

holders, who have the right to claim on the Department for a refund where their taxable incomes are below the 2s. 6d. rate. The effect of this is that all public-body debentures issued in New Zealand bear a maximum graduated rate of 2s. 6d. instead of 8s. 9½d. in the pound. Similarly, the tax on debentures in public companies is the maximum rate of 3s. in the pound on the same basis. The Committee believes that one object of the differentiation was to encourage the lending of money to public bodies, but does not feel that this is a sufficiently strong reason for treating the resulting income differently from that received from other sources, thereby creating an anomaly, and, consequently, an injustice. Take as an example money lent to farmers to assist production, the interest on which may be taxed at a maximum graduated rate of 8s. 9½d. in the pound. This, in effect, adds to the cost of all money borrowed by farmers, and makes it extremely difficult for them to secure the accommodation they require. The Committee therefore unanimously resolved—

That interest received from investment in debentures of public bodies and companies should be taxed at the same rate as that from other sources, and the separate assessment under subsection (3) of section 112 of the Land and Income Tax Act, 1916, should be abolished.

TAXATION ON GOVERNMENT AND LOCAL-BODY TRADING CONCERNS.

56. The Committee has carefully considered the question of charging income-tax to public bodies and Government trading concerns. Such concerns in general have either replaced or come into competition with privately owned undertakings which have to pay income-tax at the usual rates. Certain public utilities are provided in one town by companies which pay income-tax, and in another town by municipal enterprise which escapes tax, with the result that the town served by a company has to pay increased charges for the services rendered in order to cover the tax, and indirectly, therefore, bears part of the taxation which the other town escapes. It is the opinion of the Committee that, if Government or local-body trading is to operate, it should do so on even terms with private enterprise, and should accordingly bear the charges and taxes to which private undertakings are subject. Under no other conditions is such competition fair, or in the interests of the community. Publicly owned undertakings are carried on with borrowed money secured on the credit of the ratepayers, and therefore cannot be taxed on the same basis as companies. It would therefore be necessary, for taxation purposes, to assume an income based upon a fixed percentage of the total amount of capital employed, and this might be fixed at a lower rate when capital is borrowed within the Dominion than when borrowed from foreign lenders. The following resolution was unanimously carried :—

That income-tax, equivalent approximately to the average rate paid by companies, be paid by all public bodies and Government trading and publicly owned utility undertakings, and the tax arrived at by assuming income based on a fixed percentage of the total amount of capital employed.

Evidence was given to the effect that the State Fire Insurance Department was placed on a better footing as far as income-tax on overseas treaty reinsurances is concerned than is the case with private fire-insurance companies operating in the Dominion. The Committee considered that all should be on the same footing, and unanimously resolved—

That in the matter of treaty reinsurances the State Fire Department should be placed on the same basis as regards taxation as private insurance companies.

PROPRIETARY LIFE-INSURANCE COMPANIES.

57. The question of the taxation of proprietary life-insurance companies was considered. The profits of these companies retained by the proprietors cannot be looked upon in the same light as the surpluses of mutual life-assurance associations, the whole of which are divisible amongst their policyholders, and which receive special consideration. The following resolution was carried unanimously :—

That the income of proprietary life-insurance companies should be treated, in assessing tax in the same manner as that of ordinary trading companies.

BORING OPERATIONS IN COAL COMPANIES.

58. Evidence was put before the Committee on the question of boring operations by coal-mining companies. Money spent in this direction is now treated as capital expenditure, and cannot be deducted as an expense for income-tax purposes. It was pointed out that there is a considerable difference between boring operations to test a new coalfield and boring operations that are continually required to locate the continuity of a coal-seam already being worked, and that this latter class of boring should be treated as working expenditure. This appeared reasonable, and the following resolution was passed unanimously :—

That boring operations in order to prove the position and continuity of a coal-seam already being worked should be treated as working expenditure.

WASTING ASSETS.

59. Representatives of the coal-mining industry claimed that they should be allowed a certain allowance for working out a wasting asset. The Committee considered this claim to be a reasonable one, and passed the following resolution unanimously :—

That a similar allowance be made to coal-mine owners for the exhaustion of coal as is now allowed to owners of areas of milling-bush for the exhaustion of timber.

DEPRECIATION OF GOODWILL ON LEASEHOLD.

60. Consideration was given to the question of allowances for income-tax purposes of the amount paid for the goodwill of a leasehold which must necessarily vanish during the currency of the lease.