

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 shareholders 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.