

29. While these rules still cannot be disputed, they are hardly sufficient to cover all the problems involved in dealing with the very heavy graduated system of taxation which now obtains. Inequalities and anomalies that were not seriously felt when the tax was smaller and proportional become very serious matters when it is heavy and steeply graded.

30. Other important aspects of income-tax must now be considered. These are—

- (a.) *Incidence.*—The tax must as far as possible be put where it will stay.
- (b.) *Payment.*—The tax takes such a large proportion of income that if payment is long postponed with a fluctuating income it may become due at a time when losses are being experienced and payment therefore is difficult. It is important, therefore, that payment of tax should follow as closely as possible the earning of the income.
- (c.) *Graduation.*—In a steeply graduated tax the percentage of income taken changes so greatly as the income increases that a fluctuating income, unless carefully watched, pays a much higher rate of tax than a steady income of the same average amount.
- (d.) *Losses.*—The percentage of income taken by taxation is now so great that it is absolutely necessary that years of loss should be a set-off against years of profit. All losses incurred during any year should be a set-off against profits made in other directions during the same year.

31. It is very difficult to make a comparison of the exact rates of income-tax on individual incomes in Australia and New Zealand, because the exemptions vary so much in the two countries. Estimates made by the Committee show, however, that the differences are of no material importance. The lower incomes in New Zealand pay less than in most of the Australian States, and very much less than in England, but when £10,000 a year is reached the tax in New Zealand is the highest in the Empire.

32. The difference in methods of dealing with profits of companies in New Zealand and the Commonwealth of Australia makes it impossible to tabulate a comparative statement. While there is little difference in the rates charged against individual incomes in the two countries, the very heavy rate on companies in New Zealand makes the amount of income-tax per head of the population very much higher than in Australia. For the year ended 31st March, 1922, of the total amount of income-tax obtained in New Zealand, 69·8 per cent.—or, say, seven-tenths of the total—came from companies, and three-tenths from individuals.

33. In Australia the States charge the companies direct, but the tax is comparatively small, ranging from 1s. in the pound in the case of Victoria to a maximum of 3s. in the pound in the case of Queensland, this latter amount being paid only where the company's operations have proved very profitable. Shareholders in the Australian States do not pay State income-tax on their dividends. The Commonwealth Government charges companies 2s. 8d. in the pound on their undivided profits, but nothing on the amount they pay out as dividends. Shareholders pay on these dividends the graduated rate that applies to their total income. The recent Royal Commission on Taxation in Australia has recommended that the Commonwealth Commissioner of Taxes should be the only authority to collect income-tax in Australia, the land-tax going to the States. If this recommendation is put into effect it will end direct taxation on companies in Australia, except on their undivided profits.

34. In England there is a corporation-tax of 1s. in the pound, which must not exceed 2s. in the pound on the undivided profits. In most cases, therefore, the tax is something less than 1s. in the pound. In addition to this, companies pay 6s. in the pound income-tax as agents for their shareholders, who adjust direct with the Income-tax Department, and obtain rebates where the graduated rate on their incomes is below the 6s. rate. The recent British Budget proposed a reduction to 5s.

35. Unlike England and Australia, companies in New Zealand are taxed as a distinct entity, and the highest graduated tax is charged on all incomes of £10,000 a year or over, the result being that any company in a large way of business will almost certainly be called upon to pay tax at the maximum rate of 8s. 9½d. in the pound.

36. The foregoing sets out the unanimous opinions of the Committee on the question of income-tax generally, but with regard to company taxation the Committee failed to agree, the following resolution being passed by a majority of seven to three, two members being absent and one not voting:—

This Committee, after hearing and receiving evidence from numerous sources, has arrived at the conclusion that income-tax should be paid by the individual ultimate recipient. The Committee realizes, however, that at the present time this may not be practicable or expedient, owing to the necessity under such a scheme of increasing rates to a limit above the taxable capacity of the individual with a moderate income.

Company Taxation.

37. It is now proposed in regard to company taxation to set out the views of the Committee—first of the majority, and then of the minority—the names of the members adhering to each view being given.

38. The *majority report* on this question is as follows:—

(a.) New Zealand is the only British country which adopts the system of collecting graduated tax from a company as if it were an individual. With the maximum rate of 8s. 9½d. in the pound it means that companies are paying away almost half of their profits in income-tax. The Committee received a very great deal of evidence as to the effect of company taxation in this Dominion, and the whole of this evidence condemned the method, and many examples of its ill effects were given. Although evidence was invited from all taxpayers through the medium of the public Press, none was offered in favour of the present system or against the individual system.

(b.) The principle of graduated income-tax is that the individual with a larger income can spare a larger proportion of each pound for taxation purposes than can the individual with the smaller