RESERVATION.

Reduction of Income-tax Exemption.

As I find myself unable to subscribe to the section of the general report dealing with the above subject, I submit the following statement and recommendation:—

In New Zealand the exemption (£300) allowed on income before taxable income is reached is higher than in Great Britain or in other parts of the British Dominions, as will be seen by the following: Britain, £150; Canada and New South Wales, £250; Queensland, £200; Western Australia, £156 for married persons and £100 for single persons; Victoria and South Australia, £150; Tasmania, £156 for married persons and £125 for single persons.

There appears no reason whatever why this Dominion should adopt a higher exemption than obtains in the countries cited. I am not, however, prepared to recommend its reduction to married men, believing as I do that the burden on the family man is quite sufficiently heavy at the present time. I am, however, strongly of the opinion that the exemption should be lowered to £200 to unmarried persons, and it should be applicable to persons of either sex. I fail to see why persons having no family burdens, who are in receipt of an income of £200 or over, should not contribute their quota to the general expenses of the country. This view was supported by evidence of a number of witnesses before the Committee, and, in fact, the only argument that has been put forth against it is the cost of collection. I fail to see why the cost of collection should be greater in New Zealand than in any of the countries above mentioned. I further contend that in this Dominion the cost should be very much lower than in a densely populated country like Great Britain.

It is, in my opinion, reasonable to assume that the conditions prevailing in the Australian States are very similar to those in this country, and, further, that the policy of a much lower exemption adopted in Australia is sufficient ground for believing that the cost of collection is not excessive. In the case of Western Australia it is found that it pays the State to collect income-tax on an amount as low as even £100. I do not, however, suggest so low a limit.

If legislation provides a sufficiently heavy penalty for the failure to submit income-tax returns, then the cost of collection will be minimized, and should be no greater per taxpayer than it is at the present time. Moreover, the present system could be extended whereby every employer would be required to send in a return to the Taxation Department setting forth the salaries and wages of *all* employees.

It is impossible to secure any actual data on which to base an opinion as to the amount of revenue which would be derived from this source, but I contend that it may be reasonably assumed that the amount would be considerable, and would go towards relieving the undue burdens of other classes of taxpayers. I therefore recommend—

That the income-tax exemption to unmarried persons be fixed at £200.

A. Leigh Hunt.

RESERVATION.

Taxation of Companies.

I find myself unable to fully subscribe to the section, or to concur in the recommendation, of the majority report dealing with the above subject, and I consequently submit the following statement and recommendation:—

Present System of Graduated Taxation.—The present system of taxation of companies is both unscientific and unjust, the application of the tax graduated on the aggregate amount of profit being wrong in principle and unfair in practice. For instance, a shareholder with a small holding whose total income is less than the exemption (£300) pays through the company at the maximum rate of 8s. 9$\frac{3}{5}$d. in the pound equally with the large shareholder whose aggregate income would entail his paying the maximum rate. This results from the operation of the present system of graduation, by which a company is taxed on the aggregate amount of profit it makes, irrespective of the relation the profit bears to the amount of capital employed: that is to say, a company employing a large amount of capital and earning only a small percentage of profit has to pay the maximum tax (8s. 9$\frac{3}{5}$d. in the pound) because the amount of profit it makes exceeds a certain sum, whereas a group of companies making the same aggregate amount of profit would pay a much lower rate of tax, though their respective percentages of profit on capital employed are much greater. Large companies are commonly composed of a large number of holders of small interests, whereas the holdings in small companies are usually much greater. To levy a tax according to the height or weight of the taxpayer, or to revert to the old English tax, based on the number of windows in the taxpayer's dwelling, would be as reasonable as to perpetuate this method of graduated tax on companies.

Equitable System of Graduation.—The only equitable system of graduated taxation applicable to companies is a tax based on the relative proportion of profit to the shareholders' capital employed in the business: that is to say, a company earning 20 per cent. on its capital should bear a greater burden of taxation than a company earning only, say, 5 per cent., irrespective of the amount of the aggregate profit in each case. The fairness of this method of company-taxation was generally recognized, but evidence of the practicability of its application given before the Committee disclosed apparently insuperable difficulties. An alternative method which is equitable and readily practicable must therefore be found.