

Mr. Shirlcliffe.] I take it, Mr. Clark, that you are suggesting an arbitrary exemption and not a percentage exemption: you suggest an arbitrary exemption of £500 or £1,000 for land-tax?—That is so. The 5 per cent. exemption would be for income-tax—5 per cent. on the unimproved value of the land.

The Chairman.] I understand, Mr. Clark, that you have also a memorandum covering your views on income-tax: perhaps you will read that to us now?—Yes; it is as follows:—

Income-tax.

Turning now to income-tax, that was introduced at the same time as the land-tax by the Land and Income Tax Assessment Act of 1891: at first income from land was excluded from income-tax. But from 1916 until this year tax was assessed on income from all sources. During that period land-tax was assessed in accordance with the land held by any man, whether in town or country; and income-tax was assessed on all income, whether derived from land or from any other source, and it is a purely personal tax—in fact, with the exception of South Australia and one or two other Australian States, it is the only purely personal income-tax in the British dominions. I am using the word “personal” in its strict legal meaning. There are certain anomalies—I always think a taxpayer would have a grievance if he had a perfect tax, because we would lose the use of the word “anomaly”—but they are not nearly so serious as they are alleged to be. I think most people consider it is an anomaly if they have to pay tax and cannot shift it over to somebody else. There is one that has been brought up and has been a good deal in evidence lately—that is, the disallowance of the loss derived from one operation, or one set of operations, being set against the income derived from another source; and I think the objection to that is sound, and it has been met by a recent amendment. It is a relic of the English Act under which incomes from different sources were assessed in somewhat different ways, and it was enacted partly with the idea of preventing a man from dissipating his income in hobbies or something of that sort. Then there was discussion of the assessment of the tax on the single year as against an average year. That point has been met by the amendment allowing losses to be carried forward, which comes into operation this year. Another point that has been raised is the differentiation between earned and unearned income. My opinion of that differentiation is that it is to a great extent sentimental. You cannot accurately define what is earned and what is unearned. I suppose there is a certain amount of unearned income in every income, in a sense. If you take earned income to mean income that a man can derive from his own efforts, see how it works out in the case of a professional man such as an eminent barrister or an eminent surgeon. A barrister cannot take up the cases and earn the fees he does if he has to do the whole of the work himself. He must depend on assistants or juniors to help him. It is the same with a surgeon. He could not perform the difficult operations or the number that he does perform during the day without the help of assistant surgeons and dressers, and so on. In fact, all our incomes and all our efforts are to a certain extent interdependent, and if you look at the thing logically I do not think you can differentiate between unearned and earned income. The question has cropped up in connection with pensions. There is a lot of soreness owing to the fact that pensions are treated as unearned income. In a sense they may be said to be earned incomes. A man has been working all his life to derive that income from pension. But if you define pensions as earned income, what are you going to do with the man who, instead of being able to contribute to a superannuation fund, has set aside a part of his income—invested it in company shares or in debentures or lodged it on deposit—to provide an income for his old age? Or a farmer who has been working all his life improving his farm, who has put perhaps twenty or thirty years into making improvements on his farm, and who sells it and invests the proceeds to keep him in his old age? Each of those incomes is just as much earned income as a pension, because, after all, a pension is strictly an income derived from an investment. The same reason applies to the assessment of life-insurance companies. If you are assessing the man who sets aside part of his income and invests it on his own account, why should you not assess a combination of individuals who are merely doing the same thing? The question of the assessment of interest on mortgages has been raised too, and that assessment has been compared with the assessment of income derived from debentures. On that point I think the income from debentures should be brought into line with all other income. There is always a danger, I think, in making exceptions in the assessment of income-tax. I think you have a clear demonstration of that in the exception from income-tax of the interest from war-loan debentures. It has had an effect on the financial position of this country which, I think, was never anticipated. I do not think it is advisable to increase the exemptions and to create further disturbance by excepting other income from the operation of the Income-tax Act. That is a matter that is temporary. It will adjust itself in time as these debentures are redeemed, and as the total amount of capital invested in other directions increases in proportion the effect will diminish and finally disappear. Then, the deduction of the land-tax paid has been claimed. It is considered a grievance that the deduction of the land-tax paid should not be allowed from the income-tax. My reply to that is that the land-tax is a charge against the revenue derived from the unimproved value of the land, which is supposed to be exempted by the 5-per-cent. exemption, and that, as a matter of fact, the holders of land in New Zealand who are assessed for income-tax are in a better position than they would be in Australia—that is, under the Federal law, where the 5-per-cent. exemption is not allowed, but where the land-tax is allowed as a deduction. Another point is that the general exemption should be decreased in the case of unmarried taxpayers. This would in New Zealand be practically ineffective. It means increased taxation of those who are already paying, to a greater extent than it does on those who are not paying, and who would be brought in, and it has been the experience of all tax-gatherers that there is such a thing as making the exemption too low. You want to look upon it not only from the point of view of the taxing authorities, but from the point of view of the other taxpayer. There is always a large number of those people with small incomes who can escape taxation. It is almost impossible