

What is the reason?—The reason is that he is in a position to pay it.

That is hardly a reason?—The same thing applies to the justice or otherwise of a graduated tax. The man with a large income is deemed to be in a position to pay more per pound than the man in receipt of a small income.

But that part of his income has already paid the maximum?—That part, but not the remainder.

Take the case of a taxpayer who has a total income of £3,000; he draws £2,000 of that from dividends and £1,000 from other sources. Presumably the company he has invested in has paid maximum tax, which would mean some £580 probably. At present he would only have to pay his income-tax on £1,000?—Yes.

About £60. From his earnings income-tax has already been paid by the company?—The company's earnings.

It is his earnings after he gets it, and the tax has been paid beforehand. My point is that in that case that total income in the company's hands and his own under these circumstances will pay a great deal more than the highest maximum graduated tax?—I do not so regard it. You take that particular company. He may get £2,000 as the dividend. Actually his proportion, if you divided all the available profits, might be considerably more. The dividend he receives, to my mind, cannot be regarded as having paid tax itself. It is what is left over after tax has been deducted from the company's earned profit.

That is profit that comes to him, that £2,000?—Yes.

You do not regard that as having paid tax?—No.

Well, why not tax it again? You do regard it as having paid tax, surely?—

*The Chairman:* Tax has been paid in respect of it by the company. That particular income has not paid tax, but tax has been paid in respect of it by the company when paying on its total profits.

*Mr. Begg:* Yes, that is what I mean. Tax has been paid; therefore you do not want tax collected again from that particular man, but you want that to be used to raise the graduation on the balance of the income?—Yes.

Why? Is not that practically collecting tax again?—I do not so regard it.

It seems to me the distinction is a little difficult. The total tax paid on that £3,000—we will say £3,500, because tax has been paid in respect of it altogether; but the total income-tax paid in respect of that individual's income will certainly be greater than the graduation on £3,000 if it is paid straight out, will it not?—I do not quite follow you, but I think that what you say is correct. You are assuming that the company has paid tax at the scale of £10,000 and the individual, we will say, would pay at the scale of £3,000. Naturally with the graduated scale he would pay at a higher rate on £10,000 than on £3,000.

But the total tax collected will be greater than the graduated tax on an income of £3,000?—Yes, if it is at a higher graduation.

If the company paid on the maximum grade?—Yes.

So that more income-tax than a £3,000 income ought to pay will have been paid on that particular income?—I do not quite follow that.

*Mr. Clark:* That would depend on how the thing was calculated. If you gave credit for the amount of the tax paid by the company, it could not be more than the maximum graduation on the man's total income would bring.

*Mr. Begg:* The recommendation made is that "to arrive at the graduated rate for income-tax all forms of income be included—share dividends, tax-free debenture interest, and so on."

*Mr. Clark:* But that implies, as is done in all those cases, a credit for the tax already paid. It is applying the principle that we apply to the land-tax now. That I take to be Mr. Finch's proposal—that we apply the same principle to the income-tax that we apply to the land-tax in the case of joint ownership. It would merely ensure that the man would not pay less than the rate that his total income would produce.

*Mr. Begg (to Witness):* But does not this rather interfere with your theory of the company as an individual? If it is a separate individual you have nothing more to do with the income from it. You tax it, and that is the end of it?—As regards taxation on an income, yes.

You have repeatedly said that the company is an individual?—Yes.

If you tax an individual income, is not that the end of it as far as that income is concerned? Are you not vitiating the principle that a company is an entirely separate entity when you make that recommendation?—I do not think so.

*The Chairman:* Yes, it is a departure. For the purpose of paying income-tax on the profits you treat the company as a separate entity. But when you come to the question of the graduated tax on the shareholder's private income, for the purpose of that graduation and for that purpose only, you treat his dividends as part of his income?—That is so.

*The Chairman:* It is inconsistent. There is no doubt about it.

*Mr. Begg:* It is inconsistent. That is the point I want to establish. Is not this inconsistency being advocated because the graduated system has been vitiated by company-taxation? Is not this an attempt to get back partially to individual taxation—to get back to the proper principle, which has been vitiated to some extent by company-taxation?—I do not think so. The question of graduation hinges to a large extent on what the maximum amounts to. I think that the maximum amount is at present too high in the interests of the commercial community; but if graduation is justified, then the fixing of the maximum is absolutely arbitrary. You are coming down to the question whether graduation is justified or not.

No. What I am getting at is this: You are proposing not to deal with a company as an individual now. Your proposal in that particular instance is not to treat it as an individual, but as something else, as producing an income which is not finished with at that point at all, but which is