

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 net 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