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. 9⅗d. 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 who are now restricting their activities owing to heavy taxation would be encouraged to go on. The present high limit of 8s. 9⅗d. 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