

going to be used in individual income returns later on in order to extract a higher graduation on the income of another individual. You propose to treat the company as an individual for one purpose, but not to treat it as an individual for another?—To some extent.

Is not your reason for doing that that you see the iniquity of treating the company as an individual?—No.

*Mr. Clark:* It is a concession to a sentimental objection. That is all it is—a concession to a sentimental objection raised about the large shareholder. It is quite inconsistent, but it is a concession to a sentimental objection.

*Mr. Begg:* It is quite inconsistent?

*Mr. Clark:* Yes.

*Mr. Begg.]* I thought it was, but I just wanted Mr. Finch to say so. I think you agree, Mr. Finch, that to some extent it is inconsistent?—To some extent.

You made some reference to the inequity of altering the system of taxation, the effect it would have on preference shareholders and on ordinary shareholders, and so on. Were not many of these preference shares taken up when income-tax was a negligible factor—when the maximum was 1s. 4d. in the pound?—Yes.

Now, the holders of those shares have been getting a tremendous advantage all along, have they not?—Yes.

If they lose that advantage now, what can they complain of? They have had that advantage for ten years. Can they really complain if they lose it for the future?—The question, to my mind, is the differentiation that is brought into being by the alteration—the differentiation between the preference and the ordinary shareholder, which was certainly never contemplated at any time.

It was not contemplated when the preference shareholder took up the 5½-per-cent. preference shares and the income-tax was 1s. 4d. that those preference shares would remain in the same position for the same income when taxation went up to 8s. 9d., and he would still get his return net. That was never foreseen?—The usual assumption on investment of capital in preference shares was that it would provide the shareholder with a fairly stable income. The ordinary shareholder takes up his shares subject to more violent fluctuations. If you alter the system of taxation in the way proposed you penalize the one class at the expense of the other.

But has not that class been penalized at the expense of the other for the last eight years?—In very few instances, as far as my knowledge goes, has the ordinary shareholder failed to receive his usual return—the return that could be expected—as a result of taxation.

Your objections here seem to me to be very largely—you must correct me if I am wrong—with regard to these fluctuations that would occur or might occur in different classes of shares?—Yes.

They are really objections to interfering with vested interests that have grown up under the present system. They are not questions of principle, but questions of vested interest that have grown up under the present system and would be interfered with if an alteration were made?—Is that a distinction or a difference? I do not quite follow.

I refer to the reasons that you give in your statement showing what would occur, how capital would be affected in different ways if a change were made?—Yes.

It is not a matter of principle at all. There is no principle involved. You say that certain interests have grown up under the present system which would be affected detrimentally if this system were altered?—Yes.

But could not these same reasons be applied in the case of the most vicious system of taxation you could imagine? Vested interests will grow up under any system and will suffer if it is altered?—Yes.

But you do not pretend that the mere fact that vested interests have grown up is a reason for not altering a bad thing?—No, certainly not.

So that these points you have made about the way in which different kinds of capital would be affected are really not matters of principle. These things would occur under any change of system?—It is possible.

You said just now that you did not know of any case in which ordinary shareholders had suffered as a result of taxation?—Yes.

You know of many companies whose tax has gone up, say, from £5,000 to £50,000 in the last six or eight years?—Yes.

You say the ordinary shareholder has not suffered?—What I say is that I do not know the company which has failed to pay its ordinary rate of dividend on ordinary shares because of the excessive amount of income-tax which it has been called upon to pay.

In those cases you assume that they have been able to earn that tax extra?—Yes.

They must have taken it out of their customers?—Yes, their margin of profit on their purchases was apparently much larger than normal.

In other words, it was passed on?—Pardon me. The first principle of a business is to earn profits. When it earns profits it pays its tax, but it does not necessarily put that tax, which it has paid paid out of its previous earnings, on to the price of commodities which it sells in the year.

But, whether that has been done or not, they have managed to collect it from the public somehow, have they not? If they have paid their ordinary dividend they must have done so?—They have made excessive profits.

The mere fact that the tax was there had nothing to do with that? That was an accident of the time?—Yes.

Then, in ordinary times that taxation would simply be a reduction of profits? These have been abnormal profits that they have been able to take from their customers and the public, but in normal times they would not be able to do that. That is your point, is it not?—I do not quite follow you.