

(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 to finance 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 ¾ per cent. interest on his war bonds, making his net return on these equal to 5¾ 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