

That is one particular advantage which the shareholders in a company have?—Yes.

Then, if a man is in business on his own account it is very difficult for him probably to get out of that business at short notice if he wishes to?—Yes.

On the other hand, if he is a shareholder in a company which is at all prosperous he has no difficulty in parting with his shares: you agree that that is another advantage?—Yes.

There is a further advantage which companies have over an individual trader: it is much easier for a company to finance than it is for a private trader?—Yes.

A company can finance by offering debentures over their assets, but that way is not open to the private trader. Then, the private trader has to provide for death and succession duties, but companies do not have to do that?—That is so.

Apart from any other consideration the private trader is at a great disadvantage in competition with companies owing to the aggregation of capital in a company giving it such financial strength that it can operate more economically than the private individual can?—Yes, it has the advantage of large-scale operations.

Then, of course, a company presumably, in the ordinary course of things, never dies. It has a continuity of existence, which, as Mr. Weston was implying, gives it a goodwill that cannot attach to the business of a private trader. So that all those advantages are something very valuable that the investor in a company gets as compared with the individual trader?—Yes.

I gather from your report that you do agree that as a matter of principle and as a matter of equity in relation to private traders companies as profit-earning units should be treated as separate entities for the purpose of taxation?—Yes.

In thinking the matter over this morning it seemed to me that to shift the incidence of taxation from companies to shareholders might press very hardly upon individuals. Take this example, which is a quite possible one: Take 200 shareholders each with £100 capital. Any one of them can do nothing worth while with his £100, but by mobilizing that capital they have got a capital of £20,000, making a profit of £5,000. Under the present system the company would be taxed on £5,000?—Yes.

And, according to your view, rightly so?—Yes.

But if a company were relieved from taxation, and it was shifted to the individuals, then the whole of those 200 shareholders—presuming that they have no other income of any consequence—would escape?—Yes.

And your Department would lose £1,000, roughly, of income-tax that has accrued from a profit actually earned?—Yes.

Have you any view as to the principal effect of shifting the tax from companies to shareholders on individual investments, bearing in mind that ever since there has been an income-tax investments have been made in companies with the knowledge that the companies have to pay the taxation, and that their dividends are consequently tax-free: have you any idea of what the effect would be?—I have not considered that. You mean as regards the value of shareholders' investments?

Yes?—I do not know. If the company did not make sufficient profit to make up the tax that would be assessed to the shareholders their share-holding would be depreciated considerably.

At any rate, there would be considerable dislocation in the value of shares?—Yes.

If the contention—that I do not agree with—that income-tax is passed on, then the converse should be true, that if the income-tax is taken off, profits should remain about the same?—Yes.

Therefore dividends could not be increased—

*Mr. Hunt.*] Yes, they would be increased. You say the tax is not passed on.

*Mr. Shirlcliffe.*] I am taking your view, Mr. Hunt, that if the tax is passed on, which I do not agree with, then the converse of that should be true, and if the income-tax is taken off the companies, and profits will be no greater because you have no income-tax to pass on, therefore you would do your business on a smaller margin of profit. Then you would have no larger dividends to declare?—(Witness) I do not know that that is so. There is a modification of that.

But, broadly speaking, my contention is correct, that taking the view that income-tax is passed on, then if no income-tax is to be passed on, therefore in all probability the dividends to shareholders would be no greater?—Probably not. May I refer to gas companies: the dividends of gas companies in Australia were less than the dividends from gas companies here during the period 1914–1923, though the taxation was less on the companies there.

If that were so, if that theory is correct, then investors would be at a distinct disadvantage as compared with their position to-day?—We had an illustration of that in connection with the amendment to the Land and Income Tax Act, 1917, when certain directors of companies that were trading with farmers came to the Government and asked to have their business premises exempted from the provision of joint holding that enables us to assess the share of the shareholder in a company's land along with his own, because they wanted more capital, and they found that none of their larger clients would invest by reason of the fact that the addition of the company's share to their other land increased the graduated land-tax by so much. That argument would apply to income-tax. That is an actual illustration we have had of the effect. Then, you were a member of the Committee when Mr. Phil. Nathan, in giving evidence, stated that he had tried to get a friend in Australia to invest £40,000 in a company, but this friend would not do so because the return from the company added to his other income would so much increase his income-tax.

*Mr. Begg.*] He was looking for cover to escape the tax?—Yes.

*Mr. Shirlcliffe.*] Then, we have got as a possible effect of individual investments in companies, the probabilities are that investments would be depreciated?—Yes.

What would be the effect upon the general body of taxpayers?—They would have to find more tax. I do not think there is any escape from that.

The money has got to be raised?—Yes.