortgage-tax.” There is, of course, no such thing now as a mortgage-tax. Under the Land and Income Tax Act of 1908, and for many years before that Act was passed, a mortgagee paid tax on the amount of the mortgage as if it were land, but the rate was lower. The landowner paid tax not on the whole unimproved value of the land, but on the excess of the total unimproved value over the amount of his mortgage. There were certain small diminishing exemptions which may be disregarded. Later the tax on mortgagees was abolished, and the whole burden, with negligible exemptions, was thrown on the owner, the mortgagor; or, in other words, subject to these negligible exemptions, he was not allowed to deduct his mortgages. A partial exemption has since been introduced into our law. The position now is that where the total unimproved value does not exceed £6,000 an exemption is allowed of £4,000; and, secondly, where the value exceeds £6,000 the exemption of £4,000 is diminished at the rate of £2 for every £1 of that excess, so as to leave no deduction when the unimproved value of the land amounts to or exceeds £8,000. Mr. Clark's evidence is of the greatest value with regard to the effect of this exemption. As I have pointed out, he says, “It has greatly promoted the evil of speculation.” This speculation has been encouraged, he shows us, to a great extent, first by the allowance of a deduction for a mortgage, and latterly by a mortgage exemption. He says that the mortgage exemption covers holdings up to £8,000 of unimproved value, and it is on holdings of this size that there is an enormous amount of trafficking, and this, he concludes, has been a far greater curse to this country than aggregation has ever been.

These conclusions are significant and cannot be greatly challenged. The operations involved in the subdivision of a large estate have, in by far the greatest number of cases, taken the shape of offering the subdivisions to small farmers at a price which has been the higher because so little cash was demanded, the subdividing owner taking a small proportion in cash and a mortgage for the balance, and if the unimproved value did not exceed £8,000 the mortgage exemption I have mentioned was allowed to the purchaser. It is clear from Mr. Clark's statement that if this mortgage exemption had not been in existence the pernicious speculation to which he refers would have been greatly checked. The logical conclusion, therefore, of Mr. Clark's reasoning is that it would be better that the mortgage exemption should be abolished altogether, or, at any rate, substantially reduced. If mortgage exemption has the evils which he indicates, then they, it seems to me, are sufficient justification for the abolition of the exemption. If these evils have prevailed under the present exemption, then it seems to me a good case is made out for such a reduction in that exemption as will check, if not abolish, the evil. If, however, that evil were abolished, its abolition would go far to meet and answer the objections Mr. Clark himself makes to a graduated land-tax. It is stated that in the absence of a mortgage exemption you are taxing an owner not upon his land but upon his debts. This complaint may, I think, be answered by pointing out that if a man desires to escape such taxation he may do so by limiting the area he purchases, or by paying so substantial a sum in cash as will leave the taxation of which he complains altogether negligible.

*Company-taxation.*—I take next in order the question of company-taxation. Three views have been taken by different persons of this taxation: First, those who maintain that the company should be regarded as a unit, as if it were, in other words, the individual earner of income, and taxed accordingly; second, that the company-tax should be at a flat rate of taxation on the profits of the company, and then a tax imposed on the profits payable to each shareholder in proportion to



his share of those profits; third, it is contended by some that the present company-tax should be abolished, and that the income each shareholder takes in the shape of profits should be taxed along with his other income, if any. I support this last-mentioned view. The objection to the present system is, first, that it is unjust. If I have £2,000 invested in the shares of a company whose total income pays the highest rate of income-tax and I get £100 a year in the shape of dividends, either the company must pass on the taxation imposed upon it under the income-tax to its customers (which means that in many cases the commodity in which the company deals would be greatly enhanced in price to consumers of the commodity), or, if the tax is not passed on, my £100 in dividends is taxed by something over one-fourth of that amount. In either of these two alternatives the result is unjust and unsatisfactory. It is true that in law a company is strictly a legal entity distinguished from its shareholders; but this creation of an artificial body should really not be invoked to impose taxation which has grossly unfair results. If the seven persons required to form a limited company were partners and not shareholders, each would be taxed upon the share of profit he got under the partnership. What rational distinction, then, can be made in the division of the profits between seven partners and seven shareholders? It is stated that the shareholders have the privilege given them by law of limited liability, and that they should submit to a greater burden of taxation in return for this privilege. But the privilege costs the State nothing; and it is the company's creditors, and not the State, that have to run any risk involved in the limitation of liability. The legal provision for limited-liability companies was as much for the benefit of the community as for the benefit of the shareholders. It is in the highest degree in the interests of the community that large amounts of capital should be available for the development of industry. The principle of limited liability has induced capital in private hands to flow into the coffers of limited-liability companies, to be used for the promotion and maintenance of productive industries, which would never have embarked, for the most part, in these enterprises had it not been for the limited-liability principle. It seems to me, therefore, quite unfair to regard this principle as a privilege for which shareholders must pay in increased taxation; indeed, it may be contended that the privilege has been a greater boon to the community than to the shareholders, and that the latter might retort upon the Government: "You have gained more by this so-called privilege than we, and you should therefore correspondingly reduce our taxation." In my view, as I have said, the shareholder should be taxed on the share of the profits he takes, and no tax should be laid upon the company itself *qua* company. It is not the ability or faculty of the artificial entity, the company, to pay the tax that is the proper test; but the ability of the individual shareholder to pay the tax out of his share as income.

And there is a still further objection to the present shape of the company-tax. There can be no doubt that it is having a marked effect in preventing embarkation of large amounts of capital in new commercial undertakings—undertakings which it is fair to suppose would greatly help in the development and towards the prosperity of this country as a whole. The basic principle of progressive taxation is that it is paid out of revenue; but the revenue should be estimated at its destination (in this case the shareholders), and not at the stage of the appearance of the total income of the company in its balance-sheet. I am of opinion, therefore, that the present company-tax offends against every test of a fair progressive income-tax; and among those tests it offends chiefly against the main one of justice.

*Debenture-taxation.*—The tax upon interest payable upon debentures is a tax upon the individual holder. This interest income should be in no way differentiated from interest payable to the taxpayer under an ordinary mortgage, and should be included in his total income and taxed accordingly. The present difference of rates for company debentures and local-body debentures has no logical justification; both should have the income arising from them regarded in the same way and should be included in the total income in both cases of the debenture-holders and taxed accordingly.

I pass now to the most difficult question of all: *the incidence of taxation*. Mr. Bastable says in his recent work on public finance, "A correct solution of the problem of incidence is indispensable in dealing with the subject of taxation. Our judgment on every part of the tax system will be affected by our theory of incidence. Take, for example, the question of justice. How can we say that any arrangement of taxation is fair unless we know its real and not merely its apparent incidence? It is useless to confine attention to surface appearances: we must examine the underlying conditions and estimate in their entirety the effects of fiscal regulations." And, quoting another of the foremost authorities in the world on this subject, Professor Seligman, in his "Progressive Taxation": "In so far as taxes are really shifted at all from the taxpayer, the problem of progressive taxation loses its importance; for if the taxes are actually shifted, the rate in the first instance is of no essential consequence. It is only in so far as we assume that so-called progressive taxes remain where they are put that the considerations of ability or faculty on which a progressive tax is based are of any weight. A progressive rate of taxation which does not reach individual ability at all is as unnecessary as it is illogical." The principle of these two statements cannot be gainsaid. But when we turn to an examination of the incidence of a tax, especially of one like the income-tax, we will soon find that it involves a complicated investigation and requires a close and adequate detailed scrutiny of the practical operations of the national enterprise and methods. Such an inquiry I cannot, of course, enter upon here. It will be found by reference to the two works I have just mentioned that there is scarcely one general statement with regard to the shifting of incidence which has not to be so qualified by conditions as to be of really no help in a general examination of the question. It is not too much to say that the theory of incidence is one of the most involved and debated in all economic science. Adam Smith and Ricardo maintain that a tax on pure rent would remain on the land, and that the incidence of all other taxes may be shifted. The theory that all taxes are shifted to the consumer Professor Seligman finds widely accepted, especially in America. Proudhon came to the

conclusion that all taxes fall on the consumer, and that this cannot be helped by legislation in the form of taxation. Both Seligman and Bastable deny the extreme view that the incidence of no income-tax can be shifted, and equally deny the other view that the incidence of all income-tax can be shifted. Both accept the intermediate view that some can be shifted; but an examination of their views as to what can be shifted and what cannot discloses such qualifications and conditions as to make their conclusions of doubtful value to a Commission such as the present.

The question that arises here is, Is the progressive income-tax imposed in this country wholly or mainly passed on? This is, after all, a question of ascertainable fact, and I cannot speak with any confidence upon it; but from all the inquiries I have made, and from the facts disclosed in the profiteering cases which have been heard in New Zealand, I feel justified in saying that the incidence of these progressive taxes is largely shifted from the taxpayer upon whom they are imposed and upon whom they were intended to rest. No one should be in a better position to investigate and decide this question of fact than the Commissioner of Taxes, who has the returns of all businesses which come under our system of progressive income-tax, and who could cause an investigation to be made of these returns to extract the data upon which this question could be determined. I understand him to be of the view that, while the incidence of income-tax is largely shifted to the consumers, it is checked to a greater or smaller extent by the operation of competition in the market. In this view I think Mr. Clark is affected somewhat by the old fallacy that competition works freely and without clog or friction. Long ago John Stuart Mill recognized what he calls the friction of the retail trade as a clog upon free competition. He realized that human nature had to be allowed for: it has settled habits, it has lethargy, it has prejudices, and it has vanities. The ideal essential to the operation of free competition is that each buyer is constantly alert to find where he can buy at the lowest price. As regards the great mass of consumers who get their commodities from retail shops, this ideal essential is not present in their dealings. It may be largely found in the operations of wholesale buyers, the success of whose business depends upon buying the commodities in which they deal in the cheapest market. Where a consumer has long been in the habit of dealing with a reputable establishment, which has increased its prices in order to pass on income-tax, that consumer himself will probably be satisfied with the explanation that a higher price than formerly must be charged by the establishment because it has been burdened with a heavy increase in taxation which can only be made up by an increase of prices. More commonly the question of the increase will not be inquired into at all, but it will be assumed that the reputable establishment is maintaining its reputation of charging no more than reasonable prices. In this connection it must be remembered that indirect taxation provokes less resentment than direct because the element of the tax is not definitely present in the price of the commodity. Contrast the purchase of a theatre ticket with that of a box of cigars. In the former case the price of the ticket is stated, and then the amount of the amusement-tax on it made abundantly clear. Now, when a tax is passed on in the form of increased prices, the buyer is usually unaware that there is any element of passed-on tax in the price, and consequently this element is paid without resentment. This practice is really a method of collecting indirect taxation. But I think it is generally claimed by producers and traders that they are entitled legally and morally to maintain what they regard as a fair rate of profit by passing on taxation which reduces their profit to less than the amount to which they consider their enterprise entitles them. As I have said, however, the question is one of fact, and must be determined by the investigation of what is actually happening in a country like this. I content myself with merely expressing the opinion that the competition to which Mr. Clark refers as a check to a transference of the incidence is of much more limited operation than he supposes.

The great outstanding question in problems of taxation is that of incidence. As the two writers I have quoted point out, a system of progressive taxation based upon the assumption that the incidence will rest where it is intended to rest becomes useless, illogical, and unjust where the assumption turns out to be false, and where the burden is passed on by the intended taxpayer to the consumers, who in most cases are the last persons in the world whom the legislator intended should carry the burden. My respectful submission to this Commission is that it should recommend that an investigation should be made on the most reliable evidence as to the extent to which the incidence of taxation is shifted; and if it finds that this operation is widespread, so report to His Excellency.

What I have said discloses the difficulty of the problem which confronts us in attempting to devise a system of taxation which will at once provide the necessary revenue required by the Government, conform to the tests of justice based upon ability or faculty, and provide effective measures for preventing a transfer of the incidence from the class intended to bear the tax to classes not intended to bear it. But assuming that such measures for preventing a transfer of the incidence can be devised so that the whole weight of progressive income-tax remains where it falls, it would then become a question of whether many of your largest industries could continue to survive. If the profits required to be earned before the heavy income-taxation due to the consequences of the war were reasonably necessary to enable the producers, manufacturers, and merchants to maintain their business successfully, then to tax them to the extent of more than a fourth of their income in such a way that they cannot pass on the tax in the shape of increased prices would, I fear, in most cases result in the crippling or destruction of these businesses. This presents the dilemma that, if the taxes are passed on, the consumers bear an unfair burden; if these taxes are not passed on, but remain where they fall, they are so heavy as to cripple the business upon which they fall.

It is commonly felt that destructive criticism should be accompanied by constructive suggestions. I frankly admit that, after being a student of economics for many years, I have no constructive suggestions of any value to offer if our fiscal system is to proceed along the lines of development it has inherited from the past. In this plight I would draw the attention of the business community

to the fact that the whole industrial enterprise of New Zealand is in reality one business organization, divided up into a number of occupations or branches, and that there is no essential difference between the purpose of this national enterprise and the purpose of any private business. In each case the purpose is solely to get a living for the people concerned in the enterprise. As business men who have given the deepest thought to the matter know, there is no need for a system of taxation in a private business great or small. The expenses of government in our industries, conceived nationally, are head-office expenses, including interest and sinking fund on loans, which might be treated as general expenses of the business and paid accordingly. I know of no reason why the cost of national government should not be treated in the same way as a large business, save that those employed in the whole national enterprise have not come together as they would in a private business and agreed upon the distribution of the income of the enterprise. In the absence of this national agreement the income is first divided among the workers, managers, and owners of capital; and then the Government proceeds to take back from them a sufficient sum to pay the expenses of government, including interest and sinking fund on national loans. In this process there is a general tendency to pass the tax on to one's neighbours; and in the struggle those who have control of industry—its leaders—have obviously a great advantage over the rank and file. I do not believe that there is any effective way of escaping from these evils except by those concerned in the whole national industry doing just what those who are concerned in each large private business have to do—namely, come to some fair agreement about the distribution of the earnings; and it is therefore plainly for those of experience in business to devise, if possible, a practical method for this distribution. Until they do, the Government must adopt some arbitrary system of securing its expenses; and an arbitrary method necessarily makes for friction, inefficiency, and unfairness. I shall be told that such a proposal is entirely impracticable. It may be; I do not know. If the ablest and most public-spirited of our business men say it is I should, of course, accept their verdict. At any rate, it is clear that such a proposal would involve fundamental changes in our present industrial system; and these, if they could be ultimately successfully effected, would doubtless take a long time. No element of coercion enters into the suggestion. It is merely an invitation to thoughtful business men who see and admit the unfairness of our present system to meet, discuss difficulties and advantages, and see whether something better than the great chaos in which we now find ourselves cannot be devised along the lines of the suggestion I have merely shadowed.

*The Chairman.*] You are in favour of the abolition of the ordinary land-tax, but you favour the maintenance of the graduated land-tax. Have you any suggestion to make as to the basis on which the graduated land-tax should be imposed?—I do not think it should begin too low. At what unimproved value it should begin is a matter largely, I suppose, for the taxing authorities. But I do not think it should begin under £5,000.

*Mr. Clark:* That is the amount in Australia.

*The Chairman.*] £5,000 unimproved value?—Yes.

*Mr. Weston.*] With regard to the graduated tax for land, if a big farmer is subject to the progressive income-tax you will be penalizing him very heavily under that?—That is true. The fundamental justification for a graduated tax is that the person upon whom it falls should not hold an area of that size, and the tax must be adjusted fairly to carry out that purpose.

Any man who has a very big property will have to pay a very big progressive income-tax, and if on the top of that you put a graduated land-tax you practically make it impossible for big holdings to be carried on?—I realize that, and as far as the object of the graduated land-tax is justified by repressing what is considered to be a social evil it is all the better that he should not be allowed to carry on.

I am thinking of the sheep-farming industry. I think it is admitted that the smallest flock for economical handling should be about two thousand sheep. Well, you are going to compel the subdivision of a large number of sheep-runs, which probably will not be to the advantage of the Dominion. The land is only suitable for sheep-farms?—You are taking an instance of two thousand sheep. I would not impose any graduated tax under £5,000, and the rate of graduation would not be at all onerous until you reached an area more than ample to carry two thousand sheep.

You know that the great problem in the North Island in the immediate future will be the handling of our hill country?—I provide for that.

You know the amount of land that is going out of cultivation, and the only chance of handling that, apparently, seems to be to handle it by a man of big means?—If you can show from the quality of the land, its situation, or character generally, that it cannot be farmed profitably except in large areas, then my proposal is to give the Commissioner discretion to remit the tax altogether; but it must be established that these conditions exist.

Would it not be better to deal with it apart altogether from the penalty and leave it to the Land Boards to say what further aggregation should be allowed, on certain principles laid down?—Frankly, I think that would be a most retrograde step. You would have no uniformity of incidence or rate. I think that if you left it to all the Land Boards to decide in their particular districts you would have chaos.

There is always a natural process going on with regard to the subdivision of big estates. A man dies, and the estate is divided up among the children. Often a man who inherits from his father does not want to be bothered with farming operations. He finds it more profitable to sell the land?—But you must and I must keep clearly in view our basic principle in this matter. Our basic principle in this matter is that no man should be allowed to hold more land than is required for reasonable farming. That is really the basis of the graduated land-tax—in other words, that large holdings, aggregations in single hands, are a social evil which must be repressed. If you concede that, then any criticism of the nature of that which you are indulging in just now, it seems to me, is irrelevant.

*Mr. Clark.*] Could not that point be met by a flat land-tax combined with the local rates? The two together would take a very large proportion of the ground-rent. You would not go beyond the full ground-rent in your charge on land?—A flat rate offends against the canon which you yourself expressed, that you should not tax capital. If you are imposing a flat rate upon a man who is not making more than £300 subsistence, then you are taxing his capital. He has got to pay it, and if he is not making any profit to pay it out of, he must pay it out of capital.

The same objection applies to your graduated tax, does it not?—No, because we do not want him to continue. In the one case you want the man to go on. In the other you do not.

*Mr. Shirlcliffe.*] Where do you suggest the line should be drawn between the small farmer whom you wish to relieve altogether of land-tax and the undesirable large landholder whom you wish to penalize because he holds too much land?—That is a difficult question and must be decided arbitrarily—certainly empirically. I can only say that such an expert as Mr. Clark would give a far better answer to that question than I could.

I asked the question because it suggests itself to me that a man holding £5,000 worth of land or even £10,000 must come within the category of the small farmer, surely?—I do not care whether you call him a small farmer or not.

It is the small farmer that you wish to relieve of land-tax entirely?—It is not the small farmer *qua* farmer. It is the small farmer in relation to the land he is holding. If a small farmer has land to the value of £5,000 unimproved value—I speak quite in the dark, because I know nothing of farming—and the graduations are negligible, until, we will say, you reach £10,000 unimproved value, then a small farmer with £10,000 unimproved value is getting a little near a large farmer.

A small farmer with land worth £10,000 would probably have another £2,000 in stock and plant—say, £12,000. It would be an extreme estimate probably to say that he would make on an average 10 per cent. I do not think that farmers, taking them all round, will average that or anything like it. But assuming that he make 10 per cent. on £12,000 capital, he would still come within the category of a small owner?—But may I impress upon you that I am trying to apply a principle—this principle: let us define the area of land which will not offend against the social rule underlying graduated land-tax; that is, find that ideal area. It is difficult to find, and you will have to content yourself with areas which merge into each other. But your first principle will be to get hold of that area.

You cannot deal with areas, can you? You must deal with values?—You deal with values. You speak of land according to its carrying-capacity: it may be three-sheep land or one-sheep land. The money expresses the difference.

You suggest that the income from debentures should be placed on the same footing as income from other sources. The question has been raised, and I should like to have your view upon it, as to whether that alteration should be made to apply to all past issues of debentures that are now current?—That raises one of the most difficult questions you could ask.

Would you consider that there was any contract between the Government, who from time to time fix the rate of tax on debentures, and the debenture-holders who bought these debentures subject to the then current tax? Would you consider that there was any contract?—Every one of us, when we make a purchase of land or shares or anything else, or lend our money on debentures, should have in contemplation changes in our fiscal system, and we must take the consequences.

*The Chairman.*] You buy subject to that risk?—You buy subject to that risk.

*Mr. Shirlcliffe.*] It is quite clear there is a marked difference between the tax-free war loans and debentures. In the one case there was a clear contract. In the other case the buyer took the ordinary risk of future legislation?—That is so.

You would not consider, then, that there was any breach of faith if the alteration were made to apply to past issues?—No, I would not.

*Mr. Weston.*] With regard to local-body debentures, although theoretically your contention is quite right, still circumstances attending the fixing of the rate on local-body debentures by the Legislature were so definitely directed to enable local bodies to obtain money at a low rate of interest at the time the rates were fixed that it would be, would it not, very unfair now to increase those rates?—Local bodies, after all, is merely a collective name for persons, and you have got to test the justice of it by looking at the effect upon the individuals. If I buy gas shares after the heaviest burden of taxation on companies is imposed, and they are not passing on their taxation to the consumers of gas, and in consequence of that tax the price of shares falls, and when I buy the shares are 10 or 20 per cent. lower than they were before the imposition of the tax, I am getting an advantage, and the other man is sustaining a loss; and that is the result in all cases.

But a man taking up local-body debentures—say, three years ago—would probably do so with a view to retaining them, and he would be still a holder. It would be very hard on him now to penalize him, seeing that the Parliament of the time deliberately fixed a low rate on those debentures in order to enable the local authorities to borrow at a cheap rate. The particular circumstances attending the fixing of the rate by Parliament, to my mind, almost outweigh the theory that you lay down, the correctness of which I do not dispute?—I realize the force of what Mr. Shirlcliffe says about war loans. There is the principle. If you can show that there was either a tacit or an expressed undertaking by the Government that the burden would not be altered in the shape of taxation, then there is certainly a great deal to be said for your argument; but as far as I can see there was no such implication.

If I remember rightly, the Government were going to make these debentures subject to the ordinary taxation. Then they changed their mind because of representations being made that the effect would be that local bodies would not be able to borrow the money at the same low rate of interest that they could with the present rates?—I am afraid that you as a lawyer must look at the statute-book and not at what went on before.

*Mr. Shirtcliffe.*] Have you considered the point from this aspect: as to the advisability of local bodies receiving a direct encouragement to borrow large sums on the local market, and thus withdrawing money from circulation in the ordinary commercial channels where it assisted in the production of the country?—It is the old question. It has two aspects. If you borrow from abroad, your interest as a rule goes abroad. If you borrow locally, your interest as a rule remains here.

Quite so. If the money that is now borrowed by the local bodies locally were left to be available for the development of the country the interest would still remain in the country?—Borrowed where?

If the money that is at present borrowed by local bodies within the Dominion were left free to circulate through ordinary commercial channels for the development of the country the interest would still remain in the country?—It would. It is exactly a case of local capital being used locally.

It is quite true that if local bodies were compelled to borrow overseas it would entail so-much interest going out of the country; but that would be found money. It would be additional to the capital already in the country and being used for development?—I take it there is a great deal of force in what you say. The Government were offenders themselves when they borrowed so largely in the local market.

They did that under pressure?—No doubt.

Would you consider that as an additional argument in favour of placing all debentures upon the same footing as ordinary income?—I base it upon a much wider principle than that. I say that you should treat that interest as income and tax it as income, no matter what source it comes from.

In your statement you refer to the possibility of taxation being passed on. You say, "Where a consumer has long been in the habit of dealing with a reputable establishment," and so on. That reference has special application to the retailer, has it not?—Yes. I meant to make that clear.

Would you consider that the possibilities of passing the taxation on are as great when you come to the wholesaler?—No.

He buys as cheaply as he can and gets the best price he can according to competitive conditions?—The life-blood of business is not merely the consuming of goods; you have to buy in the cheapest market. The retailers who buy from the wholesalers see that they are not going to pay more to A for certain goods than they can get them for from B.

If you take the retail traders as a whole, the great bulk of them pay little income-tax, comparatively. Very few retailers in this country would pay the maximum rate?—The small man does a small business. The very large man does a very large business. You take A and B on Lambton Quay: they are doing as much business as fifty or sixty small shops. Their tax is high, and they pass it on—I suggest—to their consumers, their customers, who have been trading with them for years and years. They pass on the tax in the form of an increased price.

Simply because the customer has been in the habit of dealing with them he looks upon the house as a reputable house and either from lethargy or custom pays the price; he does not stop to inquire?—Such people do not canvass the shops to find the cheapest.

Is it taxation that does that? Would it not apply in any case?—Of course it would. Under our present system, if an establishment has got a big reputation, especially if it is a fashionable shop to go to, which counts for a very great deal among certain people, it can add to its profits very largely, independently of taxation altogether. But there is a certain amount of conscience, I am told, amongst business men. I sometimes think that, like Clive, they are amazed at their own moderation.

Yes, but the consequence is always operating in the same way?—If you find a house that is disposed to add to its profits because of its privileges, it is much more likely to add to its profits most of the tax than merely to gratuitously increase its profits. Any house will more strenuously try to pass on the tax.

But to an extent that impost is checked by the competition of the smaller houses?—Well, I have said all I can say upon that.

*Mr. Hunt.*] In connection with those tax-free bonds, you said, and every one agrees, that they could not be taxed after the contract that was made. But there is this point: assume that a man has an income of £5,000 a year, £1,000 of which is drawn from tax-free bonds and £4,000 from other sources. He is taxed on the £4,000, and the £1,000 from tax-free bonds is disregarded; it does not enter into his return. The effect of his investment in tax-free bonds is to get £1,000 of income free of tax, so that he has reduced his taxable income from £5,000 to £4,000, and he has reduced his rate from 3s. 10-4d. to 3s. 2-4d., so that he has saved 8d. in the pound on that remaining £4,000. Do you think that that is the right way to do it, or should he pay on the £4,000 the graduated rate that applies to his whole income?—If you have pledged the honour of the State that it will not tax these bonds you should not trifle with your obligation.

JOHN SNELL CONNETT, Farmer, New Plymouth, examined.

*The Chairman.*] You have some views, Mr. Connett, on what you refer to as "The Iniquity of the Land-tax"; will you read what you have prepared on the subject, please?—Yes. Before doing so, however, I would like to say that the question of land-valuation has been very prominently before the people of Taranaki just recently by reason of the revaluation of the whole of the Taranaki County. Considerable interest was taken in the matter there by the farming community generally.

You have had a revaluation there recently, have you?—Yes.

And have values been put up very much?—Yes, about 100 per cent., as a result of a Commission which sat there. My statement is as follows:—

After a careful study of the taxation of land as carried out in this Dominion one can only conclude that it leaves much to be desired. The primary object of the tax in the minds of legislators no doubt was to prevent the aggregation of land, but I cannot believe it was ever intended to

operate as it does. For instance, when the Act was framed provision was made for exempting all landowners whose unimproved value did not exceed £500, which at that time represented a considerable area and was probably thought sufficient for a man to make a living off; but how much land would that amount buy now on the present method of calculating the unimproved value? Very little. The Act also provides that all improvements made by the owner shall be exempt from taxation. Parliament apparently intending that farmers should be encouraged to improve their lands in every way possible. Many local bodies have followed along the same lines by adopting rating on the unimproved value for the same reason; but what interpretation does the Valuation Department put upon it? Something very different. The barest possible allowance is made for buildings, fencing, and grassing, and all remaining value is classed as unimproved and thereby liable to tax. No allowance is made for the heavy rates levied for the making of good roads or the establishment of dairy factories, cool stores, box-factories, freezing-works, and suchlike, yet all these are provided collectively by private enterprise and add materially to the value of land. Nor is the farmer allowed anything for the top-dressing of pasture, though it is well known that fertility is only maintained in many localities by the judicious use of manures. The progressive farmer feels that he is being badly had all round. He adopted rating on the unimproved value believing it would encourage every one to improve his holding, and also penalize the loafer and the speculator by making him pay his share of taxation, but the reverse is the case, for the more improvements he makes, the more top-dressing he uses, the better he farms, and the more progressive he is generally, the higher is his unimproved value fixed; consequently he pays more rates and higher land-tax instead of being relieved. Revenue must be found, we know, but surely something more equitable can be found than this. Were it possible to find other means for preventing aggregation, then land-tax would be better abolished and revenue from land confined to income-tax only. The methods of assessing values, too, might be improved. There is at present a lack of uniformity which indicates a want of system or of better training on the part of valuers. Values in the past have been based largely on sales made during the boom period, and consequently are on the high side. A reasonable margin of safety would be preferable, in the interests not only of the individual but of the country generally.

*Mr. Hunt.*] Have your values been put up recently?—Yes. Our county has been revalued within the last year, and the values have been increased by 100 per cent. over the whole county.

When was the previous valuation?—About ten years back. Of course, the capital value has increased, and the unimproved value has doubled, and the capital values with the improvements have doubled. But our contention is that there was no possibility of the unimproved value doubling in that time. Sufficient allowance has not been made for the special factors I have mentioned. Take the roads, for instance: we are the most progressive district in the Dominion in the way of laying down good roads. We have very fine roads in Taranaki. They have been provided by the raising of special loans. In our County of Taranaki we have only about two hundred square miles of country, and our present roading could not be put there to-day for less than £250,000 to £300,000. About three years ago we raised a loan for bitumen or tar-sealing, amounting to £40,000. Prior to that we had many other loans for metalling and bridge-work.

And you pay for those loans with rates on your land?—Yes, sir.

So that it is a burden on the land?—Yes. We have been carrying the highest rate. Previous to our valuation we were levying at the maximum rate of 3d. in the pound. Our rate now will be 2d. in the pound on the unimproved value.

*Mr. Weston.*] And you have special rates on top of that?—Yes, a hospital rate in addition. We have not a harbour rate. As to valuations, not only has the country generally to carry the local rates, but in addition the hospital rate, the Power Board rate wherever required, a harbour rate, and then on top of that there is the security for Government loans, showing that it is essential that sound values should obtain throughout the country generally, so that fictitious security is not given for this conglomeration of loans, these united loans that are all secured by the one area of land. They are all overlapping, and unless the values are on a sound basis a fictitious security is given to the lender. I want to stress the point that from a Government valuing point of view the Government should see that fair values are maintained rather than that values should be arrived at on selling-rates during a boom period.

*Mr. Hunt.*] Your points are that the capital value is too high and that the allowance for improvements is not sufficient?—Yes.

And that the maximum unimproved value is very much too high?—Yes.

Have your farmers asked the State to either reduce the valuations or purchase the land at the present valuations?—In many cases the farmers offered it to the Government at the prices the Government had put on it.

What was the result?—The Government were not in a position to buy. The values were reduced as a result of the strong attitude taken up by the people generally, and strong organized effort and influence were brought to bear on the Department. Although the Valuer-General would not make the reduction himself, as a result of the Commission the values were reduced.

*Mr. Weston.*] Is your total valuation higher?—Yes; now it is quite 100 per cent. higher than it was previously, so that we have reduced the rate to provide the same amount.

Though individual valuations have been reduced the total valuations are increased?—They were reduced on a percentage basis according to the locality. Some localities suffered more in the increase of values than others, and it was pointed out to the Commission that values had been on the high side, and they agreed to a reduction according to the locality.

This was a reconsideration of the new valuation?—Yes. We took up the objection I have taken up here, that according to the interpretation of the Act, as I have interpreted it we should have been allowed for the improvements as I set out. Questions were put to the Commission, but they

refused to allow anything for good roads, factories, and so on. They claimed that they rightly belonged to the country and were rightly classed as unimproved value. It was a staggerer to us who always believed the contrary. We believed that all improvements should be safeguarded to the farmer, and that that was literally correct: that no matter how one improved his property that individual was entitled to it. The rates add to the value of the property. We have had concrete instances of that. In many cases the ratepayers on a road have said, "We will go in for a loan with the idea of getting a better road." They immediately took advantage of having this metalled road to sell out at a higher value. The properties were mortgaged for the building of the road, and that is in addition to the general rate I have specified.

As a matter of fact, do you think purchasers of land take into consideration sufficiently the amount of taxation payable?—They do not. That is quite right. It is very rare that they investigate the load the land is carrying.

*Mr. Hunt.*] They are doing it a bit more now?—Yes; it has been brought home very forcibly to some of them.

*Mr. Weston.*] You have got to pay one thing or the other—you have got to pay either income-tax or land-tax?—But a man often has to pay when he has not the money.

As to aggregation, do you think there is a serious danger that if the graduated tax were taken off there would be a tendency to pile up big holdings together?—I do not think so, but I admit that I am looking at it from the dairying point of view. Most of Taranaki is dairying-land, and is largely cut up into small holdings, and it is found that the people on the smaller holdings are better off than those on the larger areas.

Then, you think that as far as regards land suitable for dairying there would be no danger of aggregation?—That is so; in fact, the tendency would be all the other way.

And practically the dairying-land covers all your farming-land?—Yes, in our district.

*Mr. Shirtcliffe.*] What is your county?—Taranaki County.

I suppose that is mostly first-class dairying-land?—No; we have a good deal of blackberry country there, towards the mountain.

Have you any idea of how valuers go to work in order to get at the unimproved value of land? Do they base their valuations on the sales that have been made, or on the producing-capacity of the land?—I do not think the producing-capacity is taken into consideration at all, and I was practically satisfied, after the Court sat, that the method of arriving at it is by taking the sales that have taken place in the district from time to time. They have a correct record of every sale that takes place, and they keep that record for their own information and use. We were quite satisfied that that is how it is arrived at, that the producing-capacity was not considered at all, but that the selling-value was taken, and that the unimproved value was arrived at by a process of deductions—by deductions for fencing and grassing, and that the rest was treated as unimproved value.

What would be the average unimproved value that has been fixed for what we might term first-class dairying-land?—Well, the unimproved value assessed at Bell Block—which is one of the good districts; indeed, it is as good land as there is in any part of the Dominion—was £50 an acre before the Court agreed to make the reduction. They made a total valuation of £57 10s. All the good farms are round Bell Block—which is within six miles of New Plymouth—and right through to Waitara.

Would that land carry a cow to 2 acres?—A well-improved farm there would carry a cow to 2 acres, and some of the land would carry a cow to 3 acres.

A farm carrying a cow to 2½ acres valued at £50 an acre unimproved value, taking the present price of butterfat, would that farm be profitable?—If a man was working it himself and putting his own labour into it, it probably could be farmed profitably, but if he were working it on the share system it is doubtful if it could be worked profitably. It depends upon the factors as to the farming of the land and the treatment of the cattle.

With reference to the graduated land-tax, of course I can see from what you say that it does not apply so much to Taranaki now, but you are a practical farmer, and I would like to have your view on this aspect of the matter: just supposing that the ordinary land-tax was abolished, but that a graduated tax to prevent reaggregation was maintained, where would you put the dividing-line between the small farmer who ought to be protected from the land-tax and be free from land-tax and the man in a larger way who by holding a very large area of country is preventing that country from being cut up into small areas?—It is hard to say, because I am of the opinion that the value of land is considerably different in grazing-country to what it is in dairying-country. It is well known that throughout the Taranaki country, where dairying is carried on, the values are higher than in other country, possibly quite as good but used for grazing purposes. Therefore it is very difficult to indicate a line that would be applicable to both classes of country. I am not familiar with the values of land in other districts as well as I am with the values of land in our own country. Taranaki is largely a dairying district, and we have felt that we have been unduly penalized because through its being dairying-land it has been valued a good deal higher than it would have been if it had not been dairying-country. The dairy-farmer has had to carry a larger share of taxation than he ought to be asked to carry. Whilst £500 would possibly have been quite a good line to start from in the old days of valuation—I have not gone into what the valuations were in those days—it would be very much higher now.

Should it be £5,000, or £10,000, or £20,000?—I think it should not be less than £3,000.

But you would not call a man with £3,000 worth of land a large farmer?—No.

*Mr. Weston.*] Mr. Shirtcliffe is wanting to know at what stage graduated land-tax should be imposed: he does not mean the stage at which the land-tax should be imposed?—That is what I was looking at.

*Mr. Shirtcliffe.*] I suggested the possibility of the ordinary land-tax being abolished and simply a graduated tax being imposed to prevent reaggregation. Where should that graduated tax start? You have got to draw a line between the small man who is going to be free of land-tax altogether and the larger man who is aggregating?—I would not like to say that. I am looking at it with the idea of having some other means of preventing aggregation. I would not like to offer an opinion upon that, though I realize it is in the best interests of the country that aggregation should be prevented. It probably hits harder the owners of a certain class of land that would be better farmed in large areas.

That would be of comparatively low value, so that you should go on the values and then you would not go far wrong?—Yes. The values there are very much lower than in our country.

You cannot help us any further?—No; it is going outside my land knowledge.

*Mr. Weston.*] You said that the unimproved value of some land in your district was fixed at £50 an acre: was that value reduced by the Commission?—Yes; it was reduced to about £42.

These recent valuations have been reduced?—Yes, but it still stands at 100 per cent. more than it was previously.

*Mr. Begg.*] You are not satisfied that the unimproved value arrived at by valuers in your district is really the unimproved value of the land?—No; by the interpretation of the Valuation Department we are paying on our improvements. I am satisfied about that, and all the rest of us are.

Do you think it is possible to get any set of valuers to give a separate unimproved value from the improved value?—I think a value very much nearer the right figure could be obtained if the farming community, or leading representatives of the farming community, were invited to get together and discuss this thing. It seems to me that the valuation of land is carried out by officials who are not sufficiently conversant with all the aspects of the subject from the farmer's point of view. I think that the Government should be conversant with all these points and should be prepared to listen to suggestions and to take into consideration the points I have raised. If that were done they would start out with a sounder knowledge of the position, and carry out the valuations on a safer basis.

You referred to lands being subject to special rates?—The ordinary rates as well. I have just mentioned that prior to the revaluation of our country last year we were carrying the maximum rate that could be levied on capital value; that is 3d. Then we had our hospital rate of 1d., so that Taranaki has adopted a higher rating, and we are being unduly penalized for our progressiveness.

But you do not claim that all improvements done out of rates should be regarded as improvements?—No, I would not say "all improvements." I think consideration should be given to those localities or districts which adopt a progressive policy for the benefit not only of themselves, but of the community generally.

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RICHARD SLINGSBY ABRAHAM, Chairman of Directors, Abraham and Williams (Limited), Stock and Station Agents, examined.

*The Chairman.*] You have written a letter setting forth your views on the subject of taxation: will you read it to us please?—Yes, sir.

In the year 1922 I submitted evidence on behalf of my company to the Committee which was set up for the purpose of examining the incidence of taxation as applied to companies and individuals. In my evidence I urged—

(1.) That the nature of our business is mainly earning commissions on stock and wool belonging to our clients.

(2.) That in order to get such business we find it necessary to make very heavy advances to our clients.

(3.) That such advances are confined to our own capital. We do not make use of borrowed money, except for occasional temporary loans from our bankers.

(4.) That the slump in stock-values so reduced our earnings that we made no profit for the years ending 30th September, 1921 and 1922, and that in order to pay bad debts, which were heavy owing to the slump, and income-tax we had to draw on our reserves for a considerable amount. During the last three years our shareholders, excepting the 6-per-cent. preference shareholders, have only received one dividend of £5 per cent., and that we could only pay owing to the fact that we practically made no profit for two years and, therefore, had little income-tax to pay.

(5.) I showed that it was quite impossible to pay the then tax of 8s. 9½d. in the pound and return our shareholders a reasonable dividend. With the present reduction of tax to 5s. 10½d., we would still have to charge our clients 9 per cent. by way of interest to give a return of 6 per cent. on our capital, pay tax equal to 2½ per cent., and ½ per cent. for clerical expenses. It is quite impossible for us in the present position of our clients, who are practically all farmers in a small way, to increase our usual charge of 7½ per cent. to 8 per cent. interest, or our commissions of 2½ per cent. to 4 per cent., which are the lowest of any country in the world.

(6.) That of the shareholders on our register the bulk are people in a small way who would be exempt from any taxation. Owing, moreover, to the fact that we have been unable to pay dividends, our shares have fallen in value, and as some of our shareholders are dependent on their dividends for their living-expenses they have had to make a heavy loss by selling their shares.

(7.) Owing to the above reduction in our earning-power, we have endeavoured to call in our advances as much as possible, without interfering too much in our general business. In this, however, we have not been very successful, as had we prosecuted our intentions in their entirety it would have meant ruin to many farmers who could not possibly have obtained advances from other firms. We now have to face the question of the moratorium which expires at the end of this year, and we are now



engaged in endeavouring to consolidate our position so as to avoid, as far as possible, the losses which must occur, owing to farmers being unable to raise anything like the present amounts for which they have pledged their farms. Notwithstanding the good prices given for produce, it is our experience that the small farmer, particularly the dairy-farmer, has been unable to set aside from his earnings anything to enable him to meet this reduction in his advances, which is bound to come sooner or later.

(8.) I pointed out in my last evidence that if the present incidence of taxation is to continue at its still high rate our business must go into the hands of smaller concerns whose profits would be less in amount but larger *per capita* of the shareholders, but they would not be in the position to finance their clients as we do. As the total of advances to farmers by the stock and station agents of the Dominion runs into many millions of pounds, this would be a serious thing for the country, and would have the effect of stopping production to a great extent, and thus possibly bring the country to the point when they could not pay the interest on our heavy loans. If, however, the incidence of taxation as it affects companies is changed, it is evident that to some extent the stock and station agents of the Dominion will be far better able to assist their clients in the serious position which they have to face owing to the disinclination of holders of capital to advance on the basis of values which were current before the war. I am of opinion that the incidence of taxation as it affects companies should be altered so as to enable them to pay a reasonable dividend to their shareholders before they are called on to pay any tax. Shareholders would, of course, add the amount of such dividends to their individual returns.

*Land-tax.*—The incidence of land-tax is bearing very heavily on our dairy-farmers, and further alleviation should be made. I give the following concrete case, and I will undertake to say that there are a very large number of dairy-farmers throughout the Dominion who are suffering in this respect. A purchases a farm of 161 acres in 1921 at £55 per acre, value of butterfat at the time being 2s. 4d. to 2s. 6d. per pound. The actual value of that property at the present time is not more than £40 per acre, and therefore he has lost the sum of £2,415. His actual returns are as follows for the three years during which he has been working the property: Receipts from all sources, £2,354 17s. 7d. Expenses—interest on mortgage, £1,369 6s. 5d.; land-tax, £96 10s. 1d.; rates, £88 0s. 6d.; interest on stock, £161 13s. 5d.; wages,\* £624: total, £2,339 10s. 5d. He has therefore only made a bare living during the period in which he has owned the property, and has been quite unable to put by a penny to meet his mortgage of over £6,000 falling due in two years' time. Possibly he might have reduced his land-tax somewhat had he applied for a revaluation, but it is quite out of the question for a dairy-farmer to follow the intricacies of the Act, or, unless he employs a lawyer or a professional man, to find out if he is entitled to get an alteration to his assessment.

*The Chairman.*] The case you give us, you say, is typical of many cases?—A great many, especially in our district and the Waikato, have given far too much for their land. They are only just making a living and cannot put anything by.

*Mr. Weston.*] What do you think would be the average return of a dairy-farmer this last year? Would he make 10 per cent. on the capital invested in his farm and stock?—No, not in the case to which I am referring. One man might—a very shrewd, capable man not too heavily mortgaged. But you take the average dairy-farmer right throughout our district and I will undertake to say he is not making more than 5 per cent. on the value of his land and stock.

That covers their own personal exertions?—Their own living-expenses. In the case I have quoted the man has two sons and a grown up daughter to do the whole of the work, and he does not pay them a penny.

There were some comparisons drawn up by Colonel Mitchell the other day as to how farmers benefit by the land-tax as compared with the income-tax. He took as a basis that it was reasonable to expect a farmer to get a net return of 10 per cent. on the capital invested in his farm and stock. Is that a reasonable assumption?—I think it is quite reasonable. I do not see how a man is going to get on unless he does make something like that—that is, to put anything by to reduce his mortgage.

Are farmers doing it at the present time?—No, not the dairy-farmers—not in our district, at all events, those that I know most about, because they are all working on very high-priced land. They have paid 10 per cent. or 20 per cent. of the purchase-money, and they have heavy mortgages. Now they are faced with this position: What are they going to do when the mortgages come due?

Has it not been one of the evils of the past that finance has been made too easy for farmers—they have been given too much credit?—I quite agree with you. I dare say I was a sinner in that respect. But it is not being made too easy now. Every farmer has to show good security before he gets his advance.

*Mr. Shirtcliffe.*] Do you think the price of land has got down to its legitimate level yet, based on its producing-value?—It is very difficult to say. If you take the net returns from a farm for ten years you can reckon what the price should be.

You are not including war years?—No. You take an average. The inclination of a farmer when he comes to a district is to pay the price which the surrounding lands are assessed at or have been bought at, and he will not give consideration—he cannot—he has not been brought up to give consideration—to what a farm will return.

I was thinking of the possible effect of the lifting of the moratorium at the end of the year. If land is not down to its producing-value then, there are bound to be heavy losses?—Bound to be. I do not know how many of them will have to go out.

Those losses must be met, must they not?—Yes, they have got to be faced.

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\* Estimated wages which should have been paid to two adult sons and a daughter who have assisted him on the farm. Actually they have had nothing.

We have got to finish up the speculation of two or three years ago?—The only thing that we have got to look forward to is better methods—improving the stock and getting better returns from the cows, and so on.

It has been suggested that the land-tax should be abolished and the income-tax substituted. What is your view about that?—I have not gone into it very closely. I think it would be far better for dairy-farmers to pay income-tax.

Probably they would not have much tax to pay then?—I do not see why they should pay tax any more than any one else. This man, for instance, living on a couple of hundred a year, with his family; why should he pay tax any more than the man who receives an income of under £300?

With further reference to the land-tax, it has been suggested that in order to prevent reaggregation the graduated tax should be maintained on some basis—that the ordinary land-tax might be abolished, but that the graduated tax should be retained in order to prevent reaggregation. Have you any views on that?—I have always felt that the heavy tax on large properties has not been altogether the cause of breaking up those properties. It has been done owing to the rise in the value of land itself. Surely that has had a very much greater effect. If a man is owning property that is worth to him £10 an acre and that land goes up to £20 an acre, naturally he will sell.

You do not think, then, that the breaking-up has been altogether the result of the graduated tax?—No. I think that an enormous number of these properties would have been broken up without the tax.

If the country should relieve the small farmer of land-tax and substitute the income-tax which would be applied to all farmers, large and small, can you suggest a commencing-point for that graduated tax?—My own feeling is that the whole thing should be income-tax; or, if you are going to land a land-tax, make it a property-tax. We used to have a property-tax. But I do not think that both are quite reasonable. If you are going to have a graduated income-tax, surely that is quite sufficient to put on. You are attacking the man in two ways.

It may be claimed that the graduated income-tax will not be sufficient to prevent a man holding a very large block of country to the exclusion of a large number of other people who could use it in small blocks. Land is a commodity that will only go a certain distance round?—I should not like to give an opinion on that. That has been thought out and worked out, and I do not feel competent to give an opinion on that.

*Mr. Begg.*] You rather fear the coming of the end of the moratorium?—What are you going to do? Where are they going to get loans? At present they can carry on, but if they are called upon to pay £1,000, £2,000, or £3,000, I do not know what they are going to do.

Would you be in favour of the moratorium being extended indefinitely? It is the only alternative?—I have always felt that it should be knocked off at the earliest possible moment. As soon as the country found there was going to be a boom the moratorium should have been lifted, and those fellows would have been saving instead of spending their money in buying motor-cars and more land.

But dealing with things as they are?—I think it will create a very bad state of affairs if it is knocked off all at once. I think it should disappear gradually.

You think that the evil of taking it off is greater than the evil of leaving it on temporarily?—Leave it on temporarily, or take it off gradually.

It would have to be taken off suddenly for each individual, would it not?—Yes.

So what would be the gain?—No doubt in many cases the second mortgagees will come to light who have not come to light so far. They have been hanging on and have been paid their interest. But we have got to get down to bed-rock somehow or other.

Do you think the hardship that will be inflicted justifies extending the moratorium?—I do not know I am sure. I do not like to say. I think the hardship will be very great if that moratorium is not in force—very great indeed; and it will interfere very materially with the production of this country.

Do you think the land will actually be allowed to lie idle? Will not a compromise be arrived at to enable the farms to be worked?—I suppose they will be put up and sold at low figures, and so in that way we shall get down to bed-rock value.

*Mr. Shirtcliffe.*] The land will still produce?—Yes, if it is worked; but it must make a very material difference. There will be a waste of time and money in cases where you have got a man working his farm to its full capacity at the present time. Mr. J. H. Stevens met me at the station and asked me to hand a letter in. I do not think I can say anything about it.

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PATRICK JOSEPH O'REGAN, Barrister and Solicitor, Wellington, examined.

*The Chairman.*] What is your connection with the New Zealand Land-values League?—I am one of the vice-presidents.

And at the request of the League you have prepared a statement setting forth the views of your League on the question of land-taxation?—Yes, sir.

Having been deputed by the New Zealand Land-values League to present to you the views for the propagation of which that organization stands, I accept with pleasure your invitation to place the following presentation thereof in writing, and it will afford me additional pleasure, on receiving suitable notice, to appear before you later for the purpose of amplifying the argument hereinafter set out as well as to answer any questions you may think fit to address to me. I gather from your order of reference that your investigations are limited to direct taxation, and accordingly, although we are Free-traders, I shall refrain from dealing with the indirect taxation of this country, save only in so far as it may be necessary to refer to it incidentally.

In connection with direct taxation I would point out that in principle the land-tax is very ancient, while the income-tax is of comparatively modern origin. Certainly we do read of the income-tax in the days of the Hundred Years' War or the Wars of the Roses. On examination, however, it will be found that the tax was mainly a tax on the land-holding class as such—indeed, in those far-off days not only was there a very limited and uninfluential mercantile class, but land was treated as being held conditional on the discharge of great and important public obligations. Accordingly what was then sometimes referred to as income-tax, and is still so referred to in historical works, was something substantially different from the tax which subsequently bore the same name. The income-tax assumed something like its modern form in 1799, when for the purposes of the protracted war with Revolutionary France Pitt imposed a general income-tax of 10 per cent. upon all incomes payable to absentees not residing in Great Britain, but in respect of property therein, as well as upon residents of Great Britain in respect of property abroad. In addition to which the tax was levied on incomes arising from any profession, office, stipend, pension, or employment, trade, or vocation. The maximum charge of 10 per cent. applied only to incomes of £200 per annum or upwards, but all incomes in excess of £60 per annum were taxable, though an abatement was allowed in respect of children. It is interesting to record that, although the tax was estimated to yield not less than £7,500,000 per annum, it fell short of the estimate by a million and a half—an illustration of the difficulty in framing an accurate forecast of the amount such a tax is likely to produce. The tax was repealed by Addington after the Peace of Amiens in 1802, but was reimposed by him when the war recommenced. The rate of taxation was increased by Pitt in 1805, but the tax was repealed entirely in 1816: Dowell, "The History of Taxation and Taxes in England," Vol. 3, pp. 219-35. On the repeal of the Corn Laws in 1846 by the Peel Government the income-tax was reimposed, and though in his great Budget of 1853 Mr. Gladstone forecasted its complete abolition by 1860 the outbreak of the Crimean War prevented the realization of his plans. In his pre-election manifesto of 1874 Mr. Gladstone pledged the Liberal party to repeal the tax; but he was defeated heavily at the polls, and during the following six years, during which Disraeli was virtually the Dictator of England, his "spirited policy" of Imperialism found expression in war in Afghanistan, in South Africa, and almost in war with the Russian Empire. These adventures made economy in taxation impossible, and since then nobody has suggested the repeal of the income-tax in Great Britain. During the late war the tax reached 2s. 6d. in the pound, and in 1907 for the first time a distinction was made between earned and unearned incomes.

I have said that in principle the land-tax is very ancient—indeed, it is as old as our history. Only in modern times has the value of land been separated from the value of the improvements thereon, and the peculiar burdens borne by the land-holding class in ancient times were not always in the form of taxes. Personal services, generally military services, by the tenant—and all landholders are even nowadays tenants in the theory of the law—in favour of his lord was an early attribute of feudal tenures. With the advance of society, however, these were from time to time commuted into money payments—that is to day, into taxes. Though the form changed, however, the principle continued the same—the holding of land was regarded as a privilege in return for which the tenant was properly held liable to peculiar obligations. Without going too deeply into history to prove facts which are really not in controversy among educated men, I may point out that protracted struggles, such as the Hundred Years' War and the Wars of the Roses, involved no national debt, but were paid for out of taxation and feudal revenues as they progressed. In those days Customs duties, being limited necessarily to a few articles, provided but an insignificant revenue, while Excise duties, though in vogue on the Continent and popular with European despots, were quite unknown in England. As a matter of fact, Excise duties had ever been disliked in England. Dowell tells us that such taxes "had always been hateful to Englishmen, who regarded them as a badge of slavery": "History of Taxation and Taxes in England, Vol. 2, p. 8. From the same authority we learn that when Michiel, the Venetian Ambassador at the Court of Queen Mary, reported on the condition of England in 1557 he recorded as a singular and wonderful circumstance the absence of all taxes on the necessaries of life. "They have no taxes," he writes, "on salt, wine, beer, flour, meat, cloth, and other necessaries of life, as imposed in all parts of Italy especially, and in Flanders": *Ibid.*, Vol. 4, pp. 117, 118. Here it is interesting to remark that in those days, when tea, coffee, and other drinks with which we are now familiar were unknown, wine and beer were ranked as necessaries of life. Excise duties were, in fact, levied for the first time in England by the Long Parliament in 1643, but even then they were decidedly unpopular, and the demonstration in 1733 against Walpole's Excise Bill was due not so much to the immediate proposals of the Bill itself as to the fear that the hateful system would become of more general application. That Excise duties did in fact become an important item of revenue subsequently was one of the results of the sweeping change made by the Long Parliament in 1645, to be referred to presently.

As I have pointed out, the time was when England paid for her wars as they progressed. The explanation is that all the land, excluding the immense common fields which were in the best sense public property, was held subject to feudal burdens. All that was changed, however, by Statute 12, Car 11, cap. 24, passed in 1660, but made to take effect as from the 24th February, 1645. By that statute military tenures were abolished, and all lands, saving a few exceptions, declared to be held in "free and common socage." Says Taswell-Langmead: "In consideration of the surrender of these feudal privileges by the Crown, the Parliament resolved to make up the Royal revenue to the annual sum of £1,200,000. As the landed gentry were the great gainers by the surrender, they ought in justice, to have been subjected to some compensatory tax . . . But, being powerful in Parliament,

the landowners succeeded, though only by the small majority of two, in substituting a hereditary Excise on beer and some other liquors, thus transferring their own peculiar burthens to the community at large": "Constitutional History," 5th ed. pp. 511, 512. Thus we see that a deadly blow was struck at English freedom by a Parliament which professed to vindicate popular liberty against Royal pretensions, and that by the narrowest of majorities. Here we have the root cause of the system which has since led to indirect taxation on a huge scale, as well as to the national debt. Doubtless it was consistent with Puritan principles that support for the change should have been won by commencing with a tax upon the consumption of beer and wine. England's landlord rulers, it would appear, subsequently thought better of what Taswell-Langmead calls "a compensatory tax." At any rate, a Land-tax Act was passed in 1693 by which it was ordained that a tax of 4s. in the pound on the "true annual rental" of land should be levied annually. The measure was limited to rural land, but nevertheless it produced an annual revenue of £2,000,000, and had it not subsequently been frittered away by amendments would have amply repaid the nation for the loss involved by the Act of 1660. It is interesting to remark in passing that this measure led to a serious constitutional quarrel with the House of Lords. The Lords endeavoured to add a clause to the Bill providing the valuers of land owned by members of their order should be selected from their peers. The House of Commons resisted the proposal on the ground that the House of Lords had no right to amend a Taxing Bill, and after a powerful protest by Lord Mulgrave the Lords gave way: See hereon Macaulay's "History of England," Vol. 2, cap. 19. The land-tax was levied by an annual Bill until 1798, during Pitt's Administration, when the tax was made permanent, but those liable thereto were allowed to redeem it by payment of a commuted sum, and in consequence in our own day the tax has shrunk into complete insignificance, though, as a matter of fact, were the land of England revalued it would still yield no inconsiderable revenue. In this connection it may be pointed out that the system of land-valuation was the cardinal feature of the famous Budget of 1910, and that, though this valuation was first suspended and then abolished by the Coalition Government of Mr. Lloyd George, it is now proposed by Mr. Snowden's Budget to restore it.

I have glanced at the history of direct taxation in England because of my view that no subject should be discussed apart from its history. Accordingly I respectfully submit to your Commission that the proposals I shall present to you hereafter are well founded in historical precedent. In this connection I agree with Edmund Burke that in all things we should act as if we were "standing in the presence of canonized forefathers," and in the principles of taxation hereinafter expounded it will be found on dispassionate examination that there is really no revolutionary innovation. Still bearing the history of the subject in view, let us see next what is the verdict of political economy. In Book V, cap. II, of his monumental work, "An Inquiry into the Causes of the Wealth of Nations," generally styled "The Wealth of Nations," Adam Smith deals systematically with the question of taxation. His four maxims are now the accepted canons of taxation, and I quote them in substance: "(1.) The subjects of every State ought to contribute towards the support of the Government, as nearly as possible, in proportion to their respective abilities—that is, in proportion to the revenue which they respectively enjoy under the protection of the State. Taxpayers should be considered as joint tenants in a great estate. In the neglect or observance of this maxim consists what is called the equality or inequality of taxation. (2.) The tax payable by each contributor should be certain and not arbitrary. The time of payment, the manner of payment, and the sum payable ought to be clear and plain to the contributor and to the public. (3.) Every tax should be levied at the time and in the manner most convenient to the contributor. (4.) Every tax should be so contrived as both to take out of the pockets of the contributors as little as possible over and above the amount it brings into the Treasury."

The mere recital of these maxims suggests some obvious comments. First, they rule out Customs and all indirect taxation, a fact which cannot surprise us when we bear in mind that the illustrious author exposed and condemned the fallacies of the mercantile system, as the protective system was termed in his day. Secondly, it is interesting and significant that, though Smith has much to say on the land-tax—for in his time it had not been commuted—he is silent on the income-tax as such. Nobody familiar with the work of the man who is justly styled the founder of the science of political economy requires telling that it is in reality a sustained and brilliant denunciation of indirect taxation, though it may startle some of his readers to learn that, in dealing with taxation generally, he proves conclusively that the land-tax accords fully with the maxims upon which he founds his case. Yet such is unquestionably the fact, as I shall proceed to show. First, let me point out that in dealing with the land-tax as it then existed Smith really uses it as an illustration of his arguments in favour of what he more correctly terms a tax upon the rent of land. No provision was made by the Act of 1693 for revaluation, and down to the date of its commutation, 1798, the tax was collected on the original valuation. This our author terms "the constancy of the valuation," and he makes it clear that he does not approve it, and that it is "altogether extraneous to the nature of the tax." It is abundantly evident that Smith favours the exemption of improvements, for which the tax did not provide in that it was levied on the annual value of the land and improvements. Accordingly, Smith suggested that before the landlord began his improvements the value of his land should be assessed, and the tax levied on that valuation "for such a number of years as might be fully sufficient for his complete indemnification." What is the meaning of this but the exemption of improvements from taxation and the levying of the tax upon what is nowadays termed the unimproved value of the land? Finally, he summarizes the advantages of such a tax: "In all the variations of the state of society, and in all those of the standard of the coin, a tax of this kind would of its own accord and without any attention of Government readily suit itself to the actual situation of things, and would be

equally just and equitable in those different changes. It would therefore be much more proper to be established as a perpetual and unalterable regulation, or as what is called a fundamental law of the commonwealth, than any tax which was always to be levied according to a certain valuation."

I have previously pointed out that the land-tax of 1693 was limited to rural land. Smith makes it quite clear that he favoured no such restriction, for he strenuously advocates the extension of the tax to town lands. In treating of taxes on the rent of houses he is careful to distinguish between what he terms "the building-rent" and "the ground-rent." By building-rent he means what we, in popular language, term "house-rent," which is partly rent in the true sense and partly interest upon capital, and by ground-rent he means what we term the unimproved value. After referring favourably to a tax on the building-rent of uninhabited houses, Smith proceeds, "Ground-rents are a still more proper subject of taxation than the rent of houses. A tax upon ground-rents would not raise rents of houses. It would fall altogether upon the owner of the ground-rent, who acts always as a monopolist . . . The annual produce of the land and labour of the society, the real wealth and revenue of the great body of the people, might be the same after such a tax as before. Ground-rents and the ordinary rent of land are, therefore, perhaps the species of revenue which can best bear to have a peculiar tax imposed upon them . . . Nothing can be more reasonable than that a fund which owes its existence to the good government of the State should be taxed peculiarly, or should contribute something more than the greater part of other funds towards the support of that government." In dealing with taxes upon profits or upon the revenue arising from stock—with Smith an interchangeable term for wealth—our author may fairly be said to deal by implication with the income-tax. He makes it plain that he does not favour a tax upon either interest or profit. As against the inquisitorial and difficult nature of an assessment of interest he contrasts the land-tax in that the value of a man's land "can never be a secret." Let any impartial reader study Smith's treatment of the question of taxation and the conclusion will be irresistible that he argues powerfully in favour of the taxation of the unimproved value of all land, rural and urban. Here I may point out that, although he wrote independently of them, Adam Smith was contemporary with Quesnay and the Physiocrats of France—"that peculiar sect of men in France," as he calls them. The Physiocrats, who included such eminent men as Turgot, Condorcet, and Mirabeau, have been called the single-taxers of the eighteenth century, and justly so, for they advocated the abolition of all taxes save a tax upon the rent of land, though, with less insight than Smith, they failed to see that the principle was equally applicable to urban land. Smith's biographer, Dr. Dugald Stewart, has remarked upon the similarity of the doctrines taught by the great Scotsman and those promulgated by Quesnay and his school, and no student of the question of taxation can avoid the conclusion that the comment is fully justified.

My purpose has been to show that, whether we examine the subject of taxation historically or in the light of the principles of political economy—and the two branches cannot really be separated—we are driven to the conclusion that there is an unanswerable case for land-value taxation, or, as it is more usually but incorrectly termed, the land-tax. I hope to show later that the income-tax is impolitic and unnecessary, but before doing so I shall deal briefly with the history of direct taxation in New Zealand. It is an historical fact that an essential feature of Sir Julius Vogel's public-works policy was a betterment-tax. We associate his name nowadays merely with a policy of borrowing, but it is unquestionable that he intended that borrowed millions expended on public works should be repaid, in large part at least, by what he called a betterment-tax, but what Taswell-Langmead (*supra*) calls "a compensatory tax." As in the days of the Long Parliament, however, the land-owners in Sir Julius Vogel's day were powerful in Parliament, and so, although the borrowing of millions for public works found ready sanction, the betterment-tax came to nothing, and accordingly the payment of interest on the vast sums expended upon public works in this country, which conferred a peculiar benefit on the land-holding class, have become an increasing burden, through indirect taxation, on the masses of the people. This, I may remark in passing, is an injustice which has not passed away with the men originally responsible for it. It is a continuing wrong calling clamantly for redress, and it is our conviction that redress can be found in the reform of the taxation system alone.

Apart from stamp and probate duties and territorial revenue from land, direct taxation is first heard of in this country under the Grey Government of 1877-79. Prior to that date we appear to have depended largely for revenue on the proceeds of land-sales, wrongly classed with territorial revenue, and Customs and Excise duties, though these latter compared with those now in operation were very moderate indeed. The imposition of a land-tax was one of the cherished principles of Sir George Grey, and accordingly his Government introduced, and Parliament enacted, the Land-tax Act, 1878. The Act provided for the imposition of a flat tax of one halfpenny in the pound on the unimproved value of land, and though it provided for an exemption of £500, that exemption was not nearly so objectionable as that which is now in operation, because above the unimproved value of £500 it ceased to apply. Though the measure aroused strong opposition it passed into law. The Government, however, was shortly afterwards unseated, and was succeeded by the Hall-Atkinson Government, one of whose first acts was to repeal the land-tax before any revenue whatever had been collected thereunder. Revenue was required nevertheless, and so the new Government made a substantial increase to the Customs taxation; and likewise became responsible for the property-tax, a measure utterly different from the land-tax inasmuch as it ignored the fundamental difference between the unimproved value of land and the value of improvements. In fact, the property-tax fell indifferently on real and personal property, but again subject to an exemption of £500. The sponsors of the measure maintained that it was expedient to tax all forms of wealth indifferently, and that the preceding land-tax, since it touched only "one form of wealth," was not equitable. It never appears to have occurred to Ministers and their friends that land is not and cannot be wealth,

but that it is really the material whence wealth is produced, and hence that there is a wide difference in effect between a tax falling on unimproved or community-created value of land and a tax upon wealth. The new tax, like all direct taxes which are fundamentally unjust, was the cause of continual irritation and discontent in the country. Much of the discontent was due to the inquisitorial nature of the tax, for not only were land and buildings taxed, but the tax-gatherer, logically enough, it must be conceded, was obliged to value the contents of buildings as well. Moreover, it often happened in practice that a business with a large stock-in-trade paid taxation successively on the same goods. The property-tax lasted just twelve years, and was succeeded in 1891 by the land and income taxes, which have remained in operation ever since. The dominant features of the new system were, of course, the exemption of improvements and the taxation of the unimproved value of land, though until 1893 improvements were not exempted beyond the value of £3,000. The income-tax, now levied in New Zealand for the first time, was designed to reach people whose incomes were not derived from land, and in principle it was, and is, necessarily different from the land-tax with which it was coupled. Discarding the income-tax for a moment, let us compare the land-tax imposed in 1891 with that passed in the days of the Government of Sir George Grey in 1878. The land-tax of 1878 did not involve any attempt at graduation, but, as we have seen, was a flat tax; the land-tax of 1878 was subject to an exemption of £500, but no exemption was allowed above that limit; the land-tax of 1878 took no cognizance of mortgages, but fell alike on mortgaged and upon unmortgaged land. The land-tax of the Ballance Government was different in all three respects in that (a) when the unimproved value exceeded £5,000 it became subject to the graduated tax in addition to the ordinary tax of one penny in the pound on the unimproved value; (b) not only was the unimproved value exempted up to the limit of £500, but every owner was, and is, allowed an exemption of £500 the unimproved value of whose land did not exceed £1,500, the exemption diminishing at the rate of £1 for every £2 of unimproved value above £1,500, and hence the exemption did not, and does not, disappear until the unimproved value reached £2,500; and (c) in the matter of mortgages the measure fattered by the Ballance Government regarded the mortgagor and mortgagee as partners in the land mortgaged, and the mortgagee accordingly paid land-tax on the value of his mortgage. So much for the vital differences between the Land-tax Act, 1878, and that of 1891. Subject to certain alterations, the measure passed into law in 1891 is still in force, and I proceed now to state our attitude towards the same. First, let me say that we oppose the income-tax. We hold that all taxes upon earnings—that is to say, upon production—are wrong in principle, and accordingly that in so far as the income-tax falls upon earnings it is morally indefensible, while, in so far as it is not a tax upon earnings, its work can be accomplished much better by the land-tax. Adam Smith has put our case against the income-tax. He writes, "If my income belong to me to spend for my own comfort and gratification, without any deduction for the uses of the State, why should I lose my right to any part because I have saved it? To tax realized wealth is to punish men for not spending their earnings as they receive them. Yet it is eminently for the public interest that men should save to increase the capital of their country." It will hardly be disputed that wealth is produced, not by Government, but by the industry of private citizens, and surely the best incentive to the production of wealth is to leave to every citizen his earnings? Of course, there are other objections to the income-tax: (a) It is more or less inquisitorial; (b) it tempts men to evasion; and (c) the most weighty objection next to its essential inequity, it is often passed on to the public in the form of increased prices exactly as indirect taxes are passed. Curiously enough, this fact was admitted by Mr. Massey recently in the course of an "interview" with a newspaper representative at Christchurch. We admit, however, that if an income-tax is levied it would be intolerable without an exemption.

We support the land-tax primarily for the reason that we regard it as the means by which the equal right of every member of the community to the land of his country can be asserted and secured. We think, however, that the Act passed by the Grey Government was preferable in several respects to that now in operation. The object of land-value taxation is really twofold—to assert and secure the equal right of the people to their land and to provide an equitable and permanent source of revenue. Accordingly we are opposed to the graduated land-tax, and we hold that the land-tax of the Grey Government, being a flat tax, was preferable in every way to the present tax. The graduated tax is objectionable: (a) because it obliges certain people to bear more than their proper proportion of taxation; (b) because even if it does secure the subdivision of estates, which is not necessarily the fact, it causes a permanent falling-off in the revenue, and thus defeats one of the objects of land-value taxation. I may point out as an illustration of this fact that in its first year the land-tax of 1891 produced a revenue of £297,000, but in four years this had fallen to £267,000, a decrease entirely due to the graduated tax. The falling-off in revenue may argue the subdivision of land, but I am satisfied that much of the subdivision was mere pretence for the purpose of evading the tax. We hold that no matter how land is divided the revenue therefrom should be the same. Secondly, we oppose the exemption, holding that in the land-tax there should be no exemption whatever. The slightest reflection will show that there is a fundamental difference between an income-tax exemption and a land-tax exemption. If the people have a right to the community-created value of land, that right cannot be defeated by any exemption, and the exemption defeats that right by affording a sieve, as it were, by which revenue is lost. In this important respect the land-tax of the Grey Government was much better than that which has succeeded it since 1891, because, as I have pointed out already, though there was an exemption of £500 unimproved value in the Act of 1878 there was no exemption above that figure. I have explained incidentally that the present is not really a £500 exemption at all, and that fact will be fully realized when it is added that not only is that man exempted from taxation the unimproved value of whose land is £500, but the man of whose land the unimproved value is £1,500 is taxable only on £1,000, while £2,000

unimproved value is allowed a deduction of £250, the tax being levied on £1,750. To what extent the land-tax revenue suffers because of this exemption it is impossible to say because of the absence of proper statistics. The last statistics available—and they are very imperfect—are those contained in parliamentary paper B.-17A, 1907. When that paper was compiled there were in New Zealand 128,019 freehold proprietors, and of these 96,372 came within the exemption absolutely, paying no land-tax, for the reason that the unimproved value of each man's land did not exceed £500. Then, there were 13,227 owners the unimproved value of whose land did not exceed £1,000 each, and these represented a total unimproved value of £6,113,500, upon which no tax was payable. The return gave no particulars above the limit of £1,000, and hence it did not disclose anything like the full effect of the exemption. It proved conclusively, however, that of the freeholders then in New Zealand three-fourths paid not a penny of land-tax. As already stated, we have no up-to-date information, but I have the authority of Mr. Clark, the Commissioner of Taxes, for stating that the proportion of non-payers of land-tax is still the same, and, inasmuch as, using round figures, there are now 55,000 payers of land-tax, it follows that there are 165,000 freeholders who are completely exempted from payment of land-tax. Of course, even these startling figures do not disclose the whole position, because, as already shown, the exemption really extends far beyond the £500 limit. Were we able to ascertain the full facts, it would be found that I have not exaggerated in describing the exemption as a veritable sieve through which a large amount of revenue is annually lost.

I am aware, of course, of the practical objections and difficulties in the way of abolishing the exemption, but it is submitted that the first step towards removing these difficulties is to publish fully the extent and effect of the exemption. Accordingly, even if your Commission can make no other recommendation in this connection, I respectfully suggest that you recommend the publication of up-to-date statistics affording the fullest information in this connection. Two practical difficulties suggest themselves: First, the abolition of the exemption would be unpopular with the small landholders who benefit thereby, and, secondly, that the amount of revenue collectable would not be worth the expense. As for the first objection, we reply that the smaller owners could be more than compensated by a corresponding remission of indirect taxes, but even were the exemption reduced to the level of that provided for by the Land-tax Act of the Grey Government in 1878 three-fourths of the freeholders of this country would still be exempted from the land-tax, and we maintain that the large proprietors who benefit by the exemption are not small owners, and that they are well able to pay an extra £2 1s. 8d. per annum. As for the second objection, once we realize that the unimproved value is a community-created value and that as such it belongs to the community, no objection should stand in the way, but as a practical measure there is no reason why the local bodies should not be allowed to collect the tax below a certain level—say, to the extent of £500 unimproved value. The local bodies would be pleased to have the additional revenue, and such a step would make for healthy decentralization. Against the objections, allow me next to set out the advantages which would certainly follow the abolition of the exemption. First, the cost of collection of the land-tax would be reduced, because the country already pays for valuing the exempted land, and clearly the cost of valuation would remain unaltered if the exemption were abolished. Secondly, were there no exemption, no matter how the land of this country were subdivided, there would be no loss of revenue. At present the exemption acts as a sieve through which there is certainly a serious annual loss. In this respect the effect of the exemption is not unlike that of the graduated land-tax.

I come now to the mortgage-tax. As I have already stated, under the Act of 1891 mortgagor and mortgagee were, in effect, treated as partners in the land mortgaged, and the former was permitted to deduct the amount of the mortgage from his taxable value, land-tax being payable by the mortgagee. This system was clearly inconsistent with the main principle of the land-tax—the exemption of improvements, inasmuch as the mortgage was, and is, secured on the capital value of the land. This continued the law until 1916, however, when the mortgagee was relieved altogether of the tax and was made liable to income-tax instead. Hence it is no abuse of language to say that to the extent of the abolition of the mortgage-tax the land-tax has been repealed. In this connection we stand by the provisions of the Land-tax Act of 1878, which took no cognizance of mortgages at all. We hold that the position under the Act of 1891 was wrong because it involved the taxation of improvements, but we are equally opposed to the change made in 1916, for the reason that it is *pro tanto* a repeal of the land-tax. We are decidedly of the opinion that the Land-tax Department should take no cognizance of mortgages whatever.

It is hardly necessary to point out that the rating of unimproved values by local bodies is exactly the same in principle as the levying of the land-tax for the purposes of general taxation, and here allow me to say that 36 per cent. of the local authorities of this country are now levying their rates upon the unimproved value, and that more than 50 per cent. of the boroughs do so. The system of rating on unimproved values is fully in accord with our views, for in that connection there is graduation, no exemption, and no mortgage-tax or exemption of mortgages. Your Commission will thus realize that we have in this system a criterion by which to compare our objective in connection with general taxation. I proceed now to summarize our proposals:—

(1.) We stand for an increase of the land-tax, but we do not seek to increase taxation, and accordingly we desire the remission of other taxation to the extent made possible by the increase of the land-tax.

(2.) We favour the abolition of the exemption, but, regarding this as an ultimate objective, we maintain that the exemption should at least be modelled on that for which Sir George Grey's Act provided in 1878.

(3.) We favour the abolition of the graduated land-tax, and the levying of a flat land-tax, but subject always to the reservation we stand for no change involving a reduction of revenue from the land-tax.

(4.) We favour the levying of the land-tax on every owner without reference to mortgages.

(5.) As for the income-tax, we oppose it on clear and unmistakable principles. The real and only legitimate function of capital is to co-operate with labour in the production of wealth. Whatever capital produces in the exercise of that function constitutes its earnings, and all taxes upon earnings are wrong in principle and inequitable and injurious in practice. There is a fundamental difference between capital employed in the production of wealth and capital employed merely in blockading land, inasmuch as in the one case it assists production, but in the other it retards production. Accordingly, we hold that in the one case capital should be untaxed and production encouraged, while in the other taxation should be so levied as to make monopoly an unprofitable proposition.

Before I pass to the benefits of the land-tax I desire to express emphatic dissent from the daring assertion that the land-tax is a class tax. It is significant that the persons who make this reckless and untenable attack on the most equitable of all taxes advance no reasons in support thereof. In what sense can it fairly be called a class tax? Time was when we were informed with dreary iteration that it was a tax borne peculiarly by the farmer, but that statement was made with an audacious disregard of the facts. What are the facts? Again I refer to parliamentary paper B.—17A, 1907, from which we learn that there were at that date 82,951 owners of town properties and 38,875 owners of country properties. The slightest reflection will show, however, that the real position cannot be shown by statistics and that the preponderance of town owners is even greater. Everybody knows that there is a great area of land contiguous to towns, but outside their boundaries, and that such land, although technically rural land, is greatly enhanced in value by reason of its proximity to centres of population. I have already pointed out—and we have just cause for complaint in this connection—that the return I have alluded to has not been brought up to date, but in this particular connection we have recent and reliable information. The report of the Commission on Taxation, 1922, tells us that the unimproved value of rural land is to that of urban land as 9 is to 7. That is to say, of the total unimproved value nine-sixteenths is that of rural land and seven-sixteenths that of urban land. Thus we find that nearly half the unimproved value of the land of this country attaches to lands in the cities and towns. This indisputable fact disposes conclusively of the assertion that the question of land-value taxation is one which peculiarly concerns farmers. Leaving urban land out of consideration for the moment, I have not the slightest doubt that if up-to-date statistics were available it would be found that, although the small holders greatly outnumber the large, if the test either of area or value be applied it would be found that by far the greater portion of our best country land is monopolized by an insignificant number of men. Some light is thrown on this fact by the Budget presented to the House of Representatives by Sir James Allen in August, 1914. In a moment of injudicious candour Sir James Allen showed that the number of persons liable to pay graduated land-tax was 6,148—that is to say, only a few more than six thousand persons owned land of which the unimproved value exceeded £5,000. Though we have no statistical information on the point, I have no doubt that the great majority of owners liable to pay graduated land-tax are rural proprietors. Were the graduated land-tax abolished and a flat tax imposed, these would necessarily be still the largest contributors. It would be a daring inaccuracy, however, to regard these men as farmers—indeed, except for political purposes, many of them would scorn the title. Nor need we go very far to find (a) that these are the people well able to pay taxation, and (b) that they ought to pay. Referring again to Sir James Allen's Budget of 1914, we find that the unimproved value of the land of New Zealand for the years 1908–9 was £161,324,000, but that in 1913–14 it had mounted up to £212,936,000, an increase of £51,612,000. When he framed his Budget Sir James Allen was in an unusually communicative mood, because he informed the House that half that accretion had benefited the 6,148 who were liable to graduated land-tax. Using round figures this works out as follows: £52,000,000 in five years equals £1,000,000 in five weeks, or £200,000 in one week, or £28,871 per day, or nearly £1,200 per hour, or £100 for every five minutes. On a 5-per-cent. basis this means an increase of £5 every five minutes, or £1 per minute on the annual unimproved rental value of the land. This is a community-created value—a public value Professor Marshall calls it; and surely it is a monstrous proposition that the men who revel in this enormous privilege should not pay additional taxation.

I might quote further from this interesting Budget of Sir James Allen's. For example, it shows that the unimproved value of the land owned by the 6,148 persons liable to graduated tax equals the unimproved value of the land owned by 144,000 freeholders below the limit of £5,000, and three times as much as that of the land belonging to 110,000 freeholders under the limit of £500. The most cursory consideration of these figures will convince any honest man that it is a monstrous thing to levy heavy taxation on the landless masses of the people through the Customs while a small coterie of rich men revel in the monopoly of a practically untaxed privilege. Were the people in this country permitted to have access to the full facts by the provision of proper statistics the result would be even more startling. We do know that the unimproved value now amounts, in round figures, to £330,000,000, an increase of £117,000,000 since 1914. Yet we find our wealthy landholders protesting that they are overtaxed. As for the advantages of the land-tax, they are pre-eminent and manifold and may be summarized:—

- (1.) The tax is the easiest and cheapest to collect, because, as Adam Smith well says, the ownership of land can never be a secret.
- (2.) The cost of valuation will always be the same whether we levy a tax of 1d., 2d., or whatever rate in the pound. Any increase in the tax, therefore, will involve neither additional expense nor extension of governmental functions.
- (3.) Evasion is impossible, and hence any increase in the tax cannot involve additional prosecutions for such breaches as constantly occur in connection with the income-tax.



(4.) The tax cannot be passed on, because falling on idle land and used land alike, its tendency must be to bring land into the market for use, with the incidental advantage that it will reduce fictitious values and lessen mere speculation or trafficking in land.

(5.) It must encourage production, (a) because as it discourages the monopoly it must encourage the utilization of land, and (b) by making possible the reduction of other taxes which now hamper the production of wealth.

(6.) And most important. It asserts and secures the moral right of every member of the community to the land.

Finally, let me impress on the Commission the desirability of laying the foundations as it were of a policy which will find expression in legislation not merely during the coming session of Parliament, but hereafter—a policy capable of expansion as its benefits become apparent, such as Mr. Gladstone forecasted in his great Budget of 1853. I know of nothing calculated better to improve the general condition of the people of this country than a reform in our system of taxation. We ask not for an increase of taxation, but for a readjustment in the direction of increasing the land-tax, and remitting income-tax in part if you like, but, above all things, indirect taxation. We maintain that something more than mere fiscal potentialities is involved in the reform of our taxation system. May I point out one historic example? In 1841 Sir Robert Peel assumed office as Prime Minister of England after a general election, as a result of which the majority of the House of Commons were pledged to retain the Corn Laws. In the face of acute public distress the Corn Laws were temporarily suspended, and the benefits were at once experienced of cheap food. So strong did the tide of public opinion then run against their reimposition that repeal of the Corn Laws became inevitable, and, speaking from his place in the House of Commons, Sir Robert Peel made the memorable declaration that since the social condition of the people had improved by reason of the reduced cost of living, crime had so decreased and social contentment been so promoted that as an honest man he was compelled to confess to a change of opinion and policy. Principles do not change with the lapse of time, and I venture to urge upon this Commission that the policy I have hereinbefore endeavoured to outline if applied in practice would (a) reduce the cost of living, (b) increase wages, and (c) promote the permanent peace and contentment of the population. Accordingly, without fear of contradiction I say that, although it may be a Radical proposition, it is in the best sense of the word Conservative.

*The Chairman.*] We are much obliged to you indeed for the historical review you have given us of the whole subject of taxation, and also for the very lucid way in which you have put before us your views on the subject. Is there anything you would like to add?—What I would say in addition would be largely due to any suggestions I might get by way of interrogatories from the Commission. My impression was that Your Honour and the members of the Commission would desire to ask questions arising out of my evidence in chief.

*Mr. Hunt.*] In Auckland we had some evidence from two of the single-tax supporters—the Hon. Mr. Fowlds and Mr. Nightingale; but they went further than you have done. They went to the extent of wishing to make a tax on land-values the sole tax and abolishing all other taxes. Do you go to that extent?—I quite agree with that, but we do not propose to do it at one fell swoop. I do not think Mr. Fowlds proposes to do it at one fell swoop. But it is quite clear from my paper that that is the objective I have ultimately in view. That, however, is outside the order of reference of the Commission; and even if I had my will at the present moment to apply the principle that would ultimately lead to that objective I would not bring it into force at once. I would increase the land-tax and remit other taxation, and I am quite certain that after it had been in practice for a while the benefits of it would be so apparent that public opinion would make it irresistible. I am quite willing to abide the judgment of public opinion.

If you put all the tax on land, would it not have the effect of confiscating land from its existing owners and letting it back to them at a rental, and, where there were mortgages on it, wiping out those mortgages?—To begin with, it is not correct to speak of it as a land-tax. It is a land-value tax. The phrase "land-tax" is apt to be misleading, because it immediately suggests the idea of a tax on land in proportion to its area, whereas if you realize what the tax is—that it is a tax upon land-values—you will find at once that it applies to land irrespective of area, and consequently it applies to cities and towns as well as to country lands. So-much for the definition. As for the further part of your question, in one sense of the term all taxation is confiscation, and you cannot have a more insidious confiscation than indirect taxation, which takes from the masses of the people who have no property far more than it puts into the Treasury, and makes every business man, every shopkeeper, an unconscious tax-gatherer. We propose to abolish that system of legalized spoliation, and we propose to take for the community what is a community-created value. We fail to see why, in putting an end to a public evil, we give rise to any claim of compensation on the part of the landowner.

I will put to you a case. A man buys a farm—buys it legitimately and pays for it. The value is fixed largely upon its producing-capacity, not in boom times but in normal times. Say the producing-capacity of the farm is £2,000 and the working-expenses are £1,000. That leaves £1,000 to cover the owner's management and interest on his capital. The producing-capacity is fixed not by the prices that we can obtain in this country, but by the export values of farmers' products. The export values fix a man's income in this country. If you are going to put the tax on the land and nothing else, we will say you make the tax £700 on his farm, just for argument's sake. That goes on to the working-expenses, making £1,700. That wipes out the whole sum that is available for interest, does it not, and extinguishes his capital?—I cannot admit your premises. I deny the first of your premises, that land is worth what you can get out of it. The best proof of the fallacy of your suggestion is that the people who make most money out of land do nothing with it; they produce nothing out of the land. I heard a man boasting only a few days ago that he had made £500 and done nothing. He meant

that he had bought a piece of land, held it for a while, and sold it again. Of course, he was confiscating the earnings of other people in the form of law. That is what we are up against. But I quite admit that when we have a heavy enough taxation of land-values to make it unprofitable to do anything with land except use it the selling-value of land will come down. I quite admit that. What we call the capital value of land will ultimately disappear. Land will only have an annual value. If you take the whole of the rental value by taxation, land will only have an annual value; it will not have a selling-value. I admit that, and I do not shrink from the consequences.

The result of your scheme, then, would be to confiscate all the capital that has been invested in land or in mortgages on land, would it not?—It would bring the value of land down to bed-rock, and until you have proper taxation of land-values you will never get land down to bed-rock. According to statistics, the unimproved value of the land of this country at the present time is £330,000,000, I think. I have no hesitation in saying that that is largely a fictitious value, but you will never get rid of it until you have a heavy enough tax to stop speculation.

Put it in another way. You have £5,000 and I have £5,000. I invest my £5,000 in land, and you invest your £5,000 in a drapery business. Is it fair that the State should collar my £5,000 and let you go free?—I would have just as much complaint as you, because the drapery business is one of the greatest monopolies we have at the present moment in this country by reason of the Customs taxation; and as I would abolish Customs taxation in proportion as I taxed the land-values it would be a case of quits between us. The people at large would gain, because they would not have to pay spurious prices for their clothing.

You would still have drapery. You might have a little more competition. But I would have nothing. I would be wiped out?—We ought to have more competition, because the effect of the tariff is to protect these big importing firms from legitimate competition, and that is why they are in favour of a tariff. Of course, one would disappear with the other, and it would be a very good thing for the people. As far as compensating the landowner is concerned, I will be in favour of compensating him for taxing him when you, Mr. Hunt, are in favour of compensating brewers and publicans when you carry prohibition.

All that I wanted was to make it quite clear that your views are the same as those of your Auckland friends?—Exactly. I think I can safely say we think alike.

*Mr. Shirtcliffe.*] I only want to try to see how this can be applied in practice. Taking the present unimproved value of the land at £330,000,000, which you think is in excess of its real value—?—I think it is.

And bearing in mind that the country has to raise some £20,000,000 in revenue, including the local rates, which comes to nearly  $7\frac{1}{2}$  per cent. on the present unimproved values, what interest would that leave the farmer in his land? What encouragement would he have to improve his land?—I consider that the very best encouragement the farmer can have is to have cheap land.

But if he has to pay the whole of his income from that cheap land, what encouragement is there? As long as we have to raise £20,000,000, the cheaper the land becomes, the higher the rate will have to be?—You are arguing the whole question now.

I only want to see how your theory could be put into practice?—If you will refer to my evidence in chief you will see that I have not raised the question. I do not desire to shirk it, of course, but what I am advocating is an increase of the land-tax, and I would prefer if you would keep your questions within the limits of my evidence in chief. I do not shrink from the greater issue. But you are assuming too much if you say that if the object I have in view were realized the cost of government would be the same as it is now. It would not be anything like it. Government would be enormously simplified and consequently cheapened. If all the revenue were derived from a tax upon land-values the cost of collection would not be any more than it is now. The cost of valuation remains constant. It is always the same. Whereas if you increase your income-tax or your Customs duties or add to the functions of government you are always adding to the expense of administration. So the whole surrounding circumstances have to be taken into consideration. But all I am advocating at present is an increased land-tax. We must limit ourselves to the practical. For instance, I maintain that there is no reason why a man who has £2,000 worth of land should be allowed an exemption of £250, and I say that no injustice would be done, but a great deal of revenue would be received, if that exemption were abolished. I say that there is no reason why there should be a £500 exemption, and there is no reason why that exemption should not be abolished, nor why a man who has £1,500 worth of land should not be called upon to pay £2 1s. 8d. additional to what he is paying now. I am limiting myself to practical questions.

I will try and confine myself to your statement that the land-tax should be increased. Supposing that land-tax were increased by 20 or 50 per cent. or whatever you like—?—Twopence in the pound is barely 1 per cent.

We have had numerous cases before us, and it is a matter of common knowledge, that land-tax during one or two recent years has had to be paid out of capital. The land has not produced the tax?—That is because the Government of the country has gone into the wholesale money-lending business and by borrowing cheap money for the country has inflated the value of land, and that has encouraged people to buy more land than they can utilize.

It does not reduce the productivity?—It paralyses the productivity of the land, because people think they can make more out of it by speculating than by using it. I will undertake to say that if the landholder generally had been content to stick to his land without mortgaging and speculating he would not be up against it. But the primary responsibility is with the Government—the public, if you like—for lending cheap money. It will end up, of course, at a dead end, sooner or later, with a slump. I look upon the mortgaging of land as a great evil, and in that I am supported by the

greatest financier that ever was—the late William Ewart Gladstone. He looked upon mortgaging as an evil, to be resorted to only in cases of grave necessity. But we have made it a part of the day's work, and even the Government have gone into it.

A good thing for the lawyers?—We lawyers are accustomed to jibes at our profession, but lawyers cannot take the responsibility for beginning it. I would point out to you that I was a member of the House of Representatives at the time and voted against the cheap-money scheme on the very principles on which I am opposing it now. But it was a very modest thing then to what it has become since. Loans were limited to £2,500, and were confined to country lands. Those limitations have been abolished, those responsible forgetting that cheap money means dear land. Cheap land is much more important than cheap money.

I consider a cheap-money scheme for the farmers a good thing if the farmers have sufficient chance to take it, but if you take the whole of the revenue to pay for the government of the country —?—But we will have no revenue at all. The great majority of the people owning land are not farmers at all. There is a man who sold 4 acres of land within gunshot of this city recently, and who cleaned up £14,000. He is not a farmer. That is what we want to stop. That is what is causing the housing problem. We want a remedy for that sort of thing, but as long as you have a powerful class in the country, with newspapers and politicians to back them up, it is hard to stop it.

Let us for a moment take the wider view of the taxation question generally. You suggest in theory that the land should bear the whole of the taxation, although you are not suggesting it for the moment. Bear in mind that quite half the population and more—about 60 per cent.—is in the towns?—Yes.

And they have to live; they are supported by the products of the land?—No doubt.

And they make their living either directly or indirectly out of the land?—That is right.

Do you suggest that they ought not to bear their proportion of taxation?—Certainly they should, and they will bear their share of taxation, because the most valuable land in New Zealand is in the towns. They have been selling land in Auckland for £1,300 a foot and in Wellington for £1,600 a foot.

But there are many men who have no land except that on which their homes are built?—My proposition is that the men who earn salaries, or rather "wages" as it is in political economy, should have the full products of their earnings, and that there should be no tax upon their earnings.

Would not the farmer pay tax?—But the farmer is in the minority of the people in the country.

The landowners of the country generally would be paying the whole of the taxation of the country?—Quite so.

And therefore would they not only be paying the taxation for themselves, but also for all the wagesmen in the country?—And so they ought to, because it is the presence of the people in the country that makes their land worth having. Every child born adds to the value of the land, and every child has as much right to live as the farmer. One man is as good as another. The landowner is only returning to the community something for the privilege of holding the land.

But how could land-values increase at all?—They would not increase as they are increasing now. Land-values will increase as the people increase in number. If land is worth more to-day than when Captain Cook discovered the country in 1769 it is because there are a million people in the country to-day who were not here then. It is a people-value, the unimproved value. If "mine" and "thine," then "ours." The proper test of taxation is "Where did you get it?" I have not read all the evidence you have taken, but the bulk of your business men, so far as the complaints about the income-tax is concerned, are really in favour of the income-tax as against the land-tax, first because they can evade it, and secondly because they can pass it on. But they can do neither with the land-tax. There is a much stronger undercurrent in favour of the income-tax.

Do you say there is no weight in the argument that the individual should pay towards the government of the country according to his ability?—I think there is a good deal of weight in it. If you come to follow it out to its logical conclusion you will find that the speculator is the man best able to pay tax according to ability. I accept that stand.

Then, as a corollary to that you could not limit the taxation?—I myself pay both land and income tax, and I trust I will never be mean enough to say that the men who have no property should pay my tax. But I think the income-tax is an unfair tax and that the land-tax is much better. It sounds plausible to say that a man should pay taxation on his income, but you do not make a difference between a man who gets an income and the man who does not get an income out of his land.

But the man who keeps his land idle is penalized?—He is penalized during a land boom.

That is so, Mr. Clark, is it not?

*Mr. Clark:* No, not necessarily. A man might hold improved land idly, provided he puts £1 an acre on to it in improvements.

*Mr. Begg:* I may say, Mr. O'Regan, that we are in agreement on some points, but there are one or two points upon which I would like some light. You refer to community-created value; that is your justification for the land-tax?—That is so.

What are the factors that make land valuable in New Zealand to-day?—The presence of people. Every addition to the population, every child that is born, adds value to land. The making of railways or other public works, the improvement of roads, the facilities for motor traffic, anything that will facilitate communication—all this makes for the welfare of society and adds to the rental value of land.

It may do so?—It does necessarily do so. The land speculator shows that he knows that, because immediately a railway is mapped out he gets in early, so as to get the improved price that that railway will cause.

Is it not quite conceivable that population might increase by 50 per cent. and yet, owing to the world's prices for butterfat decreasing, the unimproved value of land might seriously decrease here?—

There appears to be something in that at first sight, but still the fact remains that according to statistics the greatest accretion in unimproved value is in the cities and towns. I do not think there are any statistics showing the area of boroughs and that of country land, but the country land in the Dominion amounts to 66,000,000 acres. There is a far greater proportion of increment in the town and city areas, showing that it is the demand of the people for breathing-space that adds to the value of land.

Pardon me, it has not shown it yet; is it not a fact that the big rise in unimproved value of land in New Zealand was caused by the invention of refrigeration, and not by the people?—I have no doubt that the discovery of refrigeration was a very powerful factor.

That was not an increased value created by the community here?—My idea is that the increase of population is the primary cause and the other factors are contributing factors.

If refrigeration were blotted out, what would be the unimproved value of land? In New Zealand it has not been created by this community, but by the community elsewhere?—Well, statistics are there to show that what I say is correct, that the greatest accretion of unimproved value is in the large centres of population.

But they are dependent upon the rural lands of this country?—No doubt, and the same applies in every country, and that is why I join issue with the people who stir up strife between town and country.

So that as refrigeration has put a great increase on rural values, and city values depend upon them, refrigeration was the cause of the rise in both?—No doubt, but it still remains a publicly created value which the people have a right to.

The people that caused the increased values have not the right to it?—Well, to whom do you ascribe the right to the benefits of refrigeration?

The people who devised it. But is it not obvious that the present unimproved value of land in New Zealand was not entirely created by the community?—It depends upon what you mean by "the community," because, after all, the refrigerating machinery would not have been worth while if it had not improved the lot of the people as well as increased the unimproved value of the land.

In other words, the people came where the good thing was?—I venture to say that we can go further back, and say that the goldfields were the primary cause of the influx of population into the country, but if there had never been any goldfields, nor refrigeration, New Zealand would still have become a greater country than it was before.

But the present position of the unimproved value of land in New Zealand is due to outside factors?—To a large extent.

Now, in the days you speak of in this most interesting historical sketch, the whole burden of taxation was thrown on land, because in those days land was the principal form of wealth?—Of course, but how can land be wealth without being produced? You commercial men speak of the production of wealth, but land is the raw material out of which wealth is produced. I am now speaking with politico-economic exactitude.

But the rich men of those days were the landowners?—No doubt.

But since the inception of the industrial era the forms of wealth have changed altogether?—No doubt; manufactures and commerce are largely of modern growth.

And the rich men of to-day are not necessarily landowners?—But, still, in the olden days you speak of you had nothing like the aggregation of human beings in the cities you have to-day, and it is in the cities that the need for corrective taxation is most strongly exemplified.

But is it not conceivable that there has been a great change in the forms of wealth?—Yes, in the social conditions. The principle is proved by historical continuity. The most correct way of studying anything is by the historical method.

But dealing with facts, down in Otago a large part of the land has not been alienated. The State nominally collects the rental value to-day and always has done. If your theory is correct, that land should have increased enormously in value, and should now be of great value to the State?—No; I am not against private enterprise. I am not in favour of the State leasing land and managing it. I am not at variance with the freehold tenure. I would rather have one uniform tenure. I am not an advocate of the wholesale extension of State functions.

What is the difference, in your opinion, between a Government lease, and a Government appraisalment of the unimproved value every two, five, or ten years?—There is a very great difference. After all, the leases we have at the present time are only dealings in land. There is just as much gambling in leases as there is in freeholds. The speculator is just as glad to get hold of a lease as he is to get hold of a freehold. On paper it is different but in practice it is nominal. The Land Act of 1892 and the Discharged Soldiers Settlement Act of 1916 contain what look like the most drastic restriction upon alienation, but, all the same, transfers of lands under those Acts are frequently effected with the consent of the Land Board or the consent of the Minister. The consent of the Land Board and the consent of the Minister are never withheld. Half the time of the Land Board is taken up in approving such transfers. It would be much better if this were done away with.

That is a great admission to get from you, Mr. O'Regan?—I am opposed to this multitude of leases, for in practice they have all the evils and none of the virtues of the freehold system. I do not say that I have always held those views, but one matures his views as one gets older. If I come to a different point of view I will unhesitatingly make the admission.

I am glad to hear you make it. You have confirmed my belief. You believe in the freehold, but that the Government should retain to itself the actual unimproved value?—Yes.

How is that different from a lease? That would be reappraised presumably?—Yes; the periodical valuation that Mr. Clark has made is the same thing as the appraisalment of a lease, only at more frequent intervals.

That is, the rent of the occupier would go up?—There is no doubt that when it comes down to bed-rock, the tax on land is not a tax at all, it is rent.

That is what the Government has been collecting from the lands in Otago—rent. There has been speculation in those leases, and would not there be speculation under your system?—The speculator is dead against us and our principles.

Speculation is simply a matter of scenting out a good thing, and there will be that wherever land exists?—No doubt, as long as the public will allow their land to be trafficked in.

But if you give a man the freehold he will be at liberty to sell and sell again?—But there will not be much speculative value if you make your land-tax heavier.

But the Government will not make the land-tax heavier than rent?—Do I understand that the rent collected in Otago represents the full value of that land?

The Government thinks it does?—But I say the Government is wrong. The very fact that the lands are speculated in shows that what the Government gets is not the full value of the land. I do not know what your leases are down there, but I speak of leases in perpetuity. There is as much speculation in leases as there is in freeholds.

Then, you mentioned that the present values are fictitious?—Yes; that is the inevitable result of a system that allows speculation in land. You must get fictitious values, and then you will have a depression.

That means that the community will get back from the speculators all it gave to them a little while ago?—Not the community. There are some people who will benefit by that depression, and they are the very rich men who can stand a siege. They will buy up land in time of depression because they can afford to stand the siege, but the people who have nothing but their labour will suffer by it.

They must benefit?—If a man falls into a fainting-fit when he is undergoing an operation, that is nature's anaesthetic. He avoids the shock beforehand. That is the case with the people owing to the present high land-values. These periods of depression are no good.

Do you not think great care is required that you do not put him into a state of permanent coma?—But my system will not put him into a state of permanent coma. It will give rise to a permanent period of prosperity. I do not invite you to agree with me, but I do invite you to endeavour to see where my arguments fail.

I have read them with great interest, and there are points in them with which I agree?—Thank you.

*Mr. Shirtcliffe.*] Has your system been tried in any country that you know of?—I think I am correct in saying that there is not a single proposition there that has not been tested by experience, because if we go back to the beginning—

But I mean during modern times?—When you speak of modern times, the facts of history speak for themselves. I have given indisputable facts of history to show you that what I say is true. The Long Parliament took steps to make it impossible for the state of things with which we are troubled, to come about. If we go back to the times of our Celtic and Teutonic ancestors, they always treated the land as public property.

But we are living under different conditions?—Unfortunately, we are.

Our conditions are different to those that existed in prehistoric times?—I am not speaking of prehistoric times.

What I mean is, do you know of any country that during recent times—within, say, one hundred years—has adopted your system?—You should read about the Channel Islands in the "Statesman's Year-book." England has about 650 people to the square mile, while the Channel Islands have 1,300 people to the square mile, and they are not overcrowded. They help to feed England.

What is their tenure?—If you read Prince Kropotkin's work called "Fields, Factories, and Workshops," you will see that the tenure in the Channel Islands is described as the common law of Normandy. There is no Customs tax there except on wine. Where you get a simple system of taxation you have a simple system of government. It is only when you have a complicated system that you have difficulties.

*Mr. Clark:* The people go to the Channel Islands in order to escape taxation.

*Witness:* That is so. But there is not a proposition I have advanced that I am not prepared to justify by historical precedent.

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WELLINGTON, SATURDAY, 17TH MAY, 1924.

HENRY DARGAVILLE BENNETT, Farmer and Merchant, President of Wellington Chamber of Commerce, examined.

*The Chairman.*] You desire to place before the Commission certain resolutions passed by the Wellington Chamber of Commerce on the question of taxation?—Yes, sir.

Then you have written a memorandum setting forth your personal views on the subject?—That is right.

Will you read, first of all, the letter you have written in connection with the resolutions of the Chamber of Commerce?—It is as follows:—

*Memorandum for Taxation Commission, May, 1924.*

On behalf of the Wellington Chamber of Commerce I am directed to put before the Taxation Commission the resolutions as attached as indicative of the views held by the commercial community of Wellington on the question of taxation.

The resolutions deal with general principles, and are submitted as being of great moment to the business man as very directly affecting the progressiveness and success of such undertakings as he may be interested in.

Resolutions of similar nature have been before New Zealand Chambers of Commerce, particularly in recent years, and at their annual conferences the delegates from many Chambers throughout New Zealand have been unanimous in their support of taxation being lessened and changed in its incidence. Commerce has had to bear a charge that presses heavily upon the full development of the resources of trading firms, and heavy taxation results in reducing the potential capacity of the capital making the business.

The resolutions now submitted were adopted at the Annual Conference of the Association of New Zealand Chambers of Commerce held in Auckland in November, 1923, and have since been reaffirmed by the Wellington Chamber of Commerce, and are now forwarded so that in your recommendations as to revision of the existing scheme of taxation you may give due consideration to these resolutions.

*Wellington Chamber of Commerce.—Resolutions re Taxation, May, 1924.*

MUNICIPAL AND GOVERNMENT TRADING.

(a.) That the freedom from taxation and rating enjoyed by institutions controlled by the State and local bodies, thus conferring advantages over similar trading concerns in the hands of private citizens, is improper, and it is the opinion of this Conference that all businesses should be placed on an equality of footing, and that it should be obligatory that an annual balance-sheet relating to each such enterprise be published, and that all lands owned by local bodies and leased for revenue to persons, firms, or companies should be subject to land-tax in the same manner as private owners.

(b.) That income-tax, equivalent approximately to the average rate paid by companies, be paid by all public bodies and Government trading and publicly owned utility undertakings, and the tax arrived at by assuming income based on a fixed percentage of the total amount of capital employed.

INCIDENCE OF INCOME-TAX.

That the Government be urged to relieve the present unfairly imposed burden upon the general taxpayer by altering the incidence of income-tax in accordance with the recommendation of the 1922 Taxation Committee,—

(a.) By the inclusion of dividends in shareholders' individual assessments instead of a levy upon the total income of registered companies.

(b.) By providing that taxation upon income derived from debenture securities be the same as that from mortgages.

GRADUATED LAND-TAX AS APPLIED TO CITY BUSINESS PROPERTIES.

That this Chamber is of opinion that it is inequitable that the graduated principle, intended to discourage the aggregation of country lands, should be applied to city properties employed in the production of assessable income.

That is the statement from the Chamber of Commerce.

*The Chairman.*] Will you now please read the statement setting out your own views?—Yes.

I desire to give evidence of a general nature regarding taxation in this country, but make no pretence at being an expert or even knowing a great deal about such an intricate subject. I have, however, had personal experiences, and it is mostly on these that I desire to express opinions. My activities in life have taken me through varied experiences. I am at present farming in rather a large way in the central district of the North Island, employing constantly three or four plough teams, and employing many hands. I have been managing director of a freezing company, and for some ten years similarly directed the affairs of a co-operative dairy company. On the mercantile side, I own the largest and the oldest established general retail business in one of our larger country towns, and for some years had retail businesses in Wellington. I have also had practical managerial experience in the motor business and in theatres. I can speak of the experience most farmers had during the war slump, and have rather bitter experiences of the failure of financial institutions, Government and otherwise, to come to the assistance of the primary producers of this country. This failure, it is claimed, is partly due to heavy taxation and its incidence. I consider that the whole taxation outfit is inequitable and requires remodelling. Let us examine the following table:—

Percentages of the total exports of New Zealand supplied by the main industries (*vide* 1924 Year-book):—

	1903.	1913.	1920.	1921.	1922.
	Per Cent.	Per Cent.	Per Cent.	Per Cent.	Per Cent.
Pastoral .. .. .	67·1	80·6	91·1	93·3	91·3
Agricultural .. .. .	5	1·2	1·2	1·1	2·3
	72·1	81·8	92·3	94·4	93·6
Forest .. .. .	5·9	3·8	2·8	2	2·6
Mining .. .. .	15·1	7·8	2·4	1·9	2
Other .. .. .	6·9	6·6	2·5	1·7	1·8
	100·0	100·0	100·0	100·0	100·0

Note the importance of the first two items. Having had experience on both sides of our principal industrial activities, farming and commercial, I have no hesitation in saying that we are on the wrong track with our present system of taxing the producer whether he makes a profit or not. Our exports are what we as a nation live on. We depend on it as a means of paying interest on civil loans, war and battleship loans. The table instanced above clearly indicates a tendency for the Dominion to rely more and more upon the pastoral industry for her main exports, and the four main products of that industry—wool, frozen meat, butter, and cheese—provide an ever-increasing proportion of the total quantity of goods shipped overseas. We have little or no "invisible exports." These figures, after all, only give our exportable surplus, and the country's production is very much greater to allow for the internal demand. Our primary production is becoming increasingly important, and there is little evidence to-day of any other possibility. Every encouragement should be given to this main source of wealth, as all other enterprises are tending to become subsidiary and relatively unimportant. Any encouragement, however small, to our primary industries must in the long-run pay us handsomely, as these industries are well past being experimental, and a Government should hesitate before it embarks large sums upon any Utopian scheme when it has such a safe investment in assisting the primary producer. Any sums lost in isolated instances are going to be greatly exceeded by the total progressive development of the Dominion that will be ensured, and no one can deny we are yet a long way from our maximum productiveness. The assistance so given the primary producer must reflect itself through the whole community, and all classes would benefit in the prosperity.

And yet what is this country doing to foster its bread-and-butter industry and to assist the men who contribute to its success? Did the tax-collector recognize them? Did our financial institutions come to their rescue? Did Government Departments receive authority to fill the vacancies created by the run-away banking and financial institutions? No.

The financial organizations which lend money to the farmer are banks, stock and station agents, Advances to Settlers Office, Public Trust Office, insurance offices, investment companies. Of these the Government Advances Office and the Public Trust Office do not pay land-tax. It would be reasonable to suppose that these two offices having a paternal Government behind them could be relied upon to direct capital to the use of the producer. On personal experience, the Public Trust Office must be written off as a factor in this connection. That Office is apparently engaged solely in the interests of depositors. With regard to the Advances to Settlers Office it is to be regretted that the funds of this Office are not made wholly available as the name of the Office indicates. Why not make it a real advances to settlers? Farmers have a right to look to this Office for advances on at least equal margins as is sought by stock and station agents. The fact is that a very considerable portion of the Government funds—i.e., nationally borrowed money as advances to settlers—is stored away in town and city securities—channels much more to the liking of bankers, trust offices, and others. A fact in our national development that many are apt to overlook is the asset this country has in the existence of the large stock and station agents with their branches throughout the country. These were the people who were responsible for avoiding a national crash. But company-taxation of two or three years ago nearly crippled them. These companies have drawn on their resources to the extent of 25 millions of money, every pound of which is working hard making the wherewithal for the national breakfast-table. Their money is not in motor-cars or picture-theatres. More than that, it should be said that their money is at the struggling end of the business. Banks are willing enough to take up these accounts when the client can make the business suitable to banking conditions. The point is that banks cannot do this class of business. One of the tragedies of our community life, apparent to any one who will think but for a moment, is the abuse made of our national financial resources. One marvels at the lack of overhead control. Farmers plead in vain for finance to assist in growing more fodder, cereals, or turnips, but the banks turn a deaf ear unless the gilt-edge security is available. But ask them for tens of thousands for despatch to America on letters of credit, or for large blocks of money for picture-theatres, and funds seem to be available. Why this indifference to our real estate, to our common source of wealth? Again—taxation. The State has fairly "smacked up" the man on the land by the present incidence of taxation. He and his despised property is of no use. The man who should, for the bigger reasons, have money placed at his feet is shunned by the financier. Yet we pretend to be nationally concerned when our export figures indicate sluggishness. Let us apply ourselves to the business of developing our country. Let the Taxation Commission recommend that taxation be so directed as to offer attractive channels to the soil. Our present policy in taxation is to divert money for preference to the coffers of municipal and other public bodies, there to be used for all sorts of more or less extravagances. No one cares for the man on the land. Even the city worker with his forty-four-hour week despises the farm man who makes that labour possible. The remedy? Let the producer have the capital he wants, and ask him to pay only on the basis that every other man should pay on—namely, according to his earnings. Our production is a national matter, so the State should liberalize its State Advances Offices. Let the banks replace that Office's investments in city or town properties and make the money available for development. Let the miners, foresters, and other wealth-producers share in the benefits of an equitable redirection of finance. Let the State Advances Office talk to the farmer, not perhaps on the full 95 per cent. basis as is allowed for building houses in the cities, but with the same sentiment. Then watch the indicator go up! At present it is £50,000,000, then upwards it will assuredly and rapidly go. Who can say for how long we must wait till we touch the century? Having now said so much generally for the cause of the farmer it remains for me to express an opinion on taxes directly affecting him.

Before discussing specifically the merits or demerits of any form of taxation I wish to say that, in my opinion, it would be very unwise to bring about violent changes in the incidence of taxation. Opinions that I shall express later on are subject always to this condition. The present system, spread as it has been over a long period, has brought about a general adjustment of values as related to taxation.

*Graduated Land-tax* was intended for a specific purpose. The idea has been given ample time to prove itself. If the idea was good it must have effected all possible practical results. If not, then the idea was a fallacy. Whichever is the case the experiment has been tried out and should now be abandoned. I see no good defence for the application of the system to city areas. Much of our labour is employed by big firms requiring large blocks. Moreover, encouragement should be given to holders of capital for extensions of all kinds of industrial activities. On the original purpose of graduated taxation, the breaking-up of large estates, my opinion is that a more direct method should be employed if big estates suitable for closer settlement are still extant. I would recommend facilities being provided so that any group of would-be settlers may call for acquisition of such properties under similar terms to the provisions of a Financial Act passed a few years ago. I therefore vote against the principle of graduated land-tax.

*Flat Land-tax.*—My opinion on this is, firstly, that no one should pay any direct tax unless out of profit. County and municipal rates are, of course, payable irrespective of whether the landowner makes a profit or loses, and this system cannot very well be altered. Let this form of taxation remain, if it must. All other taxes should be levied according to the annual capacity of the individual.

*Company-taxation.*—With the opinion I have already expressed it follows that I am not favourable to taxation on companies as at present levied, and that companies should be assessed only on undivided profits or amounts carried to reserve. I am not unmindful of the obvious retort that a private trader paying full taxes cannot compete against a non-taxpaying company. Nor do I overlook circumstances connected with limited-liability concerns which carry sundry advantages. Nor can I ignore the necessities on the part of the Taxing Department. Revenue must be obtained from somewhere; and as any revolutionary change in the incidence would make for new difficulties it seems advisable to look for methods allowing of a gradual change. I would therefore recommend that if the Commission favours the principle of individual taxation as generally urged here that the process of change-over be taken over a period of two or three years, making the company-taxation one of a flat rate of, say, 2s. 6d. in the pound on distributable profits. In the meantime such returns to be added to the recipients' assessable income. This principle is adopted in other countries. A witness who has already appeared before the Commission is reported as having stated in his evidence the following in support of his contentions:—

—			Source of Income.	Income.	Income-tax paid.
				£	£
Mr. Green	..	..	Bank shares .. ..	2,000	Nil.
Mr. Brown	..	..	Land .. ..	2,000	Nil.
Mr. Black	..	..	Profession .. ..	1,000	54
Mr. White	..	..	Salary .. ..	1,000	54

This statement standing by itself gives quite a wrong impression. The Mr. Green whose income is £2,000 draws his revenue from a tax-free investment. If such an investment was made, say, with Bank of New Zealand shares, the latest market quotations for which show an interest return of £5 2s., it follows that to receive £2,000 he must invest no less a sum than £39,215. If this money were invested in the best gilt-edged freehold securities the rates for which to-day are  $6\frac{1}{2}$  per cent. Green's income would be £2,548, or £548 more than he is taking now. It is, however, quite possible that Green's return is even less than that quoted for bank shares, in which case more capital would be required for the same return. Money is, in more than one way, like water, it finds its own level of values. In the second case Mr. Brown is taking his £2,000 a year from land. I presume this man is a farmer. It is hard to assess what capitalization to allow for farming activities these days, some say 5 per cent., others 10 per cent. Taking this case at  $7\frac{1}{2}$  per cent., the capital required would be £26,667. Allowing a third of this for stock Brown's land-value would be £17,778; on this Brown would have to contribute £136 4s. 3d. to the State in land-tax. Brown as recently as last year also paid an additional £253 14s. 2d. by way of income-tax.

*Passing-on of Taxes.*—A good deal of misconception is generally in existence concerning this matter, and many people conclude, because of its apparent obviousness, that all traders pass on all taxes. Nothing of the sort. Speaking with over twenty years' experience of the retail trade I can say that that is not substantially the case. Competition in the retail trade comes strongest from the owner-worker with a small shop, whose affairs do not run him into big assessments. He is the man who blazes the track of prices, and the bigger men have to follow. This is particularly the case in the retail foodstuff stores. So much so is this the case that it is not now worth while running large retail grocery-shops as investments. That trade is gradually falling into the hands of the worker-owner. Generally speaking, the problem reduces itself down to the retailer sharing his profits with the Government.

*Conclusions.*—Summarized my views are as set out:—

1. The general policy to be considered by authorities in the application of all taxation is that the individual should pay according to the profit he is making.
2. That channels for the flow of money to the assistance of the producers of nearly 95 per cent. of our output should be widened and the flow encouraged.
3. That land-tax as such be abolished and be superseded in favour of a tax upon incomes.
4. That municipal- or State-controlled trading concerns when in competition with private traders be subject to the same taxation.
5. That any radical reform in the incidence of taxation be effected gradually to allow of easier adjustments in relative values.



*Mr. Hunt.*] On page seven of your statement you make a comparison of the returns from bank shares and investment on mortgage. You set down the interest return on bank shares at £5 2s. per cent. You would not suggest, would you, that that is the only return an investor is looking for?—No. I am quoting there a set case where a man makes an investment in bank shares returning him £5 2s., and the capital required to purchase those shares.

If you invested the £39,215 that you refer to here in bank shares and got £5 2s. per cent. return, that return would not be all that you would be expecting from the bank, would it, because the history of banks and most successful companies has been that they build up considerable reserves and gradually either increase their dividends or increase the value of the shares?—That is quite true.

So that in addition to the £5 2s. you would be hoping for some future bonus as well?—Up or down. Both sides apply.

But that is the general expectation, is it not?—We always expect the upward movement. We make our investments in the hope that everything will be right. There are cases, as the farmer has found out, when everything goes wrong. You have an expectancy that the value of the shares will increase.

*Mr. Weston.*] With regard to passing on, your experience in the retail trade satisfies you that that is grossly exaggerated?—Yes. It would be ridiculous for any one to suppose that all this taxation on the middleman, on the trader, is not passed on. I would not dare to say that. But substantially it is not passed on.

*Mr. Hunt.*] You mean, where there is an owner working in competition?—Yes.

But if a business was such that it could only be conducted by big concerns all paying the big tax, what would you say then?—If there is no competition the same argument does not apply. But I do not know of any such case in the retail trade.

Not in the retail, but in other trades?—In the bigger ones. That depends upon the competition, but, generally speaking, capital is always looking for an outlet, and if it were found that the business run by Messrs. Paterson and Co. and Levin and Co. and other people were such as to return them undue profits—greater profits than are available to capital invested elsewhere—in time that capital would naturally come to compete against Paterson and Co. and these other people. It must come, because we are all looking for profitable investments for our finance.

If the business is such that it can only be operated by a large block of capital, that large block of capital, when it comes into competition with another large block, has to pay the same rate of tax?—Exactly. Where you find instances of large blocks of capital being required to carry on a business, competition can only come from a similar concern, and in that case competition does not apply to the same extent. But conditions of that sort are not very prevalent in New Zealand.

When you are making an investment it is the net return you look to, after taxes are paid?—Absolutely, every time.

And if the return is not big enough to pay a high tax you look for something else?—The money is gradually withdrawn from that form of investment and directed to where you can get a bigger return.

*Mr. Weston.*] Your opinion is that all investments in the long-run tend to return the same net profit, allowance being made for any difference in the commercial risk of the undertaking?—That was in my mind when I said that capital finds its own level. Like water, it tends to find its own level. If you try to hold it down by taxation or otherwise in one particular place it will bulge up in another place.

That point was overlooked by the witness you refer to when he quoted this instance of Mr. White, Mr. Black, Mr. Brown, and Mr. Green?—The witness was justified in stating his case, but to give it any value he should have stated the other side of the story. I have no point there. It simply means that if you get this £2,000 a year free of income-tax you have put your money into a channel that has already been loaded down by taxation or otherwise, and the return from it is that much less.

*Mr. Shirlcliffe.*] In your Chamber of Commerce statement you quote a resolution dealing with debenture securities, and the Chamber supports the suggestion that taxation upon income derived from debenture securities be the same as that from mortgages?—Yes, that is the Chamber of Commerce resolution.

You know that last year there was an alteration made in the tax on debentures: it was raised to 4s. 6d. in the pound?—Yes.

But that was to apply only to future issues?—Yes.

Of course, the great bulk of the money that is at present borrowed and lent on debenture securities was borrowed and lent prior to last year?—Yes.

And is only subject to the old rates of taxation—namely, 2s. 6d. in the pound with respect to local bodies, and 3s. with respect to companies?—Yes.

Now, in the event of the taxation on debenture interest being raised to a level with that on income from mortgages, would you consider that the increase should apply to all current debentures?—That is to say, increasing the tax of 3s. up to 4s. 6d.?

Up to whatever the rate may be?—That, I am afraid, would be a breach of contract. You gentlemen would have more evidence before you to enable you to deal with that than I would. It is a question on which I cannot express an equal opinion with yours. On the face of it it would seem to me as if you would be committing a breach of contract, and I doubt very much whether the public would stand for it.

You know that there are very large tax-free war loans?—Yes.

There was a distinct contract in regard to them?—Yes, a contract, the same as with the debentures.

No?—Why not?

I want to suggest to you that whereas there was a distinct contract between the Government and the lender as regards the tax-free war loans, there was not a similar contract between the Government and the lenders of money on debentures, inasmuch as the taxation on debentures was subject to alteration from year to year, the same as any other taxation. Did not the lenders lend their money with the knowledge that the tax on the debentures might be varied from year to year?—That is quite true. What you say is that in the other case if it was a straight-out contract between the man and the Government. That cannot be broken. In the other case you say there is room for alteration without necessarily making it a breach of contract, because taxation as taxation is an annual matter. That is your point.

Yes?—To that extent you are quite right. There is a slight risk taken there by the investor of the possibility of its being increased. But the man who invested his money at the 2s. 6d. rate had it in the back of his head that that would be the rate he would get, but he was taking a little risk.

In view of the risk, would you still consider it a breach of faith?—I think so.

If I invest my money in a business I do it with the knowledge that the taxation may be increased. Why should there be a difference if I invest in a debenture?—That is a very delicate subject. I am rather inclined to think it would be a breach of faith.

You make reference in your own statement, I think, to the difficulty farmers have had in obtaining the necessary finance?—Yes. That is a very sore point with me.

Have there not been some very important contributing causes to that, apart from the question of taxation altogether?—Yes.

For example, have not large investing companies been attracted by the tax-free war loans as giving them a gilt-edged security?—That is one of my complaints.

As against the uncertain security offered by farm lands during recent years?—That is one of the reasons. Where was the Government all this time that it should allow this thing to happen? That is my point.

But the fact remains that those cheap war-loans have attracted a great deal of money that otherwise would probably have been invested in farmers' advances?—That is one of our difficulties to-day.

Has there not been this other difficulty: that during boom years land went up to such tremendous prices that it became dangerous, after the slump commenced, for lenders to advance money on land?—Through the slump land properties as investments were not attractive, and no money was forthcoming for investments of that sort. But that was added to by the existing form of taxation; and you must not forget that it was only as recently as last year that the income-tax on land was removed. Up to last year the farmer was suffering the double penalty, and that is the reason why farmers' loans were absolutely shunned by financiers. It is getting better now, with the removal of the income-tax from land.

As land comes down to what I might call its producing-value there should not be the same difficulty in the farmer obtaining his accommodation?—There will not be; but the Government must see that there is a fair run in the way of providing channels for capital to flow in that direction, and not offer too many tax-free investments.

I suppose that cheap money is not altogether an ultimate advantage to the country, is it?—No, it is not.

Does it not lead to speculation?—It has its reaction; but this is the point I want to get at: here is the State Advances Office with a whole stock of our national funds. I will give a case in point. Some few years ago I personally had the last 300 acres of a big block of bush to fell, and I wanted the money to fell that bush so as to turn it into grass and produce revenue for the country. I applied to the State Advances Office for the money, and was turned down, because the security was not good enough for their money. I immediately asked the same Office for a similar sum to put into a town property, and I got it without any hesitation, and I built. The point is that that money, instead of going to fell that bush and provide wealth for the country, went into a town building.

Does not that prove what I suggest—that there have not been the reasonable margins that a prudent man would accept during recent years on rural estate?—That is one of the contributing factors. The other is that capital has been trained to go into the wrong direction. I will give you another case. Quite recently I was interested in a matter in which a large block of money was wanted for industrial purposes—the development of land. We went to the banks, but there was no money at all forthcoming. Well, on the next day three or four of us went to one of the banks and we got a parcel of £40,000 to put into a picture-show. That is what hurts. There is plenty of money to go into things of that sort; plenty of money to send to America to pay for motor-cars. Yet the farmer is starving.

What I want to get at is this: the reason why that £40,000 was not available for rural securities while it was available for the picture-show. Was it not because the rural securities did not offer such margin as a prudent man would accept?—Quite so. That is the reason. But what are the reasons for making them unattractive?

The slump in the value of land?—And the misdirection of finance, no encouragement being given for the money to go into the hands of the farmer. Encouragement is given for it to flow into too many other channels, by taxation and otherwise. That is why that £40,000 was not available for industry, but was available for a picture-show. That is the effect of our present system.

But is there not still a preference being shown for urban and suburban securities rather than rural lands, because it is felt that rural lands have not yet reached their proper value on a producing basis?—Yes, that is quite true.

That is really the cause of the farmers being unable to obtain the necessary finance?—That is one of the reasons. The other is that the farmer to-day is not an attractive proposition. He is not

making any capital. He is not making any profits, and the bankers and other financial institutions see his balance-sheets come in and see that they are getting worse and worse, and when he wants more capital they shut him down.

You suggest—and one can largely agree with you—that the land-tax should be abandoned?—Yes.

And that the farmer should be taxed only on his income?—Only on his income. Mind you, I believe it will be harder for the farmer. In the aggregate he will have to pay more. I do not agree with Mr. Massey's view. I believe that the farmer in the long-run will have to pay more. But that is not the point. It is a question of the equity of the thing.

He will only pay it out of profit?—Yes, and pay nothing when there is no profit.

You referred also to the graduated land-tax. You suggest that that should be abolished?—Yes.

You do not think it advisable, in order to prevent reaggregation, that a graduated tax should be imposed commencing at a fairly high limit?—The problem can be subjected to a little compromise of that sort if you change it altogether and aim to improve on the original intention of imposing such a tax for the sole purpose of breaking up estates. My point is that your present graduated system does not reach that point.

We will assume for a moment that the original intention has been effected, that estates have been broken up. To a large extent that is so?—Yes.

But there is always in the minds of the public the danger of reaggregation?—Yes.

Do you think that a graduated tax should be imposed in order to prevent such a possibility, or to discourage it?—I suggested in my communication that a more direct system should be adopted for the purpose of breaking up those estates, and that is that the Government should find out, not only from its own officers but from requests made by private individuals, that such-and-such a property is too big to be held by one man, and that it is capable of being cut up for closer settlement. I suggest two ways of doing it. One is to allow the individuals of the community to make a suggestion to the Government. A group of people would say to the Government, "That particular property is good enough for investment. There are ten of us willing to take it up"; and then the Government would come in and find the finance for it. Or the Government Inspector himself might say that a property was good enough for cutting up, and it should then be broken up—not by any back-hand system of graduated tax, but actually the Government should come and break it up and put the settlers on it. I would prefer that way. But I see no objection to such an adjustment of the graduated tax as an alternative as you suggest.

Having got that far, can you suggest where the line should be drawn between the smaller man who should be relieved of all land-tax and the large landholder—where the graduation should commence?—On values. I have not given that any consideration, but with the assistance of the Commissioner of Taxes there should be no difficulty in arriving at an equitable sum from which to start your graduated tax, if that is suggested as an alternative. I am not prepared to say just now what the figure should be, because it would vary according to the districts. It does not follow that your valuation gives you all the evidence you want. You must have a look at the property as well and generally take into consideration its proximity to markets and other factors. Those things have all to be considered before one can arrive at a decision as to what would be the amount to be fixed where a new graduated land-tax should begin. My point is that the present system should be abolished—together for preference; but I would be quite willing and glad to see an alternative proposal carried out, such as you suggest. My idea is that the more direct system should be employed—either getting a group of would-be settlers to make a declaration that they would like a certain property, or the Government themselves going through such places as you might find in Hawke's Bay and saying, "Here is a property of 10,000 acres held by one man which would make ten nice farms for ten settlers."

Do you not think there would be a reluctance on the part of any group of settlers to come forward and put pressure on the Government to take away a man's property? Do you not think they would be reluctant to do that?—No. Why should they be if the man is to be given a fair and equitable price for his property? I do not think that many honest settlers of the class I know would be reluctant to come forward and give the country a better output from a given 10,000 acres. The trouble is that there are so many of these 10,000-acre blocks that should be carrying ten settlers instead of one. In Hawke's Bay there are any number of good places held by families in which the land has been passed down. It is true they are paying the graduated tax, and they are able to do it; but in the interests of the country and in the interests of closer settlement each of these 10,000-acre blocks might easily be carrying ten families instead of one.

With regard to the company-tax, you suggest that the incidence should be shifted gradually from the company to the individual?—Yes, and during the time that that stage is being reached the office be given an opportunity to study the effect.

You suggest half a crown in the pound as a flat tax, do you not?—Yes.

"That the process of change-over be taken over a period of two or three years, making the company-taxation a flat rate of 2s. 6d. in the pound on distributable profits in the meantime, such returns to be added to the recipient's assessable income." Would not that press very hardly upon a very large number of comparatively small companies? I see by the return that I have here that altogether there were 2,130 taxable companies carrying on, the total taxable income from which amounts to £8,000,000, but only twenty-five of those companies provided a taxable income of £3,000,000-odd—nearly half the amount?—So the large majority are small companies.

There were 314 companies that made an income of under £2,000 each; 182 made an income of under £3,000 each; and 106 made an income of less than £4,000 each; and so on. There were only 138 companies out of the total number that made over £10,000 each?—Yes.

Would not a flat rate of half a crown in the pound press very hardly on the small company, making, say, £1,000 or £2,000 a year, as compared with the large company making £50,000 and over?—The answer to that is that, first of all, no system that one can think of can ever be considered perfect. But the immediate answer is that most of the smaller companies that you refer to are such companies as my own. I would appear there as a limited-liability company, and yet I am an individual. It is my business.

Yes, but still the hardship would apply. Broadly speaking, would not a flat rate give an enormous advantage to the big powerful companies, to the detriment of the smaller companies, which would have to pay the same flat rate on a very much smaller income?—Yes, but the application of the half-crown rate is only in order steadily to bring you down to the ideal of the individual recipient paying his tax and in order to avoid violent disturbances. My suggestion is that for a year or two you try out a basis of flat taxation on companies of half a crown, ultimately getting back to the individual. In connection with those smaller companies you will find, I think, by examination that a very large proportion of those are individuals. Take my own case. If my company were to pay the half-crown tax and the rest of the profit would come to me, I would be the only one concerned. The whole business is mine. It would be exactly the same as if it were an individual. But, as I say, you cannot find a perfect system in which you will not be able to find anomalies. What we have got to do is to find the best system possible.

You would prefer a flat rate rather than a modified graduated rate?—My suggestion of a flat rate is merely that it should operate during the period of transition from one system to the other. Do not break your system right off at once, but spread the change over a period of two or three years, and in the meantime, instead of letting the company go scot-free for that time, have a flat rate. Do not disturb the conditions at once. You must bring the change about gradually. Go right back to the individual, but instead of doing it in one hit spread a flat rate over the next two or three years.

There would be a considerable disturbance of values?—Whatever this Commission may suggest, values must be disturbed. The present system is rotten, and it is time it was broken up.

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HERBERT DOUGLAS VICKERY, Accountant, examined.

*The Chairman.*] You have prepared a statement setting forth your views on the subject of taxation: will you read it to us, please?—Yes, my statement is as follows:—

I have been asked to give evidence before the Commission on the subject of direct taxation, and particularly in regard to company-taxation. In doing this I realize that it is easy to criticize the system in operation in New Zealand, or, indeed, to criticize the method of taxation in any country. The difficulty is to suggest a better method of practical application. I have no panacea to offer for the Dominion's taxation troubles. Theoretically it may be possible to evolve a scheme of taxing individual incomes on a perfectly equitable basis, yet the method might be hopeless as a practical measure. It is generally admitted that any taxation system which is to have the confidence of the people of a country should have the elements of comparative ease in collection, of equality among the same classes of taxpayers, certainty as to the amount to be collected, and, if it is to be a practical success, the tax imposed should be economical in collection and possess the element of productivity. The system of income-taxation in New Zealand is not without its good points—it is comparatively simple in its operation, it possesses the element of being economical in collection as taxation is collected at the source, and it seems further to have had the practical success of having been productive. There has been considerable improvement in land and income tax legislation in recent years, in particular in the provision permitting losses incurred in business to be set off against profits earned within the three following years, and in permitting the allowance, as a deduction from taxable income of any employer, of any amount set aside for superannuation benefit funds.

The British Royal Commission on Income-tax, 1920, in emphasizing the paramount importance of taxation at the source, points out that this principle lies at the very root of the English system, and that 70 per cent. of the yield of the tax is collected at the point at which the income arises. Its chief concern in this regard is to suggest methods by which taxpayers who are not liable to the full rate shall receive their refunds more promptly. On the other hand, the majority report of the Royal Commission on Taxation in Australia in 1921–22 was equally emphatic that it was desirable that the Commonwealth should retain the principle of taxing dividends to the shareholders. It is interesting to note that here are two Royal Commissions having entirely diverse opinions. In New Zealand we have practically no system for the adjustment of individuals' rights in collective income taxed at the source; nor have we devised a system which might alleviate the difficulties inherent in a method of taxation at the source if the practice of refunds be deemed inadvisable.

*The Application of the "Graduated System" to the Incomes of Companies.*—There was little to complain of in the New Zealand system while incomes were taxed at a flat rate for the same classes of income. It was the introduction of the graduated or progressive system of taxation which has been the disturbing factor, and a good deal of dissatisfaction has been expressed with the application of the principle of graduated taxation to the incomes of companies. Most of the older economists condemned the graduated system in its application to income-tax. Many of them averred that it was equivalent to confiscation. From a strictly economic standpoint it is probably true that all income should be taxed at the same proportionate rate, but as a practical issue it is accepted by financiers of recent years that a system of graduation as applied to income-tax is justifiable. It is based upon the theory that the greater the income of a taxpayer the greater the sacrifice which he can make in the amount of his contribution to the revenue of the State. It really has a psychological aspect. But,

so far as I can find, economists have dealt with the system of graduation in its application to the incomes of individuals. The question arises is it equitable to impose graduated taxation on the incomes of companies at progressive rates determinable by the aggregate amount of income? No doubt in law a company is a distinct entity—it has a corporate existence apart from its shareholders. If income-taxation were imposed at a flat rate little objection need be raised, but, if the income of companies is to be taxed at progressive rates, should not consideration be given to the percentage return of the income on the actual capital employed? Is not the best test of the ability of a company to pay progressive taxation the percentage of return of income on capital, and not merely the amount of income irrespective of the capital employed? Alternative methods have been suggested, and I have endeavoured to deal with them on the principle suggested by Professor Bastable: “A presentation of the faults of one particular form of tax revenue is impressive, but should be qualified by considering the difficulties of any alternative method. In economics and finance we have always to be on our guard against the ‘fallacy of objections.’” It is a simple matter to condemn the present system of taxing the income of companies, but it would be exceedingly difficult to propound a scheme without defect of some kind or other. Further, it is necessary to bear in mind that a system of finance has grown up round the present scheme of taxation, and that any alteration in system will have far-reaching effects; any alteration in method should have such outstanding advantages as to outweigh any disabilities which may result from the alteration.

*Taxation on a Strictly Individual Basis.*—The company to render return of income as at present, rendering also list of shareholders and respective shareholdings. In his individual return of income each taxpayer will show his share interest in companies, and the Taxation Department will add to the taxpayer's assessment an amount representing his proportionate interest in the company's income. This system should be reasonable in cost of collection, and it certainly is not so involved as the British system of refunds, and would have the added advantage of bringing in a great many more taxpayers. I believe that this method is the only strictly equitable system of taxation which would justify the taxation of all incomes on a graduated basis, inasmuch as all income of whatever kind could be taxed to the individual. If, however, such a scheme were put into operation it would be universally condemned, primarily on the grounds that the taxpayer would be asked to pay income-tax, in part at any rate, on income which he had not received, and may never receive, but in which he, nevertheless, certainly is interested to the extent of his proportionate shareholding in any company, and financially by the increased value of his shares. The obvious deduction is that, although much has been said in New Zealand about imposing income-taxation on an individual basis, and at progressive rates according to a taxpayer's “ability to pay,” if such a scheme were introduced I believe it would be considered unacceptable for the reason set out above. Neither in Great Britain nor in Australia does individual taxation obtain. In both countries compromises are effected. In Great Britain a company is taxed at a standard rate, and the dividends received by shareholders are adjustable subsequently in the individual assessments of shareholders; while in the Commonwealth of Australia a company is taxed at a flat rate on the profits not distributed, and dividends are taxed to the shareholder. In fact, the practice of Great Britain and Australia illustrates that it has been found impracticable to ignore taxing companies as separate entities—in part, at any rate.

*The System in Operation in Great Britain.*—The company renders returns and pays income-tax at a standard rate (at present 4s. 6d. in the pound). Shareholders in their individual taxation returns include dividends from companies, and are entitled to claim as a refund the difference between the tax payable at the appropriate rate on the individual income and the tax payable at the rate paid by the company. This system has the advantage of collecting tax at the source—*i.e.*, from the company. The retention of this method has been stressed by successive British Royal Commissions on taxation. This method involves a system of refunds and complicated adjustments which, if adopted in New Zealand, would necessitate the employment of a much larger staff in the Taxation Department. It is very much more expensive in collection than the existing system. The difficulty which has arisen in connection with the adjustment of debenture-tax in New Zealand during the past few years would be magnified if the system were extensively applied to income-tax. The system involves certificates from company to shareholders as to dividends; claims for refund to Department; declarations from many claimants as to amount of income; payment of refunds. (As the refund or adjustment is only as to dividends paid there is still the question of the “equality of sacrifice” as between companies as to the tax on undistributed portion of the profits. If the flat rate were a high one hardship might be inflicted on small companies, or companies which earn profits, but not sufficient to declare a dividend. A flat rate ignores the factor of the percentage of return on capital, which in the case of a company is the chief element to consider in endeavouring to determine the “measure of its ability to pay.”)

*The System in the Commonwealth of Australia.*—Dividends declared by companies are not taxed to the company, but taxed to shareholders, the company paying tax at a flat rate (1s. in the pound) on the balance of undistributed profits. Both in England and in the Commonwealth it is evident there is no attempt to ignore the company altogether in the matter of imposition of taxation on its income. In New Zealand the shareholders' interests in the income of a company are not considered, and a company is taxed as a separate entity. The New Zealand system is not only the simplest and the most economical from the point of view of cost of collection, and the avoidance of evasion, but probably is relatively the most productive. The Commonwealth system appears to be a fairly satisfactory compromise judged from the standpoint of being “a tolerable approach to just distribution,” but it is very far removed from a complete system of individualistic taxation. It has, moreover, serious shortcomings, which have been the subject of serious complaint in Australia: (1.) Difficulty arises when a dividend is paid partly out of current year's profits and partly out of previous year's profits, the previous year's profits having already been taxed to the company. This

makes necessary a system of refunds in respect of that portion of the dividend which has already borne taxation, being part of the undistributed profits of the previous year which were taxed to the company. It is necessary either to refund the whole of this "tax-paid" portion of dividend or else permit adjustment in the shareholder's individual assessment. This situation cannot be of uncommon occurrence, as companies frequently find it necessary to draw on the undistributed profits of a previous year to pay the usual dividend for the current year; in fact, some companies have an account known as "Equalization of Dividends Reserve" for this specific purpose. (2.) The Commissioner is given the power to decide whether a company has declared a sufficiently large dividend. This may be the cause of considerable trouble, and of acrimonious disputes between the Commissioner and directors of companies, who will resent interference in the exercise of their discretion as to what dividend should be deemed to be declared, and what proportion of profits carried forward. If there are few shareholders in a company, and their individual rates are fairly high, while the rates on the undistributed profits in the company are at 1s. in the pound, naturally a small dividend will be declared if use can be found for the undistributed profits in the business. Or exactly the reverse position may arise: large dividends may be declared and the money paid back to the company in the form of addition to capital. (3.) The vexed question of bonus shares is raised, and it is linked up with the difficulties which arise under (2) above. Are bonus shares to be treated as income or as capital? I think it has been held in Australia that they are capital. Under a system which permits of differential rating of the same income—i.e., a flat rate on undistributed profits and a progressive rate on dividends—it is very evident that quite a deal of manipulating can be indulged in by private companies, or by what are known in Australia as proprietary companies.

The difficulties that are apparent in almost every system of taxation naturally prompt one to ask, is it not possible to improve our present system, which has many advantages, and yet overcome some of the difficulties which have arisen through the application of progressive taxation to the incomes of companies. It is this that prompts me to submit, for the consideration of the Commission, the proposal that the rate of tax applicable to the incomes of companies be based on the percentage of profit on the actual capital employed.

I think also, before the present system is radically altered, the likely effect should be carefully considered. The present system of taxing companies has been in existence for many years, and a complete system of fiscal arrangements based on it has sprung up. If, for example, the Commonwealth system were adopted, on what basis would the dividends from preference shares be treated? Usually a comparatively low rate of dividend has been paid on preference shares, the understanding and the implied contract being that they are to be tax-free. It would appear also that if an equivalent amount of taxation is to be raised in New Zealand the rates of taxation on incomes ranging from, say, £750 to £1,500 a year would have to be very high. The inclination of companies, when dividends are tax-free, would possibly be to pay a higher dividend to shareholders; but this matter would really be regulated by competition, and I am inclined to think that the tendency would be for the dividend gradually to decline to something approximating the former rate, and in consequence the aggregate fund available for taxation purposes would be reduced, and it would be necessary to impose a higher rate not only on individual incomes, but also on that portion of the income of companies which is not taxed to shareholders. It is very difficult to foresee what a radical alteration in the system of taxation would mean, as no doubt it would take some years to develop, but it is certain to create considerable disturbance.

*Company to pay on the Basis of Percentage of Profit on Actual Capital employed.*—A company's capital to be considered the difference between its assets and liabilities, and not limited to the paid-up share capital (practically the definition of "capital" used for the assessment of excess profits, Finance Act, 1916, section 13 (1). A comparatively low flat rate (depending on revenue requirements) to be imposed on all profits not exceeding, say, 6 per cent. of capital. Each  $\frac{1}{2}$  per cent. or 1 per cent. of profit on capital to be assessed at proportionately higher rates until a maximum assessment rate is reached. Each  $\frac{1}{2}$  per cent. or 1 per cent. of profit to be assessed at a different rate. This system involves taxation at the source, is economical in administration, and permits of the application of graduation more in keeping with the principle which justifies the use of such a system—i.e., the ability to pay even with collective income; that is, on the presumption that percentage of profit on capital is the measure of a company's ability to pay. This method possesses the disadvantage that the assets representing portion of the capital of a company may be overvalued or overstated (for example, abnormal goodwill), and if such a system were introduced it might involve legislative power to permit of the assets of a company being valued by the Commissioner to ascertain if they are presented in the balance-sheet of a company at approximately their true values.

Some of the schemes suggested are in operation in other countries in modified form. My object in setting them out and discussing them is to show how difficult it is to devise any scheme to which some form of objection could not be taken. The question resolves itself into what is the most equitable practical compromise? To meet the special nature of companies' incomes I am inclined to favour the suggestion that a company pay taxation on the basis of the percentage return of income on actual capital employed. Whether the required revenue can be obtained if this suggestion were adopted is a matter for investigation, the material for which is, no doubt, in possession of the Taxation Department.

*Passing on the Burden of Taxation.*—I cannot do better than repeat the evidence which I gave before the Committee on Taxation in May, 1922. My views on the matter have not changed. Many business men aver that income-taxation, if not wholly, yet in part, has been passed on in the form of increased prices for commodities or increased charges for services. The subject of the shifting and incidence of taxation is a very involved and intricate one. It is usually asserted that direct taxation

cannot be transferred; on the other hand, a well-known economist writes: "On the whole, we may confidently say the broad and simple statement that taxes on profits fall on the capitalist, who can in nowise transfer them to others, requires to be very much limited before it can be adopted as correct." I believe that the conditions under which trading was carried on during the years 1915 to 1920 were such that the burden of income-taxation imposed on trading concerns was in part, at any rate, by a process of diffusion, transferred, and not wholly borne by the payer; and, further, that what has been termed the "equalizing agency of competition" will tend to leave this burden with the actual payer of the income-tax. I do not agree with the assertion that is often made that income-taxation can be readily passed on, and practically constitute an item of cost. In this connection let me quote a very terse sentence from Sir Josiah Stamp: "This, however, seems to assume that income-tax enters into costs, and that if a man has less to pay he can afford to charge less—a doctrine that has more popular sentiment than economic reason behind it."

I submit a separate memorandum on the subject which the Commission can accept as an expression of personal opinion.

The incidence and shifting of taxation is admittedly one of the most difficult and elusive of economic problems. One of the best-known present-day economists (Professor Nicholson) says "the theory of the incidence of taxation involves an application of all the economic principles, theories, tendencies, and disturbances." Even in the case of an indirect tax, which has been defined as a tax demanded from one person in the expectation and intention that he should be able to transfer it to another, it by no means follows that the tax is transferred. A tax on commodities is usually "passed on" either in whole or in part; the extent to which the burden may be shifted depending in some measure on the elasticity of supply and demand.

During recent months there has been much discussion on the incidence of income-tax in New Zealand. There have not been wanting commercial men who have asserted that income-tax has been passed on in recent years, and can, even under present conditions, be passed on in part, if not wholly. Income-tax is a direct tax—"a tax demanded from the very persons it is intended or desired should pay it." Taking as an illustration what is probably the simplest example to be considered—the effect of the imposition of income-tax on the income of the owner of a strict monopoly—on first consideration it might be thought that a monopolist can pass on his burden of taxation, but an examination of his case shows that this is not necessarily so. If he has a complete monopoly it can reasonably be assumed that he is obtaining the highest possible net return from the manufacture and sale of the commodity he controls; he is charging the utmost price obtainable consistent with retaining equilibrium between demand and supply. If he increases the price—i.e., in the endeavour to pass on the tax—demand for the commodity may fall off; he is already getting the highest price consistent with retaining his present supply; the extent to which the demand will fall off depends upon the elasticity of demand of the particular commodity, and the possibility of substitution. It is evident that if he increases his price his resultant net profit is likely to be less. Theoretically, the strict monopolist is extracting the greatest quantum of profit (the tax excluded), and the possibility of his transferring his income-tax is very remote.

The question is more complicated when considered from the aspect of trading under conditions of keen competition, and the problem becomes more interesting if at the same time the effect of an alteration in the method of imposing income-tax be examined. Any alteration in the method of imposing a tax, the supersession of a mode of taxation by some other method, or the elimination of a tax which has been in existence for a lengthy period, must perforce create disturbance in the internal fiscal affairs of a country, varying in degree with the scope of the tax. It will be found that many financial arrangements and contractual relations have been adapted to the system of taxation, particularly if the tax has been of a permanent character. A case in point is preference shares, dividends on which, by reason of the fact that income-tax in New Zealand is paid by companies and not adjusted to the individual, have been considered as "tax-free."

It is interesting to examine the likely effect in a community of the elimination of a form of taxation. During recent years rates of income-tax have been largely increased, and this tax makes a very large contribution to the revenue of the State. Assume that it were decided no longer to obtain revenue by means of an income-tax. What effect would it have on the profits of trading "concerns"? *Prima facie*, the endeavour of a trader is to obtain the largest margin of profit. Quite briefly there are several factors which affect his ability to do so—cost of production, efficiency in management, method of distribution. The margin of profit a trader can make is governed, under conditions of keen competition and of normal supply and demand, by the profit which can be made by the competitor selling at the greatest disadvantage. To take the case of a trading company: the minimum aim of its management will be to make such a profit as will enable it to pay a dividend and have some surplus profit to carry to reserve. The achievement of the desideratum will be effected by competition, and the measure of success will depend on each trader's relative position in the "trade race." In other words, profits are differential, the variation in amount being determined by the relative efficiency over the trader of only "marginal" efficiency. Dissecting the profit-making capacity of a concern in this way, does it not illustrate how difficult it is under conditions of keen competition, to transfer or "pass on" any of the burden of income-tax? The "marginal" trader makes the minimum of profit; he may pay no income-tax, so he cannot transfer the tax. The more successful trader may, for example, actually include in his production costs an amount which he may term "provision for income-tax," and consider he is passing on part of the burden; but his additional profit is really due to his degree of efficiency over the "marginal" trader, and portion of his profit so made he pays to the State as income-tax. If this reasoning be sound, it will be seen that in times of normal competition income-tax cannot be passed on, but will be borne by the taxpayer.

Owing to the conditions of trade obtaining in New Zealand during 1915 to 1920—with the element of competition “dulled,” and with a period of “scarcity” prices—even he who would have been the “marginal” trader in normal times made profits; and, as he knew he would be liable for income-tax, made provision, and to this extent it might be argued he passed on part of his burden. Further, that as the period under review was not one of normal competition, the more favourably situated traders could transfer part of their income-tax, as prices were not always competitive.

What, then, would be the effect of a considerable remission of income-tax under normal trading conditions? The management of a trading company would aim at such a quantum of profit as would enable it to pay a dividend to its shareholders, meet the obligation to the State for income-taxation, and still leave a surplus to “stabilize” the business. The degree of success would depend upon the relative stage of efficiency beyond the “marginal” trader. Eliminate the factor of obligation for income-tax—what would happen? The more efficient traders would be able to compete more keenly (in effect, they could lower their range of prices in the endeavour to obtain a larger proportion of the trade); the “marginal” trader would be eliminated, and his place as “marginal trader” would be taken by the next in order of efficiency. To the extent that the entrepreneur could thus “shade” his profits would it not be to the gain of the community?

Also if the incidence of taxation, so far as companies are concerned, were altered to, say, an individual basis, would not the tendency be for the management to be content—perhaps forced by competition to be content—with a less sum as profit. The probability is the management of a company would endeavour to pay larger dividends than at present paid if the shareholders had to pay income-tax on the profit made on their interests in the company, and consequently would aim at a larger quantum of profit than if income-taxation were entirely abolished. The “company” aspect has been stressed as a considerable proportion of the “efficient” trading in the country is done by companies. It follows that the abolition of, or an appreciable reduction in, income-tax would react to the benefit of the community in this indirect way—by the keener competition possible under the conditions described.

The whole question is very difficult and involved, and I give expression to the above views with some diffidence. There is one aspect of the question, however, that I can with confidence affirm, and that is that the shifting of any form of taxation is not the simple process often imagined.

*Debenture-tax.*—I think the present system of taxing income from debentures (both public body and company debentures) should be reviewed, and that all such income should be taxed in the same manner as income from other sources. There appears to be no just reason for differentiation in rates of taxation in favour of this particular class of income. The effect of the preferential treatment accorded debentures has been for the investing public to prefer investments of this nature (particularly local-body debentures) to the detriment of investments in ordinary commercial and industrial enterprises, and of ordinary mortgage securities. I believe it will generally be admitted that it is desirable, in the interests of the development of any country, that investment-moneys should first be available to assist in increasing production, whereas, as an effect of this differentiation in taxation, the tendency has been more readily to provide moneys for local-body expenditure. It can, no doubt, be urged with some justice that investors have taken up debentures believing that the income therefrom would be subject to lower rates of taxation, and that any alteration would impose hardship. I think, however, that it is highly desirable that the differentiation should be abolished as soon as practicable.

*Land-tax.*—Until 1915 land was taxed at a flat rate, and land of an unimproved value of over £5,000 was taxed in addition at a graduated rate. Mortgages on land were taxed to the mortgagee, the mortgagor being permitted to deduct. This graduated tax was admittedly for the purpose of compelling the subdivision of large estates and preventing the aggregation of land. In 1916 the above method was abolished, and a progressive tax imposed on land (subject to certain exemptions). This progressive tax was obviously for the purpose of obtaining additional revenue. In a country such as New Zealand, dependent on the productivity of the soil for its prosperity, I fail to see the justice of a graduated land-tax. If a person put his land to proper use, why should he pay a progressive tax on the unimproved value of that land—a tax which is really in the nature of a rent charge, not based on the return from the land, but based on the aggregate unimproved value of the land? The disability applies to land in both urban and rural areas. In fact, the holder of land in cities and towns is put in the invidious position of having all his holdings aggregated, and to that is added an amount, proportionate to his shareholding, of the value of any land owned by companies he is interested in. The graduated rate applicable to the total value of land thus obtained is the rate at which his holding is assessed. Thus a company having a number of branches throughout New Zealand has its land aggregated, and probably is compelled to pay tax at the highest progressive rate, whereas it would be subjected to competition in each town with individuals who are not so handicapped with regard to land-tax in that many of the latter would pay land-tax at a very much lower rate on the single allotment on which their business premises would be erected. As a part of a general scheme of taxation probably a tax on land is desirable, but I think it should be at a flat rate without deductions of mortgages, and possibly with reasonable exemption to small holders. If it is deemed desirable to prevent the aggregation of country lands, I think some method other than a graduated tax on land should be devised.

*Income from the Use of Land.*—Until 1915 income derived from the direct use and cultivation of land was exempt from taxation. This exemption was removed in 1915, but, under the Land and Income Tax Act of 1923 a reversion was made to the position operating prior to 1915. I think this was a retrograde step, and that all income from whatever source should be taxable. Possibly the reason for granting the exemption was that it was thought the farming community were already paying graduated land-tax; it has to be remembered, however, that a considerable proportion of



the land-tax is paid by holders of land in urban districts. It is true that the farmer is faced with difficulty at times in determining what is his real income, the chief obstacle being to differentiate between capital and income expenditure. For seven or eight years he has been subject to income-tax, and, no doubt, as the result of that experience many of these difficulties were overcome. In any case a farmer can readily obtain expert assistance in the keeping of his books of account and the preparation of his income-tax returns. If, however, it is felt that the difficulty in preparing the necessary returns is an obstacle, I would suggest that persons deriving income from the cultivation of the soil should be given the option of rendering an income-tax return, or of paying income-tax on an "assumed" income based on a percentage of the capital value. This is the practice in the United Kingdom with the modification that the "assumed" income is based upon the rental value. The principle of "assumed" incomes is not new to New Zealand taxing practice, in that an income is "assumed" in the case of banks, overseas traders, and in some cases when consignment stocks are disposed of in New Zealand.

*Mr. Hunt.*] In your statement you refer to the importance of taxation at the source: do you take the New Zealand system to be taxation at the source?—I think it is as near taxation at the source as you can get it. You mean in relation to companies?

Yes?—Certainly the company earns the income, and when it is taxed that is taxation at the source.

Would you not call it taxation by the company; it is quite different to what is called in England taxation at the source?—I do not know that it is. I have seen it differentiated in the schedule rates, but I think taxation at the source would cover company-taxation too.

Taxation at the source, as referred to in England, is a tax which the company pays as agent for the shareholders, and there is an adjustment made with the shareholders afterwards?—But, of course, in England the company pays more than simply as agent for the shareholders; it pays on its total profits.

The only taxation that falls on a company in England is taxation on the undivided profits?—That is so.

And that is not at the maximum rate?—It is not at the maximum rate to individuals, no.

Do you believe in a graduated system of taxation?—As applied to individuals, yes.

Why?—Well, I think that if a man has a large income his sacrifice is entirely different from that of a man living with just a margin of income sufficient for his needs.

Do you not think it should apply all round?—That is the difficulty.

Can you see any difference in the taxation rate on the different shareholders in a company, large and small?—I admit there is that difficulty.

And you know the proportion of the total tax which is collected from companies?—Yes, I know it is a big proportion.

Yes; it is between 66 and 72 per cent. during the last three years; so that there is no graduation amongst those shareholders, is there?—There is no graduation which is entirely equitable amongst those shareholders.

Do you think a small company should pay a smaller tax than a large company?—Do you mean a smaller proportion of tax?

A smaller rate in the £1? I suggest there should be a tax on the percentage of profit.

That all companies should pay on the percentage of profit earned on their capital?—Yes.

So that it would not matter whether a company was a small company or a big one, it would pay on the percentage of profits earned to its capital; that is, if a small company earned 10 per cent. and a big company earned 5 per cent., the small company would be graduated at a higher rate than the big one?—I suggest it should go in stages. It may have to be graduated according to the risks of the businesses engaged in by the various companies.

How would you treat the different capital in a company? Take three companies, each having £100,000 invested and each making 10 per cent., but the first company's capital is all share capital, the second has £50,000 of debentures bearing 5 per cent. and £50,000 of share capital. There the share capital is getting 15 per cent. because the debentures only get 5 per cent. Or, again, a company might have one-third in preference share capital getting 6 per cent. and one-third debentures getting 5 per cent. and the remaining capital being ordinary share capital: in that case the ordinary capital would get 19 per cent. How would you fix up the taxation?—The debenture-holders are creditors, and the debentures are not really capital.

You would disregard them?—I would disregard them. I do not see how the preference shareholders should be affected any different to what they are to-day.

Would you just treat the company as a whole?—Yes.

Supposing the capital consisted of one-half ordinary shares and one-half preference shares?—I do not see how it would affect the preference shareholder; he gets his specific rate of dividend.

A 10-per-cent. rate would carry a lower tax than a 15-per-cent. rate under your system?—Yes.

If one company had £100,000 in ordinary shares and was earning 10 per cent., and another company had £50,000 ordinary and £50,000 preference at 15 per cent., would you graduate that second company's ordinary shares at 15 per cent. or graduate it at 10 per cent. all over?—I would add preference and ordinary capital together. I would not differentiate between the preference shareholding and the ordinary shareholding.

It has probably come under your notice that there have been debentures issued with no difference between them and the shareholding?—There is very little difference, it is true. Has the capital a charge?

No; the debentures have been issued void of charge—naked debentures?—They are only deferred creditors, are they not?

That is so, but the relationship between them and the ordinary shareholding is just the same as between them and the preference shareholding?—But I think they are really creditors.

They are creditors of the ordinary shareholders, but of nobody else, and the preference shareholder is a creditor of the ordinary shareholder, but of nobody else?—I see. I had not thought of this possibility which you raise, but I do not think it is an obstacle that cannot be overcome.

In your statement you quote Sir Josiah Stamp in regard to the passing-on of the tax: do you not think that you want to remember that Sir Josiah Stamp and other writers are thinking of the individual system of taxation, because the company system does not apply to the old system?

*Mr. Clark:* He was dealing with excess profits too.

*Witness:* He is really referring to the argument that municipalities should be taxed because they come into competition with private individuals, and that comment is made following that. As regards this business of passing on the tax, as far as I can find it is not dealt with very much. It is a late development.

*Mr. Hunt.]* Does not the general rule in economics boil down to this: that a general tax on all sources of income cannot be passed on, whereas a special tax on a particular industry can be passed on?—I believe in the main that is true, but you would not call companies a particular industry.

But if you have an industry which can only be carried on by large blocks of capital, where small blocks lightly taxed cannot enter into competition, then does not it become a special tax on a particular industry?—I do not think so.

If all the competitors in an industry have to pay the same rate of tax, is not it obvious that they will have to take the tax into consideration?—It is a different matter as to whether they can all pass it on or not.

Is it not a fact that capital would leave that industry so that the margin of profit would be reduced?—It may, but it may take a long time.

Most of the industries in any growing country are expanding and capital does not go out, but if no more comes in it gradually means a widening of the margin of profit?—That is so.

Supposing I came to you and said, "I want you to take shares in my company," and you asked me what I could earn, and I replied, "10 per cent. before the tax is paid"; you would say that it takes 3 per cent. in tax, and that the remainder was hardly good enough in that you would only be left 5 per cent. with reserve, and you would not go in?—One really needs to look at the recent flotations in New Zealand. I am inclined to think that we are inclined to look at that matter through the wrong end of the telescope and see taxation too much. Why are companies formed? Primarily because people think they can make a profit by investing in them. Look at that Motor Investment Company: why was it successful in flotation? because it could show that by backing promissory notes for motor purchasers, backed as they were, they were certain to get profits. Take the coal company formed in Southland the other day: why was it formed? not because there is not plenty of competition, for there is an overproduction of coal, but because they think they have a better class of coal, and they think they will be able to make a profit.

But they will consider the question of taxation?—Yes, but only in relation to the wider field—that is, the question of what profit can be made by them, because the tax is only paid out of the residual profit.

But any one entering a company considers his net return?—Yes.

And the amount of tax has to be taken into account?—Yes.

I will put it in a different way: you are starting a factory and you divide your expenses into two headings, overhead and general expenses?—You have your direct costs of production and your overhead.

Say that you are calculating your overhead, that is fixed regardless of output?—Yes.

In calculating your overhead you would put down the interest on your factory?—Yes.

And depreciation, insurance, and various fixed expenses, and included in these fixed expenses would you not put the income-tax you would have to pay before you would be allowed to retain that interest? If you said, "I want to get 6 per cent.," before you got that 6 per cent. you would have to pay a slice to the Commissioner of Taxes; therefore you have got to debit your factory with nearly 9 per cent.?—Are you referring to profits?

No; the overhead expenses of the factory?—Are you referring to the factory as an industrial business?

Yes?—And your specific reference is to the interest on the capital of the factory?

Let me put a case in which I was interested, a factory not long started. In working out the overhead the manager showed me the figures, and he had on his overhead the interest on the cost of the factory at 6 per cent.; he had also his depreciation, fire insurance, local rates, the rent he had to pay, and certain supervision that had to be paid for no matter what the output of that factory was. Then he added on the tax that he would have to pay to the State before he would be able to retain 6 per cent. Then he said, "That is my fixed overhead regardless of my output," and he worked that into his tonnage: would you not call that correct accountancy?—Do you mean that he brought in his income-tax as an item of cost?

Before he could get 6 per cent. on the cost of his factory he had to pay another 2½ per cent. in tax?—On the interest of his building?

You have to pay that?—No; that business would pay income-tax on its residual profit. If you had to allot income-tax to every item of cost—

That is a costing-system in working overhead that is very largely adopted in this country?—To add the income-tax to the interest?

If you are working a factory you have got two things to consider; you have your factory, that is your manufacturing concern. Your trading profit is additional. In working out your factory

expenses you put them under two headings—overhead, which comes to so-much per unit of the output, and in addition to that you have the working-expenses, which vary according to the output?—Yes.

It is a fair thing to include in overhead the interest on your factory?—Yes.

If you said that 6-per-cent. interest was a fair rate to earn, before the State would allow you to have that 6 per cent. you would have to pay your tax, and therefore it is added on. Does not that enter into costs?—I have never seen such a costing-system. If you went further on you would not have a costing-system at all.

I have never seen any other costing-system?—Well, I think I can claim that I have introduced quite a number of costing-systems, but I have never introduced one like that.

Well, I have seen quite a few and that is how they are worked?—I have seen costing done where people have brought in income-tax as an item of cost. I have done that, but it is quite another thing that you can pass that on. It does not necessarily follow that you can pass it on.

What would you say to this statement: "In estimating costs it must not be forgotten that income-tax is as much taken into account as are wages or rents, and that in the end it is the public that pays the tax?—I say that is a wrong statement. In estimating costs, I think that is wrong. If it were put the other way—in estimating the residual profit every concern is bound to consider the tax and say "I have to get an aggregate sum which I have to divide, one portion to my company and the other to the Tax Commissioner," but I do not think it would be brought into costs.

That is a statement made by Sir George Elliot in his address to the Bank of New Zealand?—(No answer.)

You are managing a company and you are now paying 5s. 10d. in the pound. In the past you had to pay 8s. 9d. in the pound. You know that at the end of the year you have got to meet your shareholders and that they are expecting a satisfactory balance-sheet. If you do not give them a satisfactory balance-sheet they may pass it over one year, but if you persist in that, there is a probability that you will lose your billet. Would you not try to cause the margin of profit to widen, and so pass on the tax and still have a satisfactory balance-sheet?—I grant that.

And would not the managers of opposition concerns have the same feeling?—They would.

If the industry that you are managing is one that can only be run by large concerns, would not that general all-round feeling cause the margin of profit to widen?—It would, but you are giving an hypothetical case, and you never get conditions such as that. Take the Westport Coal Company and the Westport-Stockton Company. They are both big companies, and they sell a similar class of coal. The Westport Coal Company last year made profits and paid dividends—big profits. The Westport-Stockton Company made a loss. Which company passed on the income-tax?

Would not the fact of the income-tax being there cause both of them to widen their margin of profit?—Which do you think passed on the tax?

Possibly the concern that did not pay would not have paid in any case, but there is a pretty close working arrangement between your coal companies—an arrangement?—No. The State has dropped the price of small coal. You must remember that that business is a competitive one.

Is it not a fact that you companies, quite apart from the State mine, for the State can only compete in one district—you companies sit together; you fix your prices pretty closely among yourselves?—The Westport Coal Company have never had a conference regarding prices, to my knowledge, during the last fifteen years, nor arranged prices.

The week before last a concern that I am interested in purchased a lot of coal from a coal company. Before the contract was signed the company that you run got into communication with that company and got them to put up the price and refuse to sign the contract?—That is another matter, regarding a certain kind of coal. We made an arrangement, not so much over the question of price, but to prevent dumping.

But your company entered into an arrangement with the Taupiri and another company to work together?—Yes; but we were referring to Westport coal conditions. It is quite true that in New Zealand and elsewhere there are arrangements. You have them in your own business.

I know. All you companies are working there together, apparently arranging your own prices together. You are arranging your prices with a view to making a profit, are you not?—The fact remains that here was a district where we were not arranging prices.

But in the other districts you are arranging your prices?—You are going on to argue in this way: because we happen to have some rough-and-ready arrangement regarding prices in that one place, therefore we must pass on the tax. In point of fact, in the Waikato—the district to which you refer—we have no arrangement regarding prices for the bigger class of coal, and none of us sell at the same price in respect to the bigger class of coal. Further, we do not all screen the same way.

But the fact is that you have certain understandings between yourselves?—We had an understanding certainly about that small coal. It is not in the interests of this country economically that we should dump it if we can arrange to divide the business among the companies and save the dumping.

You want to get a profit?—Yes. Every business is desirous of making a profit. That is really what people are in business for. I grant that.

*Mr. Weston.*] In that particular case, indirectly it assisted economically, because it meant that a large proportion of the output of the coal-mine would have had to be dumped if such an arrangement had not been made?—Probably a quantity of coal would have to be dumped in any case, but we had different contracts, and if we could arrange among ourselves for one company, say, to supply some in the winter, and another company to supply in the summer, we would effect an economy. If we could get 7s. for it, why sell to Mr. Hunt's company at 4s.? Candidly, I did my best to stop their getting it at 4s.

Mr. Hunt has put the case of the gradual elimination of a concern because it could not get a sufficient return owing to the income-tax. Would not that mean that the other firms engaged in the business would have a bigger turnover? If there were four companies and one went out, leaving three to do the business, there would be a bigger turnover for the other three?—Provided the demand were still constant.

And consequently those three would be able to do the business where the four existed previously?—That is quite conceivable.

The reduction in the number of firms and the increase in the turnover of those left would prevent the increase in charges which otherwise might have been necessary in order to provide for the income-tax? The three would be able probably to do the whole of the business done by the four without raising charges?—Yes, provided their organization was complete enough for it.

There is an immense amount of waste in all businesses. It is inevitable under our system of doing business?—There is no question as to that.

No business is working to its utmost capacity, with its machinery or its staff?—That is probably true.

So that any financial pressure very often results in saving through more efficient management?—Yes, that is so. There is no doubt that with all of us in the coal trade competition has been so keen that we have simply had to get round and cut costs.

For instance, it is not in the interests of the general public that a new coal company should be started?—Probably it is not.

Coal would be cheaper if there were a few companies with a big production—say, 200,000 tons—than a large number of small companies with a production of 50,000 tons?—Yes.

*Mr. Shirtcliffe.*] I want to pursue the question of costing for a moment. Is not the following the procedure in costing in a general mercantile business: They take the prime cost, the transit charges, the handling charges, interest on costs. That gives them their ultimate cost. Of course, I am naturally including duty and all charges. That gives them their ultimate cost. They then proceed to sell their goods at the best price the competitive conditions of the market will allow?—That is the practice. Of course, you have taken a very simple line—the class of business in which costing does not really operate very much, such as a merchant's business. To get real costing you have got to take an industrial business. Let me give you the actual procedure of a company of which I am managing director—an industrial company. We get the materials. We import them. We have the wages—the direct wages. We charge up the power for the plant, the depreciation on the plant, and the rent of the factory. That gives us our factory cost. Then we have the overhead, and we do not take in income-tax. We know what that overhead, over a series of years, has been to our turnover—not our sales turnover, but our actual manufactured turnover. And we strive all the time to get 10 per cent. on that cost that I have given to you. We get more sometimes, but whether we get that 10 per cent. or not depends on the condition of competition. But we aim to get that 10 per cent. That 10 per cent., we know, is going to give us a certain return on capital, a portion of which return, when we get it, we shall have to give to the Tax Commissioner.

As a matter of fact, in practice, if you did not have to pay the income-tax, you would still strive for your 10 per cent.?—We would strive for it, but competition would be there.

Your margin of profit is fixed by competition to-day?—It is.

And, tax or no tax, it is the amount of competition that fixes the selling-price in general business?—That is so. You will quite understand that in the evidence I am giving I am not suggesting that income-tax, by a process of diffusion probably, cannot be passed on; but it is not passed on in the simple way of putting it into cost.

The question has been raised as to there being no graduation between small and large shareholders in companies. I should like to put it to you in this way: A small investor with, we will say, £1,000 puts his money into a company, because he thinks that by doing so, and hopes that by doing so, he will obtain a larger dividend than he could if he had the money himself?—Yes, the company system offers advantages.

He gets certain advantages. Instead of having to put that money into a business of his own where he would carry all the risk, he gets certain advantages in the company investment, because he knows he has no further liability, and so forth?—Yes.

He puts his money into a company in conjunction with large blocks of capital—that is very often the procedure—and he gets the same rate of dividend as the largest shareholder in the company gets, and he achieves what he has aimed at. Is he suffering any injustice?—He may think he is not suffering any injustice, but it is quite another thing if you mean really as a theoretical proposition whether, when he assesses that income to himself, he is going to pay the same rate as the big fellow.

I am taking a practical proposition. I put £1,000 into a company in conjunction with other large blocks of capital, because I think I can do better with my money in that way. For the sake of argument, I think I can get 10 per cent. as against 6 per cent. that I could make myself. And I get the 10 per cent. the same as the largest shareholder in the company gets. Am I suffering any injustice?—No, putting it in that way you are not. But that is hardly really the point, is it?

Surely?—No, I think not.

Surely, when the question is raised as to there being no difference in graduation between the large and the small shareholder?—Possibly I think of it from a different basis from you. I really think that progression in taxation, having regard to equality of sacrifice and so on, has really been based upon individual taxation. At the same time, the fact remains that the bulk of trading in New Zealand is done by companies, and I am quite convinced that it is the most economical way to tax the company direct if you can possibly do it.

If the present system of taxation were inflicting very great hardship on companies and preventing their operating successfully, one would expect to see few or no fresh companies being registered. On the other hand, in 1922 there were no less than 106 public companies registered, with a nominal capital of £11,000,000-odd, and 311 private companies with a nominal capital of £1,800,000. That does not seem to indicate that the formation of new companies is being discouraged?—I take it the real truth is that when the companies are registered it is because the individuals think they can put their capital together and make a profit. There is no doubt that that is the prime motive.

Just one question with regard to debentures. You propose that the tax be raised. Last year you know the tax was raised on debentures, to apply only to new issues?—Yes.

If we recommended that the tax should be made to harmonize with the tax on ordinary income, do you suggest that it would be any breach of faith to make it apply to all current debentures?—In a sense I think it would, but you have got to look at what has happened with this differential rate. If you are going to impose some tax on those people who in the past have not paid, for the public good, then I think you are justified in doing it.

As a matter of keeping faith, as between the Government and the debenture-holders, you do not consider there is any contract?—I do not see that there is any contract, because the Government at any time has the right to alter its policy regarding taxation. I think that is so. But you cannot overlook the fact that under a system that has been in existence, obligations between individuals have been entered into. There is no doubt that in the debenture issues of recent years it was declared on the prospectus that taxation was so-much.

But should you not bear in mind that some of the companies that have issued debentures tax-free to the holders have done so in order to obtain cheap capital?—That is so.

Practically, to obtain money at a lower rate of taxation than they could otherwise get it at?—Yes.

There would be no hardship inflicted on them?—No, possibly not.

On the other hand, where the tax is paid by the investor, he invests his money with a knowledge, presumably, that the tax may be varied from year to year?—He is presumed to have that knowledge, whether he really has it or not. The position is easier now than it was when the maximum rate was 8s. 9d. What really happened when the proposal was made to make debentures carry a considerably higher rate was that representations came from Dunedin, and the Legislature was prevailed upon to retain the old rates.

You are quite clear that local-body debentures should also be put on the same footing?—Really, I think so. I think it is a great mistake in this country that money should be obtainable for local bodies before it is obtainable for general production. It should be exactly the other way round. Local-body expenditure should follow, not precede, general production.

You would agree with the argument that the ease with which local bodies have been able to obtain cheap money within the Dominion has meant the withdrawal of that money from the ordinary commercial and industrial channels?—I would put it rather the other way, that the investment has been more attractive to the investor.

The effect is the same. Money has been attracted from the ordinary commercial and industrial channels to these more attractive debenture investments?—Yes, that is so. In real equity it should be the other way round. The local body has the security of the community to offer, and there is no reason why it should have preference.

It is a gilt-edged investment?—It is, because there is the rating security.

If the incidence of taxation were removed from the company to the individual, what effect would that have upon the vast number of small companies? In 1922-23 we had 2,130 companies—taxable companies—carrying on business, yet nearly half the taxable income was earned by only twenty-five companies. Considerably more than half the total taxable income was earned by only 138 companies out of 2,130. A very large number of companies were earning only comparatively small incomes. For example, 314 earned less than £2,000 a year. What would be the effect if these big, powerful companies were relieved of taxation and it was transferred to the shareholders? What would be the effect upon the very large number of small companies?—You mean the effect in regard to competition?

Yes?—That is a very difficult question to answer.

Take the private trader as well?—Excepting the small shopkeeper, there is very little private trading in New Zealand that is outside the small company to-day. There are very few partnerships, I think, the facilities for forming companies and the obvious advantages are so considerable.

*Mr. Shirtcliffe.*] There were 5,455 individuals in commerce, trade, or business, not including the professions.

*Mr. Clark :* The tendency is to turn private partnerships into companies.

*Witness :* Do you have many private partnerships now?

*Mr. Clark :* Yes.

*Witness :* Not nearly so many as previously.

*Mr. Clark :* No. They are turning over into companies. The general tendency is to turn a private partnership into a company.

*Mr. Shirtcliffe.*] What I want to get at is this: would not the relieving of the companies from taxation as separate entities enable them practically to crush out the small trader, whether he be a private individual or a private company?—I am not inclined to say that.

*Mr. Clark :* They would turn into companies.

*Witness :* I do not think so. In point of fact, the small company can look after itself. That is my experience. If it has anything like the present Act, there is no difficulty about the small company.

*Mr. Begg.*] Your suggestion as against that is that the taxation should be increased on the small company—that is, by your suggested system of graduating, instead of the present system. The company which makes the largest profit on its capital should be the heavier taxed?—I suggest, of course, that there should be a graduation, starting, say, at 6 per cent. and assessing each  $\frac{1}{2}$  per cent. at a higher rate; but I would put it into zones. I do not think that the progressive rate should apply to the whole income.

You do not like the present system of graduated tax on the companies?—I will admit that in theory, at any rate, it is open to serious objection.

Do you think a flat rate on companies would be preferable to the present system?—I do not think a flat rate meets the whole position. That is why I have suggested the graduation on percentage of return.

You have suggested a way that you think does meet the position?—I agree that it does not wholly meet the position. I do not know a way that does.

With regard to the alleged passing-on of tax to the public, presumably any company-manager or any trader paying, say,  $7\frac{1}{2}$  per cent., if he finds his taxation rising he wants still to pay  $7\frac{1}{2}$  per cent. and earn the tax in addition if he can?—Yes.

We can take it that the whole of the business people of New Zealand would aim to earn that in addition to their ordinary profit?—Yes.

They are a fairly capable body of men, taking them all over. Do you not think that with a large number of capable men all aiming in that direction there will be a certain amount of success?—There might be a tendency. But let me put it in another way. In 1920–21 there were some big companies in New Zealand, admittedly efficiently managed, and they made profits. On the other hand, many big companies made disastrous losses. Yet they sold in competition, at the same prices. Which do you suggest passed on the taxation?

I am not trying to make you say that all tax is passed on; but when we have admittedly the whole body of traders in New Zealand aiming at passing it on, the probability is that there is a considerable amount of success?—There would be an aim and a tendency possibly to pass it on. That is quite another thing from admitting that it is passed on. It might by a process of diffusion be passed on, and I believe the process is as difficult to dissect as the vicious circle in the cost of living. It reacts and reacts—one on the other.

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PATRICK JAMES SMALL, President, Dairy-farmers' Union (Incorporated), (Wellington Branch), examined.

*The Chairman.*] You produce a statement setting forth your views on the question of taxation: will you read it to us, please?—Yes, my statement is as follows:—

In giving evidence before the Commission I intend to confine my remarks as far as possible as to how these taxes affect the dairy-farmers of the Dominion. I have no hesitation in saying that the income-tax is by no means a popular tax with dairy-farmers, not so much as it affects them from a financial point of view as from the point of view of making an income-tax return. In this sense the exemption from income-tax which was granted by the Government last session no doubt afforded a distinct relief to the dairy-farmers. Whether this fact proves of advantage to the dairy-farmers or not is, of course, a contentious question. At the same time I am convinced that the exemption from paying a tax upon the net income has brought little or no benefit to the average dairy-farmer, as the net income of the individual producer was well within the present exemption of £300 per annum. In fact, I am prepared to say that the majority of dairy farms were not only worked without an actual profit, but in most cases the cost of production exceeded the revenue derived therefrom. It is safe to say that the average dairy-farmer is not so much concerned whether he is called upon to pay either income-tax or land-tax, but is more inclined to resent the fact of being asked to pay both. Prior to 1915 he was not only exempted from paying income-tax, but the land-tax levied prior to that date was based on a much more equitable basis to the one on which his taxation is calculated to-day. Prior to that date special exemption for land-tax was granted to farmers for the full amount of mortgages on their land. Not only were these exemptions whittled down in the 1916 alterations of the Act so that they entirely disappeared when the assessable value exceeded a certain amount, but a gradual increase of the graduated tax was brought about, with the result that the producer is now faced with a severe land-tax the principle of which is entirely changed from that prior to 1916. The greatest injustice the producer is labouring under to-day is that the farmer with a property assessed at, say, £8,000 on which the encumbrances may amount to the same sum is called upon to pay a tax on £8,000. In addition of having no equity in such a property, he may be showing a distinct loss on his year's work, which, of course, would have the effect of making this tax all the more unjust and inequitable, for he is actually called upon to pay a tax on his liabilities as well as having experienced a loss in working his property. Another fact I would ask the Commission to take into consideration is the revaluation of properties which has taken place during the past few years. In my capacity of Chairman of the Kairanga County Council this severe handicap has repeatedly been brought home to me on various occasions. Not only does this revaluation affect the producers by way of land-tax, but constitutes a heavy burden through an increased local-body taxation, the whole representing a distinct hindrance not only to production itself, but also the development and improvement of the individual farms. I have noticed that several witnesses before the Commission have given evidence on the lines that the basis of land-tax is found on the principle of paying for the privilege of holding the freehold of land. If the Commission was in a position to obtain the feeling of the average dairy-farmer on this question they would find

that this privilege exists in theory only. As a matter of practice there is not one dairy-farmer in fifty who is not willing to dispose of his farm if by doing so he could recoup himself the original cost and improvements made thereon. This, of course, applies particularly to producers who have purchased their land since 1916, and as a tremendous amount of properties have changed hands during the past eight years the above fact applies to a substantial majority of dairy-farmers. Much evidence has also been given before the Commission as to the effects of taxation on primary and secondary industries. It is admitted by all that the primary producer has no means of passing on either direct or indirect taxation, principally owing to the fact that he has no control over the fixing of prices for his produce. I have seen the argument advanced by witnesses before this Commission that business people and manufacturers are not able to pass on such taxation on account of excessive competition. This argument cannot, however, be considered sound, for the simple reason that, no matter what the competition, all trading and manufacturing concerns are more or less subjected to the same taxation. Although in time of slump and depression the business man may have to add the amount of taxation to a financial loss incurred during the year, his general calculations of his selling-values of his goods is based on such a percentage which at the end of the year will show him a reasonable net profit. This is a fact which I think the Commission should take into serious consideration when devising just ways and means of taxing the dairy-farmer. Commenting on unearned increment which is apparently looked upon as an exclusive advantage possessed by the owner of land, I am of the opinion that unearned increment exists equally not only amongst the secondary industries but every trade and profession. The business and professional man who grows up with his town reaps the same benefits and advantages as the man who happens to be the possessor of land, and as it is practically impossible to ascertain the exact value in such cases it would be much better to do away with taxation on unearned increment altogether. I would rather advocate that every encouragement should be given to every man that settles on the land in order to induce him to make his farm a home for himself and his children, in which case the question of unearned increment, as far as rural properties are concerned, anyhow, would practically disappear. I would ask the members of the Commission that, when framing their recommendations to the Government with regards to taxation, to take into consideration that the producers of this country are responsible for 98 per cent. of the total export values of the Dominion. I would also ask them to fully consider the hardships and disadvantages the dairy-farmers in particular are labouring under at the present day, and I feel confident that if the members of the Commission have a real and true conception of these things they cannot help recognizing the importance played by the primary producers of this country and frame a recommendation accordingly.

*Mr. Hunt.*] You do not like the income-tax on account of the difficulty of making up the returns; and you do not like the land-tax because you have to pay it whether you make profits or not: how would you like an income-tax and no land-tax?—That would be preferable to the present system.

You would sooner have that?—Yes. I think there is a feeling amongst the farmers that they did like the land-tax previous to the alteration made in 1916, but it seems hard that if a man has a farm mortgaged up to the hilt he has got to pay land-tax up to the total value of the property.

*Mr. Weston.*] Do you not think that that is a wrong position for the farmer to place himself in—to acquire a large area of land with practically no means to work it?—Possibly, but very largely the country is built up on that principle. Many men set out in a smaller way many years ago, and they are prosperous to-day.

I am an old Taranaki man. When I was practising in Taranaki in the “nineties” you could buy land there at £6 or £8 an acre. You could get a farm of 200 or 300 acres for from £1,200 to £1,600?—Well, in the days of which you speak, farming was just as big a starvation job as it is to-day.

They have pulled through by reason of the big increase in land-values?—More particularly the increase in the value of the produce.

Take a man with £4,000 capital if he buys £10,000 worth of land. Until recently he calculated that the bigger the farm he had the bigger the profit he would make on the resale. Supposing he resold at a profit, there would be a big profit on his £4,000, whereas the man who played safe and bought a small place and put a small mortgage on it, if it came to reselling he would not make nearly the same profit as the other man?—That is the speculator’s point of view, but I am speaking about the legitimate farmer.

You say that the bulk of the men in your district have bought since 1916?—I am alluding to the farmers in New Zealand in general, not to my district in particular.

These men have bought with the knowledge that there is a land-tax on land?—But they were under the impression that immediately things got better that land-tax would be reduced or done away with altogether.

But it has been reduced?—But not by a very appreciable amount.

There is no use in magnifying our difficulties. I find that the land-tax on a property worth £8,000 unencumbered at present comes to £45 per year. Do you think that that is an excessive amount to have to pay, seeing that the man who bought the land did so with the knowledge that he would have to pay land-tax?—I do, if there is no surplus cash to pay it with.

Ought you not to blame the farmer himself for having purchased a property which he finds does not give him sufficient return to pay his land-tax?—You will find that in connection with every farm bought since 1916 the same thing prevails.

Ought not he to blame himself and say, “Well, I have been a fool”?—There is such a big collection of fools. They were no different to other people who were brought into all sorts of speculations. It is like life on a goldfield. If we had boom prices to-morrow there would be extravagance. It is human nature. When you have got the money you will speculate.

But a man with a property such as I have described ought to be able to contribute £45 for the government of the country?—That does not cover his taxation on that property by any means. He has interest and local rates to find.

Are not we always inclined to blame others instead of blaming ourselves for the position we are in?—I am not blaming any one for the position we are in.

But you are asking for a reduction in the burden?—It is only a reasonable thing to ask, where a man has not got the money and has to borrow it. There is one other matter: for the average dairy-farmer in New Zealand the upkeep of his herd amounts to something enormous, through various diseases. Each dairy-farmer to-day has to be a practical veterinary surgeon to be able to live at all. He starts the beginning of the season with a good herd of cows. I know a man who paid £80 an acre for some of the richest land in New Zealand. He paid a high price for high-grade Jerseys, and his neighbour was envious of him. His neighbours thought that that was the proper way to go about dairy-farming. But at the end of the season there was only one cow left. How is that man to pay his land-tax?

OTTO WILLIAM WILLIAMS, Finance Chairman, Dairy-farmers' Union (Incorporated), (Wellington Province), examined.

*The Chairman.*] You are a dairy-farmer, Mr. Williams?—Yes; near Palmerston North.

You are giving evidence on behalf of your union?—Yes, more or less.

And this memorandum sets forth the views of your union: will you read it to us, please?—Yes, the statement is as follows:—

In giving evidence on behalf of the Dairy-farmers' Union I shall confine myself to the question of land and income tax, and as to how they effect, directly or indirectly, the dairy-farmers of the Dominion. The dairy-farmers are inclined to look upon the setting-up of a Royal Commission to take evidence on matters of taxation as the result of the invidious criticism which has been levelled at the Government from various quarters for exempting the farmers from paying income-tax. They naturally fear that an attempt will be made to reinstitute the income-tax without giving him an equivalent relief in other directions. In order to obtain some indication as to the feeling amongst dairy-farmers with regards to taxation the Wellington Provincial Union sent out to all its branches a circular letter asking the following questions:—(1.) Should the present system of taxation continue? (2.) Should income be taxed and land-tax remitted? (3.) Should both land and income tax be paid by producers with the following exemption: (a.) Land-tax—Only to be payable on margin between assessed value and amount of mortgages. (b.) Income-tax—Only payable on income above (a) £500; (b) £1,000. The replies received from the various branches indicate that a substantial majority is in favour of a remission of the land-tax, while a few branches favour the remission of the income-tax, and only one branch was in favour of the third question with an exemption of £700. Although these questions were only circulated in the Wellington Province we believe the answers represent a fair average opinion throughout the dairy industry. At a number of meetings which I attended personally I have gathered the impression that the average dairy-farmer, without perhaps being able to give logical reasons or economical facts, is instinctively convinced of the unfairness and the injustice of the present land-tax. I have also invariably found that the average dairy-farmer who has not the slightest objection of paying a fair income-tax provided his financial position justifies such a tax, while at the same time he resents a trifling land-tax if his year's work has resulted in a loss. Coming to the profits made by the dairy-farmers during the past few years, an entirely erroneous idea exists in the minds of the city and business people. If the price of butter and cheese shows a slight rise on the London market, business people inevitably jump to the conclusion that the dairy-farmer is making a fortune. As a matter of fact, no class of farmers have had, and still have, a harder task to make ends meet than have the dairy-farmers. It is quite safe to say that not 10 per cent. of the dairy-farmers of the Dominion have in any way profited by the exemption from income-tax which was granted to farmers last session. The few who did not actually show a loss on the year's work were more than covered by the £300 exemption as provided by the Act. In spite of the £17,000,000 of dairy exports from last year the dairy-farmer of to-day is little better off, which conclusively proves that the cost of production in the dairy industry must be excessive. The fact of a business showing a large turnover is, of course, no proof of its financial success, and the dairy industry of New Zealand finds itself in a very similar position to-day. While the producers have a large turnover and a tremendous output the cost of production compared with the selling-values of their produce is entirely out of proportion. Considering that the selling-price of dairy-produce is beyond control of the producers, the only logical remedy is, of course, to be found in the lowering of the cost of production. Considering the importance of the industry, we think that the Government should do everything in its power to assist the dairy-farmers in this direction by a remission of direct and indirect taxation, in so far as such remission will help to reduce the rate of his interest, the work of his farm, and his general cost of production. As already stated, we do not think that the remission of income-tax has had such an affect, nor is the average dairy-farmer very much concerned whether this tax is reinstated or not. In fact, the only relief such a remission has brought him was the fact that it saved him from making out an income-tax return, as the latter troubled him more than the tax itself. Personally, I am inclined to look upon this as a distinct disadvantage, as a making of a return necessitated a certain amount of book-keeping, which no matter how elementary was of some benefit to the average dairy-farmer.

Coming to the land-tax, the general feeling appears to be that it is both unfair and inequitable. This no doubt applies to the principle as well as to the application of the land-tax. In the first



place it is looked upon as unfair to be asked to pay a tax on one's stock-in-trade when such stock-in-trade happened to show a loss on the year's working. It is considered inequitable because the tax amounts to a property-tax, or, as it often has been called, a capital levy on something which in many cases one does not actually possess. I am referring, of course, to the fact of having to pay land-tax irrespective of encumbrances. The exemptions provided by the Act afford, of course, a certain amount of relief, but in no way effect the principle of taxation. Neither do we think that land-tax as applied to-day has the effect it was intended to have—namely, the prevention of aggregation—for there are many loopholes which are quite effective and even legitimate if required. The effect of the present land-tax is to tax the producer, whether he is making a profit or not, and whether he holds an equity in his property or not. It further taxes the man who lends him the money on mortgage, and in order to recoup himself the latter raises his rate of interest, and so the vicious circle is completed and the producer pays every time.

Speaking of the company-tax, and stating my own personal opinion, although not in favour of a complete remission, I think a considerable modification would be of indirect help to the producers as a whole. Large lending institutions, which one time made a speciality of advancing money on farm properties, have practically gone out of the market completely. I do not think that the sole reason for this is to be found in the high rate of the present company-tax, although such may be a contributing factor, but that part of the reason are the tempting investments in gilt-edge securities, which, of course, prove more remunerative and show a smaller risk than investments in real estate. For the same reason I think that a readjustment of investments, even with a remission of the present company-tax, would be a very small one, especially as long as such other securities are obtainable. Other retarding factors are, of course, the high price of land, and the extreme fluctuations in the value of produce. I do not favour a complete abolition of the company-tax, for the reason that the principal lending institutions in this country—and I am specially referring to banks—have been during the past few years making profits and paying dividends in spite of a heavy company-tax, which would certainly have justified a lower rate of interest being charged by these institutions. The producers are naturally asking themselves the question whether complete abolition of the company-tax would have the result of lowering the rate of interest, and if they thought that some benefit was to be derived in this direction they would certainly be in favour of some modification in regards to this tax.

In conclusion I might say that the main concern of the dairy-farmers is not to be once more saddled with both land and income tax. He has no objection to paying his fair share of taxation provided he is financially able to do so. He thinks that the Government should assist him in every way, directly and indirectly, to put production on a payable and profitable basis, by adjusting taxation in such a way as will—(1) Make available the necessary capital for renewing his mortgages and improving his land; (2) lower rate of interest; (3) lower cost of production. It is only by these means that he will be able to tide over his present difficulties, keep up and increase his production, and place the dairy industry on a safe and prosperous basis. The Dairy-farmers' Union is not so much concerned with proposing or advocating certain methods of taxation as in stating the producers' present difficulties and handicaps to the Commission, in order that, when making their recommendations to the Government, the Commission may take these difficulties into consideration.

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