

478. On the purchase of the freehold or leasehold of licensed premises, the goodwill attaching to the license is sometimes separately apportioned, sometimes not. Where it is not, it can be estimated by deducting the value of the land and buildings, as such, from the total purchase-price. The numerous instances we have given of recent purchases show that the goodwills attaching to licenses are very high (see Chapter 13).

479. The usual method of estimating the value of the goodwill on a purchase is by reference to the profits of the business over a period—*e.g.*, five years (R. 4058). In estimating the profits, the value of the bar trade in draught beer is very important. In many cases the purchase of an hotel can be calculated on the number of hogsheads per week which it uses (R. 971 to 974, 2328, and 1089). The extensive use of this method shows that many hotels depend on their bar trade and pay little attention to the accommodation side of their business.

480. Calculation of the value of the goodwill by reference to the profits takes into account most of the legitimate factors, provided due allowance is made for any temporary increases in profits or for after-hours trading. A temporary increase may be due to temporary circumstances, such as the presence of public-works camps or military camps. After-hours trading is so extensive that inquiry into its effect upon profits would be a businesslike inquiry upon any proposed purchase.

481. Quite apart from the profits, another factor which affects the value of goodwill on the acquisition of premises is the competition for them. This competition may force the price up beyond any economic basis for lawful trading. We have given examples of very high goodwills due to competition for hotels.

482. When the purchaser has acquired the freehold or leasehold of an hotel and has paid an excessive amount for goodwill he has to decide what return he is going to require on his investment. He has to decide whether, if he leases the hotel, he is going to recoup himself for his outlay, or whether he is going to write off the excessive cost and himself make the loss. If he decides to recoup himself, he can ask a high premium or a high rent, or both. The premium may be looked upon as rent in advance, but, whether it is or not, it can still be a payment required by the lessor for the purpose of enabling him to recover part of his excessive payment for goodwill. On the other hand, if the lessor decides to write down his asset to its economic value, on the basis of lawful trading, he decides to bear the loss himself.

483. The assistant general manager of New Zealand Breweries informed us that no goodwill is charged by the company on the granting of a lease of a freehold hotel. The company states that, from July, 1938, to July, 1944, the total weekly rentals of thirty-four of the company's thirty-nine hotels which were leased to tenants showed a rise in the aggregate weekly rentals from £743 in 1938 to £753 in 1944 (R. 6880). The company's other five leased hotels had only been acquired during that period. It thus appears that the policy of New Zealand Breweries is not to pass on to the tenant the goodwill which it has paid in acquiring the freeholds of hotels. On the other hand, the company states that, if the company has paid a goodwill on acquiring a lease, the goodwill is charged to the sub-tenant and spread over the term of the sub-lease in the rental payable. It would follow from this that the payments of a sub-tenant would return the goodwill paid by the company. The company would not make a profit on it, but would get its return. The company states that it is not its usual practice to make a rental profit on sub-leasing hotels (R. 6880).

484. Mr. L. J. Stevens, the chairman of directors of Dominion Breweries, stated that the peddling of short tenancies in hotels at high goodwills had been a factor in the trade with evil results for many years. He thought the practice could be brought to an end if the goodwills became taxable in the way he had suggested (para. 409, *supra*, and R. 6688 and 6703).