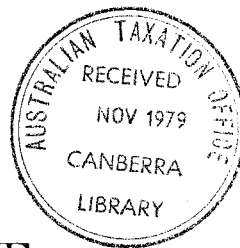


THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA.



FIRST REPORT

OF THE

ROYAL COMMISSION ON TAXATION,

TOGETHER WITH APPENDICES.

Presented by Command ; ordered to be printed, 2nd November, 1921.

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COMMONWEALTH OF AUSTRALIA.

GEORGE V, *by the Grace of God, of the United Kingdom of Great Britain and Ireland, and of the British Dominions beyond the Seas King, Defender of the Faith, Emperor of India.*

TO *Our Trusty and Well-beloved* WILLIAM WARREN KERR, C.B.E., JOHN JOSEPH GARVAN, JOHN JOLLY, JOHN GIBSON FARLEIGH, WILLIAM THOMAS MISSINGHAM, JOHN THOMSON, STEPHEN MILLS, C.M.G.

GREETING :

KNOW YE that We do by these Our Letters Patent, issued in Our name by Our Governor-General of Our Commonwealth of Australia, acting with the advice of Our Federal Executive Council, and in pursuance of the Constitution of Our said Commonwealth, the Royal Commissions Act 1902-1912, and all other powers him thereunto enabling, appoint you to be Commissioners to inquire into and report upon the incidence of Commonwealth taxation, and into and upon any amendments which are necessary or desirable with a view to placing the system of taxation upon a sound and equitable basis, having regard generally to the public interest, and particularly to—

1. *The equitable distribution of the burdens of taxation ;*
2. *The harmonization of Commonwealth and State taxation ;*
3. *The giving to primary producers of special consideration as regards the assessment of income tax, particularly in relation to losses resulting from adverse weather conditions ; and*
4. *The simplification of the duties of taxpayers in relation to returns and in relation to objections and appeals.*

AND WE APPOINT YOU, *the said* WILLIAM WARREN KERR, C.B.E., *to be* Chairman. AND WE REQUIRE you to report as soon as possible to Our Governor-General in and over Our said Commonwealth the result of your inquiries into the matters intrusted to you by these Our Letters Patent.

(SEAL.) WITNESS Our Right Trusty and Well-beloved SIR RONALD CRAUFURD MUNRO FERGUSON, a Member of Our Most Honorable Privy Council, Knight Grand Cross of Our Most Distinguished Order of Saint Michael and Saint George, Our Governor-General and Commander-in-Chief in and over Our Commonwealth of Australia, this tenth day of September in the year of Our Lord One thousand nine hundred and twenty and in the eleventh year of Our reign.

R. C. M. FERGUSON,
Governor-General.

By His Excellency's Command,
W. M. HUGHES,
Prime Minister.

Entered on record by me, in Register of Patents, No. 25, page 11, this twenty-fourth day of September, One thousand nine hundred and twenty.

J. G. McLAREN.

COMMONWEALTH OF AUSTRALIA.

GEORGE V., by the Grace of God, of the United Kingdom of Great Britain and Ireland and of the British Dominions beyond the Seas King, Defender of the Faith, Emperor of India.

TO Our Trusty and Well-beloved WILLIAM WARREN KERR, C.B.E., JOHN JOSEPH GARVAN, JOHN JOLLY, JOHN GIBSON FARLEIGH, WILLIAM THOMAS MISSINGHAM, JOHN THOMSON, STEPHEN MILLS, C.M.G., and MAURICE BOYCE DUFFY.

GREETING :

WHEREAS by Letters Patent (hereinafter referred to as "the said Letters Patent") issued in Our name by Our Governor-General of Our Commonwealth of Australia on the tenth day of September, in the year of Our Lord One thousand nine hundred and twenty, We did, with the advice of Our Federal Executive Council, and in pursuance of the Constitution of Our said Commonwealth, the Royal Commissions Act 1902-1912, and all other powers Us thereunto enabling, appoint you, the said WILLIAM WARREN KERR, C.B.E., JOHN JOSEPH GARVAN, JOHN JOLLY, JOHN GIBSON FARLEIGH, WILLIAM THOMAS MISSINGHAM, JOHN THOMSON, and STEPHEN MILLS, C.M.G., to be Commissioners to inquire into and report upon the incidence of Commonwealth taxation and the other matters which are more particularly specified in the said Letters Patent : AND WHEREAS it is desirable to appoint you the said MAURICE BOYCE DUFFY to be one of the Commissioners to inquire into and report upon the incidence of Commonwealth taxation and the other matters which are more particularly specified in the said Letters Patent : AND WHEREAS it is desirable—

- (a) that at any meeting of the Commissioners appointed in pursuance of the said Letters Patent and these Letters Patent (hereinafter referred to as "the said Commissioners") five Commissioners shall be sufficient to constitute a quorum and may proceed with the inquiry under the said Letters Patent notwithstanding the absence of the other Commissioners ;
- (b) that in the event of the absence of the Chairman from any meeting of the said Commissioners the Commissioners present may appoint one of their number to act as Chairman during such absence ; and
- (c) that in the event of the votes given on any question at any meeting of the said Commissioners being equal, the Chairman, if present, and if the Chairman is not present then the Commissioner appointed to act as Chairman in his absence, shall have a second or casting vote :

NOW THEREFORE KNOW YE THAT We do by these Our Letters Patent issued in Our name by Our said Governor-General, acting with the advice of the Federal Executive Council, and in pursuance of the Constitution of Our said Commonwealth, the Royal Commissions Act 1902-1912, and all other powers Us thereunto enabling, appoint you the said MAURICE BOYCE DUFFY to be one of the Commissioners to inquire into and report upon the incidence of Commonwealth taxation and the other matters which are more particularly specified in the said Letters Patent : AND We direct that at any meeting of the said Commissioners five Commissioners shall be sufficient to constitute a quorum and may proceed with the inquiry under the said Letters Patent notwithstanding the absence of the other Commissioners : AND We further direct that in the event of the absence of the Chairman from any meeting of the said Commissioners the Commissioners present may appoint one of their number to act as Chairman during such absence : AND We further direct that in the event of the votes given on any question at any meeting of the said Commissioners being equal, the Chairman, if present, and if the Chairman is not present then the Commissioner appointed to act as Chairman in his absence, shall have a second or casting vote.

IN TESTIMONY WHEREOF We have caused these Our Letters to be made Patent and the Seal of Our said Commonwealth to be thereunto affixed.

WITNESS Our Trusty and Well-beloved HENRY WILLIAM BARON FORSTER, a Member of Our Most Honorable Privy Council, Knight Grand Cross of Our Most Distinguished Order of Saint Michael and Saint George, Our Governor-General and Commander-in-Chief in and over Our Commonwealth of Australia, this twenty-seventh day of October, in the year of Our Lord One thousand nine hundred and twenty, and in the eleventh year of Our reign.

(SEAL.)

FORSTER,
Governor-General.

By His Excellency's Command,
(Sgd.) W. M. HUGHES,
Prime Minister.

Entered on record by me in Register of Patents, No. 25, page 16, this ninth day of November, One thousand nine hundred and twenty.

(Sgd.) M. L. SHEPHERD.

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GEORGE V., by the Grace of God, of the United Kingdom of Great Britain and Ireland, and of the British Dominions beyond the Seas King, Defender of the Faith, and Emperor of India.

TO Our Trusty and Well-beloved WILLIAM WARREN KERR, C.B.E., JOHN JOSEPH GARVAN, JOHN JOLLY, JOHN GIBSON FARLEIGH, WILLIAM THOMAS MISSINGHAM, JOHN THOMSON, and STEPHEN MILLS, C.M.G.

GREETING :

WHEREAS it is expedient in the public interest that full and careful inquiry should be made into the incidence of taxation, and into and upon any amendments which are necessary or desirable, with a view to placing the system of taxation upon a sound and equitable basis, having regard to the public interest and particularly to—

1. The equitable distribution of the burdens of taxation.
2. The harmonization of Commonwealth and State taxation.
3. The giving to primary producers of special consideration as regards the assessment of income tax, particularly in relation to losses resulting from adverse weather conditions ; and
4. The simplification of the duties of taxpayers in relation to returns and in relation to objections and appeals.

NOW, THEREFORE, KNOW YE that We, reposing especial trust in your zeal, knowledge, learning, industry, discretion, and ability, do, by these presents, by and with the advice of Our Executive Council of Our State of Queensland, constitute and appoint you, the said WILLIAM WARREN KERR, JOHN JOSEPH GARVAN, JOHN JOLLY, JOHN GIBSON FARLEIGH, WILLIAM THOMAS MISSINGHAM, JOHN THOMSON, and STEPHEN MILLS, to be Our Commissioners for the purpose of inquiring into the matters hereinbefore mentioned : AND We do hereby require and enjoin you to make diligent inquiry into the matters aforesaid, and for that purpose to exercise all the powers conferred upon a Commission by " The Official Inquiries Evidence Act of 1910 " : AND We do furthermore command and enjoin you to summon before you and to examine all such persons as may appear to you able to inform you concerning the premises, and to cause to be taken down and reduced in writing the evidence of the several witnesses that may appear before you, and such evidence, together with a full and faithful report touching the matters aforesaid, to transmit to the Honorable the Premier and Chief Secretary of Our said State : AND We do hereby appoint you, the said WILLIAM WARREN KERR, to be Chairman of this Our said Commission.

IN TESTIMONY WHEREOF, We have caused the Public Seal of Our said State to be hereunto affixed.

(SEAL.) WITNESS Our Right Trusty and Well-beloved Counsellor SIR MATTHEW NATHAN, Major on the Retired List of Our corps of Royal Engineers, having the brevet rank of Lieutenant-Colonel in Our Army, Knight Grand Cross of Our Most Distinguished Order of Saint Michael and Saint George, Governor of Our State of Queensland and its Dependencies, in the Commonwealth of Australia, at Government House, Brisbane, this twenty-fourth day of February, in the year of Our Lord One thousand nine hundred and twenty-one, and in the eleventh year of Our reign.

MATTHEW NATHAN.

By His Excellency's Command,
EDWARD G. THEODORE.

Entered on record by me in the Register of Patents, No. 15, page 4, this twenty-fourth day of February, A.D., One thousand nine hundred and twenty-one.

P. J. M. McDERMOTT,
Under Secretary, Chief Secretary's Department.

COMMISSION.

GEORGE V., by the Grace of God, of the United Kingdom of Great Britain and Ireland, and of the British Dominions beyond the Seas King, Defender of the Faith, and Emperor of India.

TO Our Trusty and Well-beloved WILLIAM WARREN KERR, C.B.E., JOHN JOSEPH GARVAN, JOHN JOLLY, JOHN GIBSON FARLEIGH, WILLIAM THOMAS MISSINGHAM, JOHN THOMSON, and STEPHEN MILLS, C.M.G., and MAURICE BOYCE DUFFY.

GREETING :

WHEREAS it is expedient in the public interest that full and careful inquiry should be made into the incidence of taxation, and into and upon any amendments which are necessary or desirable, with a view to placing the system of taxation upon a sound and equitable basis, having regard generally to the public interest and particularly to—

1. The equitable distribution of the burdens of taxation.
2. The harmonization of Commonwealth and State taxation.
3. The giving to primary producers of special consideration as regards the assessment of income tax, particularly in relation to losses resulting from adverse weather conditions ; and
4. The simplification of the duties of taxpayers in relation to returns and in relation to objections and appeals.

NOW THEREFORE KNOW YE that We, reposing especial trust in your zeal, knowledge, learning, industry, discretion, and ability, do by these presents, by and with the advice of Our Executive Council of Our State of Queensland, constitute and appoint you, the said WILLIAM WARREN KERR, JOHN JOSEPH GARVAN, JOHN JOLLY, JOHN GIBSON FARLEIGH, WILLIAM THOMAS MISSINGHAM, JOHN THOMSON, STEPHEN MILLS, and MAURICE BOYCE DUFFY, to be Our Commissioners for the purpose of inquiring into the matters hereinbefore mentioned : AND We do hereby require and enjoin you to make diligent inquiry into the matters aforesaid, and for that purpose to exercise all the powers conferred upon a Commission by "The Official Inquiries Evidence Act of 1910" : AND We do furthermore command and enjoin you to summon before you and to examine all such persons as may appear to you able to inform you concerning the premises, and to cause to be taken down and reduced in writing the evidence of the several witnesses that may appear before you, and such evidence, together with a full and faithful report touching the matters aforesaid, to transmit to the Honorable the Premier and Chief Secretary of Our said State : AND We do hereby appoint you, the said WILLIAM WARREN KERR, to be Chairman of this Our said Commission.

IN TESTIMONY WHEREOF, We have caused the Public Seal of Our said State to be hereunto affixed.

WITNESS Our Right Trusty and Well-beloved Counsellor SIR MATTHEW NATHAN, Major on the Retired List of Our corps of Royal Engineers, having the brevet rank of Lieutenant-Colonel in Our Army, Knight Grand Cross of Our Most Distinguished Order of Saint Michael and Saint George, Governor of Our State of Queensland and its Dependencies, in the Commonwealth of Australia, at Government House, Brisbane, this eighteenth day of March, in the year of Our Lord One thousand nine hundred and twenty-one, and in the eleventh year of Our reign.

(SEAL.)

MATTHEW NATHAN.

By His Excellency's Command,
EDWARD G. THEODORE.

Entered on record by me in the Register of Patents, No. 15, page 13, this eighteenth day of March, A.D., One thousand nine hundred and twenty-one.

P. J. M. McDERMOTT,
Under Secretary, Chief Secretary's Department.

ROYAL COMMISSION.

GEORGE V., by the Grace of God, of the United Kingdom of Great Britain and Ireland, and of the British Dominions beyond the Seas King, Defender of the Faith, Emperor of India.

TO Our Trusty and Well-beloved WILLIAM WARREN KERR, C.B.E, JOHN JOLLY, JOHN GIBSON FARLEIGH, WILLIAM THOMAS MISSINGHAM, JOHN THOMSON, STEPHEN MILLS, C.M.G., and MAURICE BOYCE DUFFY.

GREETING :

WHEREAS it is expedient in the public interest that full and careful inquiry should be made into the incidence of taxation, and into and upon any amendments which are necessary or desirable, with a view to placing the system of taxation upon a sound and equitable basis, having regard generally to the public interest and particularly to—

1. The equitable distribution of the burdens of taxation.
2. The harmonization of Commonwealth and State taxation.
3. The giving to primary producers of special consideration as regards the assessment of income tax, particularly in relation to losses resulting from adverse weather conditions ; and
4. The simplification of the duties of taxpayers in relation to returns and in relation to objections and appeals.

NOW THEREFORE KNOW YE that We, reposing especial trust in your zeal, knowledge, learning, industry, discretion, and ability, do, by these presents, by and with the advice of Our Executive Council of Our State of Tasmania, constitute and appoint you, the said WILLIAM WARREN KERR, JOHN JOLLY, JOHN GIBSON FARLEIGH, WILLIAM THOMAS MISSINGHAM, JOHN THOMSON, STEPHEN MILLS, and MAURICE BOYCE DUFFY, to be Our Commissioners for the purpose of inquiring into the matters hereinbefore mentioned : AND We do hereby require and enjoin you to make diligent inquiry into the matters aforesaid, and for that purpose to exercise all the powers conferred upon a Commission by law : AND We do furthermore command and enjoin you to summon before you and to examine all such persons as may appear to you able to inform you concerning the premises, and to cause to be taken down and reduced in writing the evidence of the several witnesses that may appear before you, and such evidence, together with a full and faithful report touching the matters aforesaid, to transmit to the Honorable the Premier and Chief Secretary of Our said State : AND We do hereby appoint you, the said WILLIAM WARREN KERR, to be Chairman of this Our said Commission.

IN TESTIMONY WHEREOF, We have caused the Public Seal of Our said State to be hereunto affixed.

(SEAL.) WITNESS Our Right Trusty and Well-beloved SIR WILLIAM LAMONE ALLARDYCE, Knight Commander of the Most Distinguished Order of Saint Michael and Saint George, Governor in and over Our said State of Tasmania and its Dependencies, in the Commonwealth of Australia, at Hobart, in Our said State, the seventh day of April, One thousand nine hundred and twenty-one in the seventh year of Our reign.

W. L. ALLARDYCE,
Governor.

By His Excellency's Command,
W. H. LEE,
Chief Secretary.

GEORGE V., *by the Grace of God, of the United Kingdom of Great Britain and Ireland and of the British Dominions beyond the Seas King, Defender of the Faith, Emperor of India.*

TO Our Trusty and Well-beloved WILLIAM WARREN KERR, C.B.E., JOHN JOSEPH GARVAN, JOHN JOLLY, JOHN GIBSON FARREIGH, WILLIAM THOMAS MISSINGHAM, JOHN THOMSON, STEPHEN MILLS, C.M.G.

GREETING :

KNOW YE that We do by these Our Letters Patent, issued in Our name by Our Governor in and over the State of Western Australia, in the Commonwealth of Australia, acting with the advice of the Executive Council, appoint you to be Commissioners to inquire into and report upon the incidence of Commonwealth taxation, and into and upon any amendments which are necessary or desirable with a view to placing the system of taxation upon a sound and equitable basis, having regard generally to the public interest, and particularly to—

1. The equitable distribution of the burdens of taxation.
2. The harmonization of Commonwealth and State taxation.
3. The giving to primary producers of special consideration as regards the assessment of income tax, particularly in relation to losses resulting from adverse weather conditions ; and
4. The simplification of the duties of taxpayers in relation to returns and in relation to objections and appeals.

AND WE APPOINT YOU, the said WILLIAM WARREN KERR, C.B.E., to be Chairman : AND WE REQUIRE YOU to report as soon as possible to Our Governor in and over the said State of Western Australia, the result of your inquiries into the matters intrusted to you by these Our Letters Patent, which We declare to be a Royal Commission to which the "Royal Commissioners' Powers Act 1902" applies.

(SEAL.) WITNESS Our Right Trusty and Well-beloved SIR FRANCIS ALEXANDER NEWDEGATE, Knight Commander of the Most Distinguished Order of Saint Michael and Saint George, Governor in and over the State of Western Australia and its Dependencies in the Commonwealth of Australia, this eleventh day of May in the year of Our Lord One thousand nine hundred and twenty-one.]

F. A. NEWDEGATE,
Governor.

By His Excellency's Command,
JAMES MITCHELL,
Premier.

GOD SAVE THE KING.

ROYAL COMMISSION.

GEORGE V., *by the Grace of God, of the United Kingdom of Great Britain and Ireland and of the British Dominions beyond the Seas King, Defender of the Faith, Emperor of India.*

TO Our Trusty and Well-beloved WILLIAM WARREN KERR, C.B.E., JOHN JOSEPH GARVAN, JOHN JOLLY, JOHN GIBSON FARLEIGH, WILLIAM THOMAS MISSINGHAM, JOHN THOMSON, STEPHEN MILLS, C.M.G., and MAURICE BOYCE DUFFY.

GREETING :

WHEREAS by Letters Patent (hereinafter referred to as "the said Letters Patent") issued in Our name by Our Governor in and over the State of Western Australia, in the Commonwealth of Australia, on the eleventh day of May, in the year of Our Lord One thousand nine hundred and twenty-one, WE DID, with the advice of Our Executive Council, APPOINT YOU, the said WILLIAM WARREN KERR, C.B.E., JOHN JOSEPH GARVAN, JOHN JOLLY, JOHN GIBSON FARLEIGH, WILLIAM THOMAS MISSINGHAM, JOHN THOMSON, and STEPHEN MILLS, C.M.G., to be Commissioners to inquire into and report upon the incidence of Commonwealth taxation and the other matters which are more particularly specified in the said Letters Patent : AND WHEREAS it is desirable to appoint you, the said MAURICE BOYCE DUFFY to be one of the Commissioners to inquire into and report upon the incidence of Commonwealth taxation and the other matters which are more particularly specified in the said Letters Patent : AND WHEREAS it is desirable—

- (a) That at any meeting of the Commissioners appointed in pursuance of the said Letters Patent and these Letters Patent (hereinafter referred to as "the said Commissioners"), five Commissioners shall be sufficient to constitute a quorum and may proceed with the inquiry under the said Letters Patent, notwithstanding the absence of the other Commissioners ;
- (b) that in the event of the absence of the Chairman from any meeting of the said Commissioners, the Commissioners present may appoint one of their number to act as Chairman during such absence ; and
- (c) that, in the event of the votes given on any question at any meeting of the said Commissioners being equal, the Chairman, if present, and if the Chairman is not present then the Commissioner appointed to act as Chairman in his absence, shall have a second or casting vote :

NOW THEREFORE KNOW YE THAT We do, by these our Letters Patent issued in Our name by Our said Governor, acting with the advice of the Executive Council, appoint you, the said MAURICE BOYCE DUFFY, to be one of the Commissioners to inquire into and report upon the incidence of Commonwealth taxation and the other matters which are more particularly specified in the said Letters Patent : AND We direct that at any meeting of the said Commissioners five Commissioners shall be sufficient to constitute a quorum and may proceed with the inquiry under the said Letters Patent, notwithstanding the absence of the other Commissioners : AND We further direct that, in the event of the absence of the Chairman from any meeting of the said Commissioners, the Commissioners present may appoint one of their number to act as Chairman during such absence : AND We further direct that, in the event of the votes given on any question at any meeting of the said Commissioners being equal, the Chairman, if present, and if the Chairman is not present then the Commissioner appointed to act as Chairman in his absence, shall have a second or casting vote.

(L.S.) WITNESS Our Right Trusty and Well-beloved SIR FRANCIS ALEXANDER NEWDEGATE, Knight Commander of the Most Distinguished Order of Saint Michael and Saint George, Governor in and over the State of Western Australia and its Dependencies, in the Commonwealth of Australia, this twenty-eighth day of September, in the year of Our Lord One thousand nine hundred and twenty-one.

F. A. NEWDEGATE,
Governor.

By His Excellency's Command,
JAMES MITCHELL,
Premier.

GOD SAVE THE KING.

FIRST REPORT

OF THE

ROYAL COMMISSION ON TAXATION

TOGETHER WITH APPENDICES.

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COMMONWEALTH OF AUSTRALIA.

FIRST REPORT OF THE COMMISSIONERS.

INTRODUCTION.

To His Excellency the Right Honorable HENRY WILLIAM, BARON FORSTER, a Member of His Majesty's Most Honorable Privy Council, Knight Grand Cross of the Most Distinguished Order of Saint Michael and Saint George, Governor-General and Commander-in-Chief of the Commonwealth of Australia.

MAY IT PLEASE YOUR EXCELLENCY :

We, the Commissioners appointed by Royal Letters Patent to inquire into and report upon the incidence of Commonwealth taxation, and into and upon any amendments which are necessary or desirable with a view to placing the system of taxation upon a sound and equitable basis, having regard generally to the public interest, and particularly to—

- (1) The equitable distribution of the burdens of taxation ;
- (2) The harmonization of Commonwealth and State taxation ;
- (3) The giving to primary producers of special consideration as regards the assessment of income tax, particularly in relation to losses resulting from adverse weather conditions ; and
- (4) The simplification of the duties of taxpayers in relation to returns and in relation to objections and appeals,

have the honour to report as follows :—

2. Mr. John Joseph Garvan, originally appointed on the Commission, resigned, as he found himself unable to act. Before the Commission commenced its work, Mr. Maurice Boyce Duffy was appointed a member.

3. Upon our appointment we took the earliest opportunity of assembling in Melbourne to make the necessary preliminary arrangements for the investigation, and we held our first meeting on the 27th October, 1920, and the first public sitting to take evidence, at Melbourne, on the 8th November, 1920.

4. With a view to the establishment of closer relationship between the Commonwealth and the State authorities in connexion with the investigation, the Prime Minister made certain representations to the State Governments, as a result of which Royal Letters Patent, in terms similar to those of the Commonwealth Letters Patent, were issued to members of the Commission by the Governors of Queensland, Western Australia, and Tasmania.

5. In view of the terms of reference to the Commission, which necessarily involved consideration not only of Commonwealth but also of State taxation, the Commission soon after its appointment wrote to the Premiers of the several States, asking that facilities be given for carrying out the inquiry, and particularly that State officers whose duties placed them in a position to afford information on the subject of taxation should be instructed to render assistance in any form desired by the Commission, including the appearance of selected officers as witnesses. Favorable replies were received from all the Premiers, and the Commission was afforded the fullest facilities for conducting its investigation.

6. At all times during our investigation, the fullest opportunity has been given to witnesses throughout the Commonwealth of placing before us their views on taxation. Evidence was taken in all the capital cities of Australia, and up to the present date we have held in all 118 public sittings, and have examined 191 witnesses.

7. In detail the public sittings for examination of witnesses, and the number of witnesses examined were :—

				Sittings.		Witnesses.
Melbourne	..	..	..	43	..	61
Sydney	..	..	..	24	..	47
Brisbane	..	..	..	13	..	22
Adelaide	..	..	..	10	..	20
Perth and Kalgoorlie	..	..	..	15	..	26
Hobart	..	..	..	13	..	15

8. In order that as wide a representation of views as possible should be secured, members of Parliament (both Commonwealth and State) and a large number of representative associations were invited to nominate witnesses. At the commencement of our investigation witnesses were somewhat unprepared to give evidence, owing to short notice, and the intricacies of the subject, but there was later no lack of evidence offering. In order to facilitate the giving of evidence in as clear and concise a manner as possible, witnesses were requested to submit their evidence-in-chief in writing, and in the majority of cases this was done. In many instances the evidence submitted revealed careful preparation and collaboration, and its manner of presentation was appreciated by the Commission.

9. A complete list of witnesses—representative, official, and individual—appears as Appendix I.

In addition to the oral evidence, we have received and given full consideration to a large volume of correspondence and official memoranda relating to the subject of our investigations.

10. Early in our inquiry a Questionnaire was prepared for submission to the Commissioners and Deputy Commissioners of Taxation. The Questionnaire (a copy of which forms Appendix No. 2 to this Report) will give some indication of the wide scope of the inquiry.

In the present Report we have dealt with the following subjects only, viz. :—

- (1) The giving to primary producers of special consideration as regards the assessment of income tax, particularly in relation to losses resulting from adverse weather conditions.
- (2) Taxation of profits on the sale of mining leases.
- (3) Bonus shares.
- (4) Board of Appeal under the Income Tax Act.
- (5) Double Income Tax.
- (6) Taxation of lessees' interests in Crown leaseholds.
- (7) The General Exemption and Allowance for Children.

11. We have had many conferences in respect of these subjects, and our recommendations thereon have been arrived at only after careful examination of the evidence and consideration of the principles which, in our opinion, should govern decisions.

12. The terms of our reference embrace many other subjects of great importance, which will be dealt with in a later Report.

SECTION I.

“THE GIVING TO PRIMARY PRODUCERS OF SPECIAL CONSIDERATION AS REGARDS THE ASSESSMENT OF INCOME TAX, PARTICULARLY IN RELATION TO LOSSES RESULTING FROM ADVERSE WEATHER CONDITIONS.”

13. In its inquiry into this subject the Commission has been assisted by the very full and carefully prepared evidence of a large number of witnesses, who, approaching it from various points of view, gave copious illustrations of the harsh and inequitable incidence of the present system: probably no matter has been more exhaustively dealt with. This may be traceable in some measure to the prominence given to it by frequent Parliamentary references and by the debate in the House of Representatives on 22nd April, 1920, when the following resolution was carried :—

“This House is of opinion that the fairest method of calculation for purposes of the Federal Income Tax as applied to primary producers would be upon a basis of five years' operations;”

but, in greater measure, probably to the urgency of the question as it relates to primary producers as well as other taxpayers, and the widespread cry for amelioration of a tax which is felt to fall with undue weight on certain important sections of the people. In considering the “giving to primary producers of special consideration as regards assessment of Income Tax, particularly in relation to losses resulting from adverse weather conditions” one cannot exclude a large number of taxpayers engaged in other pursuits, who also suffer, perhaps less severely but not less frequently, irregular and recurring reverses due to circumstances over which they have no control. Though not in the language used in the official reference, its underlying conception may be deemed an invitation to consider the question not only as it relates to the primary producer but as it affects other classes of the community. To inquire what “special consideration” should be given to one class presupposes some knowledge of the general consideration extended to other classes.

EXISTING CONDITIONS.

14. The conditions as they now exist are too well known to need elaborate statement. The primary industries of the country, including amongst others those of the grazier, farmer, dairyman, vigneron, orchardist, and miner, are the principal sources of the country's wealth, and are exposed to violent seasonal and weather changes from which indoor industries are largely protected.

Droughts—occasionally stretching with rigorous sway over an area, almost co-extensive with the pastoral and agricultural areas of the continent, oftener confined to less extensive fields—recur at irregular and frequent intervals from causes beyond prediction and beyond control, and hold the land and the fate of its occupants for long periods in a paralyzing grip. Nature, variable in mood, visits other scenes at other times with devastating floods and pestilences, before which are swept the hard-earned savings of years of toil and thrift.

15. These vicissitudes of fortune are not only more extreme and difficult to forecast than the changes which mark manufacturing industries; but unlike the manufacturer, who when faced with a declining demand can more or less completely meet the situation by restricting output and reducing his manufacturing expenses, the primary producer has to encounter, not diminished income only, but increased expenses involved in removing his stock, seeking fresh pastures, and purchasing fodder to maintain, if possible, the remnant of a herd or flock, and he is sometimes so reduced as to be dependent on public funds or State aid for seed wheat or other forms of assistance, with which to begin the struggle anew when nature is more benign.

EVIDENCE SUBMITTED.

16. In support of the general evidence that impoverished years recur with frequency there were placed before the Commission, by primary producers and their representatives, actual cases which clearly exhibit the added hardship imposed by the present system of taxation, in which each year is treated as a watertight compartment cut off from its neighbours on either side, and subjected to taxation up to the full limit of its earning, irrespective of what has occurred in the earlier years. The Commission also obtained particulars of a large number of actual cases from pastoral and agricultural finance institutions and other sources, and had under examination also 50 cases prepared by the Federal Taxation Authorities from taxpayers' original returns, so that they had in all under scrutiny from 130 to 150 actual cases founded on dependable records, in addition to a number of hypothetical cases which were submitted by various witnesses. Only a few of these can be cited here as examples in order to compare their treatment with that which would be meted out in the case of a person of steady income who throughout a corresponding period had received the same aggregate income. These examples may be introduced with an extract from the evidence of a witness representing the Federated Graziers' Association of Australia who said :—

An example is, however, given illustrating the *actual experience of a grazier* in a large way, which will show what the actual result has been in seven years' operations.

	£	s.	d.	£	s.	d.
1st year—Profit	24,015	8	1			
2nd „ „	28,804	14	8			
3rd „ Loss .. ..	..	..	..	34,645	19	0
4th „ „ .. ..	..	..	..	67,255	2	8
5th „ Profit	4,162	12	9			
6th „ „	55,531	4	8			
7th „ „	45,835	0	0			

The net result of the seven years' operations is a profit of £56,447 18s. 6d., or an average of £8,063 19s. 9d. per annum. The assets at stake in the business varied in value from £300,000 to £450,000. In the example I have just quoted to you, it has been shown that the net result of seven years' operations was a profit of £56,447.

Taking the result of the sixth and seventh years, which showed profits of £55,531 4s. 8d. and £45,835 respectively, the unfortunate earner of this income finds that in those two years alone his Federal Income Tax on those profits amounts to £38,246 16s. 2d. and the State (New South Wales) Income Tax to £6,961 15s. 2d., that is £45,208 11s. 4d. in all.

17. The contrast between the treatment of such a taxpayer and that of a person deriving during the same period a steady income of equal volume from personal exertion is seen in the following table :—

	Grazier's Income.		Grazier's Federal Tax.	City Man's Income.	City Man's Federal Tax.
	Income.	Loss.			
	£ s. d.	£ s. d.	£ s. d.	£	£ d. s.
1st year	24,015 8 1	..	8,704 0 2	8,064	1,899 18 1
2nd „	28,804 14 8	..	10,747 4 10	8,064	1,899 18 1
3rd „ .. ..	..	34,645 19 0	..	8,064	1,899 18 1
4th „ .. ..	..	67,255 2 8	..	8,064	1,899 18 1
5th „	4,162 12 9	..	550 16 6	8,064	1,899 18 1
6th „	55,531 4 8	..	22,147 10 11	8,064	1,899 18 1
7th „	45,835 0 0	..	18,011 12 0	8,064	1,899 18 1
Profits	158,349 0 2	101,901 1 8			
Less Losses	101,901 1 8	..			
Net Profit	56,447 18 6	..	60,161 4 5	56,448	13,299 6 7

18. The figures of the grazier's income in the above table are those of an actual case, as supplied by the witness. The tax is in each instance worked out at the rates at present chargeable.

19. The primary producer referred to in the table, taxed to the full extent in the profitable years without any set-off in respect of the years of loss, would be called upon to pay a total tax for the period amounting to £60,161 4s. 5d., which is £3,713 5s. 11d. more than the total net profit derived by him from the whole seven years' operations, so that not only is his labour of those years spent for that which is nought, but the result is less than nought, because, as shown in the above table, the Federal tax amounts to more than the taxpayer has made. The State tax accentuates this taxpayer's misfortune by requiring a further payment, and he had also to pay both Federal and State Land Taxes.

20. Our Federal system of taxation provides for steeply graduated rates. On the higher incomes, exceeding £7,600, the rate on the final £1 reaches a fraction over 8s. 6d. In the above example, Federal Income Tax on the steady income of £8,064 per annum is computed at the average rate of 53.5447 pence per £, but the tax on the primary producers' fluctuating irregular income of similar aggregate amount works out to 255.8 pence per £, more than 4½ times (4.5236) the other, that is, not only does the Federal Income Tax take every penny of the income, but over and above the 20s. it demands in respect of each £ of the income a further 15.8 pence, which further claim can be paid only by depleting the capital employed, in this case to the extent of £3,713 5s. 11d.

21. The same witness submitted, however, a less extreme, but hypothetical, case, and in his evidence said :—

To illustrate how unjust the present method of taxing graziers on each year's income is, a comparative statement is submitted herewith between the income and taxation of a grazier and, let us say, a city business man. The income of each for five years is the same, viz. :—£4,802. The city man is assumed to earn £960 for each of four years and £962 for the fifth year—a total income for five years of £4,802—a state of affairs which is normally usual in city business. The grazier's normal experience is, however, assumed to be, as on the average usual, as follows :—

1st year's income	..	..	£5,796	..	
2nd „ loss	..	..	..	..	£3,800
3rd „ income	..	..	896	..	
4th „ income	..	..	6,700	..	
5th „ loss	..	..	..	..	4,790
Net income for five years			..	..	4,802
			£13,392		£13,392

The following statement shows the tax both Federal and State (New South Wales) payable by each :—

	Pastoralist's Income.	Federal Tax.	N.S.W. State Tax.	City Man's Income.	City Man's Taxes.
		£ s. d.	£ s. d.	£	£ s. d.
1st year	5,796	970 13 11	296 8 4	960	87 19 8
2nd „	3,800 (loss)	Nil	Nil	960	87 19 8
3rd „	896	38 11 9	41 17 8	960	87 19 8
4th „	6,700	1,275 17 6	377 18 4	960	87 19 8
5th „	4,790 (loss)	Nil	Nil	962	88 4 5
	4,802	2,285 3 2	716 4 4	4,802	440 3 1
Total Taxes : Pastoralist's ..		£3,001 7 6		City Man's ..	£440 3 1

No clearer indication of the obvious and glaring injustice meted out to graziers under the Income Tax Acts is needed than the illustration mentioned.

22. Another witness, who did not appear before the Commission to urge an averaging system, gave as an illustration the fluctuating taxable income of a trader which in a series of six years showed—(1) Profit, £15,000 ; (2) Loss, £8,000 ; (3) Profit, £7,500 ; (4) Loss, £1,000 ; (5) Profit, £2,500 ; (6) Profit, £1,200, the profit aggregating £26,200 and the losses £9,000, the net result of the six years being a profit of £17,200. Under the present method and at present rates, the total Federal Income Tax payable by this trader for the period would be £6,802 0s. 6d., while if the same income of £17,200 had been received in a steady annual flow of £2,867, the tax on the income for the whole period would have amounted to only £1,681 14s. 6d. Tax on the steady income of £2,867 is computed at the rate of 23.463 pence per £1, but the tax on the fluctuating irregular income of similar aggregate amount works out to 94.29 pence—more than four times the other—a rate far in excess of anything contemplated as payable on an income of this size. It is the rate chargeable on an income of £45,711, that is, on an average income of £2,867 he is called to pay a rate of tax which is that applicable to an income of £45,711.

These examples exhibit a state of affairs which cannot be regarded with complacence, and even if they stood alone as special and peculiar, they call for some remedial measure. But they are unfortunately typical of a large number. The total taxpayers who are primary

producers cannot be ascertained from the latest Departmental statistics available, but they number probably 100,000. The first of these three examples is admittedly an extreme case, but it "is an actual case." A system under which such a result is even possible is faulty in both conception and incidence.

23. *Incidence on Individuals.*—That the public conscience has only now been aroused to action may be because, viewing the primary industries in the mass, the position does not appear as serious as these figures indicate, but it should not be forgotten that a severe and lengthy drought, extending over the whole of the continent is a less frequent visitor than droughts more limited in extent but equally acute within the area of their operation. Consequently the aggregate income from the whole industry throughout Australia may not in one year show such difference from another as these examples illustrate, and the observer who considers the mass and neglects the individual may form misleading impressions as to the unvarying success of persons engaged in the primary industries. Income tax is not, however, paid by an industry as a whole or by the mass of persons engaged in it, but by each person individually, and, though owing to the extent of the country, graziers in one district may be enjoying a bountiful season while those in another are undergoing severe hardships, each and all are more or less exposed at one time or another to extreme fluctuations of income.

24. *Representative Cases.*—That the study of the question might not be unduly coloured by exceptional and peculiarly serious cases, the Federal Taxation Authorities were asked to prepare and submit a schedule covering fifty cases, taken at random, of the returns of primary producers, and to set out in full detail (omitting names) the income and relative tax for each of five consecutive years, and also the tax which would have been payable had a system of averaging been in use. In the preparing of this statement it was for purpose of averaging assumed that the five-yearly period under review was a complete cycle, and had been preceded by a precisely similar cycle—in this way one average was reached for each taxpayer and formed the basis of the computation of tax. The illustration is not vitiated by this assumption. The schedule, which was wide in its range, included one taxpayer who during the five years had paid a total tax of only £3 12s. 10d., and who may, therefore, be regarded as in a small way. The cases ascended through varying levels up to that of a taxpayer who in the five years had paid a tax of £22,384 5s. 1d., from which it will be seen that the schedule is fairly representative. The figures thus compiled show that these fifty taxpayers would have paid under the present system in respect of the five years, 1st July, 1915, to 30th June, 1920, a tax amounting in the aggregate to £136,187, whereas had a system of averaging of incomes over the whole period of five years been in operation, the total tax payable by these taxpayers during the period would have been £88,976, thus showing that because of the erratic character of their incomes they were subjected to a tax greater by £47,221 than would have been paid by another body of fifty persons enjoying the same aggregate income in steady annual flow. It ought further to be added that in this schedule the tax was computed on the rates which were actually operative in the respective years embraced in the period, and that in the majority of the cases there was included also income the produce of property, and for purposes of illustration such income was *not* averaged. If it had been averaged so that the operation of the two methods on the total incomes of the respective taxpayers had been exhibited, the disparity between the present method and an averaging method would be still more marked, but disregarding that factor, the figures themselves show that the tax actually paid was fully one and a half (1·53) times what would have been paid by persons enjoying a regular steady annual income of the same aggregate volume.

25. But, again, we have to be careful that in studying the mass we do not lose sight of the effect on the individual. Analysis of the fifty cases shows that in one instance the tax actually paid under the present system reached ten and a quarter (10·27) times as much as it would have been on the average income of the period (£266 15s. as compared with £25 17s.). The schedule contains three cases where on the average annual incomes of the period no tax would have been payable, but the taxpayers were actually required to pay £6 4s., £66 6s. 6d. and £103 16s. 9d. respectively.

EFFECT ON REVENUE.

26. This at once brings into relief a consideration which has never throughout the inquiry been absent from the minds of the Commissioners—the effect which any suggested remedy may have upon the revenue, and the necessity for maintaining unimpaired the definite function of taxation in supplying adequate funds for the public services. We cling tenaciously to the principle of equity enshrined in Adam Smith's canons, which have become classical both in precept and in practice:—

1. The subjects of every State ought to contribute towards the support of the Government as nearly as possible in proportion to their respective abilities, *i.e.*, in proportion to the revenue which they respectively enjoy under the protection of the State.

2. The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid ought all to be clear and plain to the contributor and to every other person.
3. Every tax ought to be so levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it.
4. Every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State.

We accept also the opinion of Professor Bastable—"The successful administration is the final object (of any system of Taxation), and therefore convenience or even equity may have to yield to productiveness." But do the circumstances present any need for compromise or the sacrifice of either principle? Is the ship of State in such stress that equity and other sound principles of taxation must be jettisoned to secure its safety? We do not think so. Substantial and adequate justice can be done to those of the community who are at present and have since the inception of the Federal Income Tax Act been inequitably treated through its inelasticity in not adapting itself to the severe fluctuations characteristic of the incomes of persons engaged in primary industries, and in less degree of those engaged in other callings, many of which are intimately related to and in large measure dependent upon the primary industries, and those deriving income from other sources.

SEAT OF THE EVIL.

27. The harshness of the present system is widely distributed and keenly felt, and before suggesting or considering any remedy, an effort should be made to ascertain the seat and cause of the evil, or whether there be more than one cause. After careful consideration, we have come to the conclusion that the causes are two and arise from the absence of proper provision in the Act—

- (1) to ascertain in all cases the true taxable capacity of the subject; and
- (2) to make equitable and adequate allowances for deficits in income when they occur in a year other than those in which compensating profits are made.

TAXABLE CAPACITY.

28. The Federal Income Tax Act embodies the principles of differentiation of sources of income and graduation of rates and, following in that respect the lead of the United Kingdom and most other countries, does not allow the losses of one year as a set-off against the gains of another. There is an obvious weakness in any Income Tax Act which arbitrarily divides time into short periods and in taxing the subject disregards entirely all the changes of fortune of the immediately preceding periods.

29. The Federal Act (as well as all the Australian State Acts) arrives at the tax to be levied upon any subject by ascertaining three factors:—

1. The income received by the subject during the immediately preceding year;
2. The source of such income, whether it be from personal exertion or the produce of property.
3. The rate of tax, which is determined by certain rules laid down in the Act, designed to graduate the rate in accordance with a scale whereby with the increase or decrease of income for the year in question the rate of tax increases or decreases.

The first and second items do not call for consideration in this connexion, but may be dealt with in the Commission's final report. The third calls now for closer scrutiny. Can it be claimed that the income of one year and one year only is the correct and only sound standard by which to judge the taxable capacity of the subject? Why not one month or one week or one decade? Custom has in Australia and in some other countries made one year the conventional period, but the fallacy of such a custom has been recognised in several European countries, and for many years in the United Kingdom, where since 1842, when what is practically the present British Act was introduced by Sir Robert Peel, the methods of ascertaining the taxable capacity of a subject have been not less than six.

1st—On the income of the immediately preceding year:—

Annual profits and gains from certain sources, such as gas-works, railways, water-works, salt-works, quarries and the like, ferries, canals, docks, markets, and fishing rights, compositions for tithes, profits of uncertain value, such as interest, discount, &c., not taxed at the source.

2nd—On the income of the year of assessment:—

Incomes from annual value of property, occupation of land, foreign securities, consols, public funds, salaries of public and certain other employees, interest, annuities and dividends on stocks and shares taxed at the source, rents, &c., from sources within the United Kingdom.

3rd : On the average income of the three preceding years :—

Annual profits and gains from any trade, profession, employment or avocation exercised within the United Kingdom—which includes the income of the ordinary trader or professional man—and all interest, annuities, and annual profits not chargeable in other ways, including income from stocks, shares or rents from any place out of the United Kingdom. Certain tithes and tithes and ecclesiastical dues and payments.

4th : On the average income of five preceding years :—

Incomes from coal, tin, lead, copper and other mines.

5th : On the average income of seven preceding years.

Incomes arising from manorial profits and other royalties.

6th : On an amount proportionate with rent paid and irrespective of the actual income of a farmer. Profits made by a farmer from grazing stock are similarly dealt with, but a person whose main business is grazing is taxable on the average income of the three preceding years.

Special rules apply to—Miscellaneous profits from lands not in occupation of the taxpayer, the profits of single ship companies and persons owning shares in them, profits from lands cultivated by the owner, and to a few other special sources of income, which are “assessed on such average or basis as appears just and equitable.”

It cannot be said that one year is the “conventional period” under the British Act : More than three-fourths of the total yield of the tax is determined by averaging three or more years.

30. It has been urged that it is the established practice of accountancy and of commerce generally to deal with business affairs in twelve-monthly periods. True, traders take observations of their running and position yearly as sailors take their reckonings daily, to ascertain the speed and direction in which they are moving and their whereabouts, but a fact of much more moment and much more *apropos* to the question is that prudent men do *not* alter their course by the latest reading only. They do not regulate their standard of expenditure and style of living in accordance with the income of the immediately preceding year only. They take much more extensive views, for example : If a citizen on closing his accounts finds that for the year his operations have resulted in a loss, he does not immediately cut down his expenditure to the barest necessities of life. He may restrict his expenditure somewhat, cut off some of the less valued luxuries, economize generally and quicken his efforts, but if the standard of living he has enjoyed is in reasonable consonance with his average income, he makes comparatively little change. If in another year his accounts show a very large profit, such as some disclosed in the examples contained in the earlier parts of this Report, he does not thereupon cause his expenditure to bound to the utmost limit of the resources of that year. In fact, the prudent citizen orders his standard of living and the scale of expenditure having regard to the income enjoyed by him over an extended period, and the same principle which dictates the standard of living that he can prudently adopt—his spending capacity—dictates also the standard by which to ascertain his taxable capacity : i.e., the grade in which he should be placed as a contributor to meet the National expenditure.

31. Sir Josiah Stamp, late Assistant Secretary to the British Board of Inland Revenue, and subsequently a member of the Royal Commission on the British Income Tax, in a recently published work on the “Fundamental Principles of Taxation in the light of Modern Developments,” writes :—

“The high rate of tax is bringing the *time question* in regard to ability into prominence in other ways. *The base of the tax must be a long enough period to give a fair average indication of means—the base upon which a man's household and conditions of life are naturally laid out.*”

If it be a fact that the average prudent citizen regulates his standard of living according to the position occupied and the prosperity enjoyed during a period of years, that is, based on “a long enough period to give a fair average indication of means,” should not the same standard be employed to determine his taxable capacity ? Viewed purely as a question of taxation of income, is not his spending capacity the key to his taxable capacity ?

32. During 1919 a representative body of American economists, lawyers and bankers, of which Professor Seligmann was chairman, appointed a Committee to conduct an investigation of and inquire into the methods and working of the Excess Profits Duty of Great Britain, and for that purpose Professor Haig, of Columbia University, visited England. He closes a lengthy and informative report on the subject with the following :—

“A second weakness is our comparatively narrow conception of the accounting period. If we are wise, we will copy the British practice (that is, the averaging system) with respect to this. The problem is as significant for income taxation as for profits

taxation, and is one which will be particularly important in the period of falling prices, upon which, apparently, we are now entering. In effect, *we decline to regard business as a continuing operation. We separate the history of a concern into arbitrary periods, and carefully insulate each period from every other period. This procedure is not in accord with the economic facts.* We should frankly recognise net loss whenever it occurs, and make whatever readjustments are necessary to equalize the total burden as between taxpayers, *not merely on the basis of each year, but for the operations on a long-time basis.* Such a recognition of losses would eliminate much of the injustice of the present situation." (NOTE.—"The present situation" referred to is the American method of determining taxable capacity by the income of the immediately preceding year only, as is now done under the Australian Acts.)

33. Our inquiry has led us to the conclusion that harsh and inequitable incidence in the case of widely fluctuating incomes, when each year is strictly segregated from its neighbours, is inseparable from any system of Income Tax in which steep graduation is a feature, and that escape from the inequity of such a tax can best be secured by a breaking down of the wall of partition between the years, by some method of merging or averaging, which substantially mitigates—if it does not wholly remove—the cause, viz. :—the unsound assumption that each year's income or loss standing alone must determine taxable capacity, whereas the circumstances require that the longest period practically possible be brought into account. When as many years and as many vicissitudes as is practically possible are brought into line through merging or averaging the annual incomes, the true taxability of the subject—that is, his taxable capacity—can be fairly determined.

THE BRITISH SYSTEM.

34. Following the extract from his work previously quoted, Sir Josiah Stamp goes on to write :—

"But it must not be so extensive that the time for paying a tax does not follow closely upon the period over which it has been computed."

It is by reason of the non-observance of this desideratum that many people in Britain are now calling into question the British average system, which requires tax to be paid in various instalments over differing periods up to seven years, and he points out by way of contrast that the United States "were seriously considering abandoning the previous year method for our (British) average system."

35. With respect to the British Income Tax Act, Sir Josiah Stamp adds :—

"The truth is probably that an average more properly indicates the economic ability of well-to-do people, but that we come into conflict with another of Adam Smith's canons, that is convenience."

A comment which correctly describes the action of the British system but is not necessarily true of every system of averaging.

36. Under the British Act "the system of average" (says Sir Henry Primrose, late Chairman of the British Board of Inland Revenue) "is merely an incident in machinery devised for the purpose of determining a figure of income to be taxed." In that system it serves a twofold purpose :—(a) to determine the rate of tax which shall be payable under a scheme which at one time was purely proportional, but has gradually at the lower stages become graduated, and (b) to determine the "statutory income" to which such rate shall be applied.

37. For example, as instanced by Sir Josiah Stamp :—If a man in Britain had profits for 1917 of £1,000, for 1918 of £3,000, and for 1919 of £8,000, his taxable income is found by taking the third part of the aggregate and he is called upon in the year 1920 to pay on a taxable income of £4,000, and, the same process determining the rate of tax, he has to pay at the rate applicable to an income of £4,000, notwithstanding that his income for the immediately preceding year was £8,000. Suppose the order of the incomes to be reversed, and another man in Britain had profits for 1917 of £8,000, for 1918 of £3,000, and for 1919 of £1,000, his average for the three years would also be £4,000, that is, the taxable capacity—as measured by a period long enough to give a fair indication of means—is the same in both cases, and notwithstanding the fact that in the year 1919 his income was only £1,000, he would be required in Britain to pay tax in 1920 on a statutory income of £4,000 at the rate applicable to a statutory income of £4,000, though his income for the immediately preceding year was only £1,000. Both taxpayers, although the income of one for 1919 was eight times that of the other, would pay the same amount of tax in 1920.

38. The averaging under the British system serves a double purpose : It is used—

- (a) To determine the taxable capacity of the subject, and thereby ascertain the appropriate rate of tax, and
- (b) To determine the "statutory income" to which such rate shall be applied,

two questions which are severable and ought to be kept quite distinct in the minds of those framing a taxing Act. If instead of three years the illustration had been extended to five or seven years the fallacy of using the average for the dual purposes of determining both taxable capacity and statutory income becomes increasingly apparent. The outcry against the system of averaging, which has found free, though not universal, expression in Britain, arises largely from this confusion. In our opinion, the definite and only necessary function of an averaging system is to determine the taxable capacity of the subject, and for this purpose and this alone it should enter into every Income Tax Act of which graduation is a feature. It supplies at once the standard of taxable capacity, and is a natural and immediate corrective of the inequities, which, if it be omitted, necessarily arise in the case of fluctuating incomes.

BASIS OF LIABILITY.

39. Having determined the taxable capacity, the basis of liability should appropriately be the income of the year in which the subject contributes to the National Exchequer: that is, the basis of his contribution should be the income earned by him during the year in which the relative tax is actually paid. He should therefore pay tax in 1920 on the income earned in 1920. This was the principle observed in the first Land and Income Tax Act of New South Wales, and is still observed in the British Act, but it necessarily involves subsequent adjustment, because the basis of liability—the actual income of the year—cannot be ascertained till after its close; meantime the tax has been collected on an estimate of income, and it has to be corrected in the light of actual facts, and adjusted; a method which in practice does violence to the canons of economy and convenience. In their very able report on this subject the British Royal Commission of 1920 wrote:—

474. Uniformity of basis throughout the whole tax may be a desirable end, but it is difficult of achievement. The first point that must be remembered is that the income of the year of assessment is the existing basis in an enormous number of cases. All rents of property, all incomes that are taxed by deduction, all salaries now assessable under Schedule E bear tax on this basis. So, too, do the incomes of all the manual wage-earners assessed by way of quarterly assessment, and no other basis for them is practicable. If a uniform basis over the whole range of the tax is the aim, it would seem that the income of the year of assessment is the only basis on which uniformity could in practice be attained. But is the year of assessment basis, though perfectly suitable for rents and employments and interest, a practicable basis on which to assess trades and businesses, the profits of which may be highly variable, and in any case cannot be ascertained until the end of the year of assessment?

475. The beauty and simplicity of a system that would charge a taxpayer for the year 8 on the profits of the year 8, and not upon a figure based on the long-expended profits of any or all the years 1 to 7—a system which moreover would charge him on that intelligible basis not in respect of some sources of his income only, but in respect of all sources however numerous and diverse in character they might be—have naturally proved very attractive to some witnesses. *We agree with those who have described the year of assessment basis as the ideal basis.* Its desirability is, indeed, quite obvious. It would secure tax on the income at the earliest possible moment after the income had been earned and ascertained; it would make possible smoother graduation; it would facilitate that merging of the super-tax with the Income Tax which has been proposed to us by so many witnesses; it would render unnecessary many provisions for adjustment of assessments which are apparently inseparable from a system under which liability to taxation is based on distant profits.

476. But there are practicable difficulties in the way of its adoption at the present time. It would involve waiting until the end of the year of assessment for the taxpayer's return of income, with consequent delay in assessing. This obstacle might be bridged over by the making of provisional assessments during the year of assessment, with subsequent adjustments, either by additional assessments or by repayment of duty when the income for that year should have been ascertained. But there would be some administrative difficulty both in getting the assessments made or adjusted in due time, and in avoiding a serious loss of revenue in the year of change. It is certain that without a system of provisional assessment and subsequent adjustment, the loss of revenue in the year in which the change was carried out would be too great to be faced, at any rate in the present circumstances.

477. We have given a good deal of care to this question, and *we have been rather reluctantly driven to abandon any intention of recommending the year of assessment basis as the basis for all purposes.* We confess it has many charms. It is not impossible that at some future time when administrative difficulties look less forbidding and the financial position is stronger, Income Tax may yet be charged on the income of the actual year, but taking a practical view of our present task, we feel unable to recommend so great a change at the present time.

40. With these opinions your Commissioners are in agreement, as they also are in the recommendation of the British Commission that for the reasons therein stated the income of the year preceding the year of collection should be the basis of liability. We appreciate that "it will make the amount of profits assessed correspond closely in point of time with the amount of profits actually being made," and thus, more closely than under the British scheme which extends over one, three, five, and seven years, will the payments of tax correspond in time with the rendering of the public services, under the protection and by the aid of which the income has been acquired—not a precise correspondence but one as near as the practical necessities of economical administration and the convenience of taxpayers will permit. **We, therefore, agree with the recommendation that in most cases "the income of the year preceding that of collection should be the basis of liability," but at this point we part company.** Their finding includes both "basis of liability" and "measure of taxable capacity," not apparently from purposeful blending, but because they had failed to distinguish between the two, and in our opinion the distinction, important in itself and more important in its application, should be observed and carried to its logical and practical conclusion, which will not only be "a very important step in the direction of uniformity" but will very largely—almost entirely—extinguish the causes from which springs the injustice inseparable from the Federal Income Tax as it stands. The fallacy underlying the confusion in these distinct and separate elements in averaging was commented upon in paragraph 33 of our Report.

REMEDIES PROPOSED.

41. A number of proposals, which will be dealt with *seriatim* were advanced by witnesses some of whom had evidently given the subject but little study and did not appreciate with any clearness the gravity and difficulties of the problems involved. Some of them had apparently confined attention to their own peculiar experiences. Disregarding for the present the evidence given by witnesses who advocated the raising of the whole of the Treasurer's requirements by a tax on land values, a topic which will be dealt with in our final report, we turn to proposals which treat more particularly with incomes and were more constructive in character. As an alleviation of the high tax borne by persons with severely fluctuating incomes, there was advocated the method commonly spoken of as "**The Carrying Forward of Losses**"—that is, if the operation of any year or years results in a loss the amount of such loss should, till absorbed, be treated as a deduction from the income of subsequent years, and tax charged on the net balance only of the income of such subsequent years at the rate applicable to such balance.

42. This method would afford relief in all cases if the tax were calculated on a flat rate, but it is quite ineffective in curing the evils inseparable from a graduated scale of rates when applied to fluctuating incomes. After fully considering the evidence of witnesses and the claims advanced on behalf of the carrying forward of losses, we feel bound to disapprove of it for these reasons:

43. It is not general in its application, and within the limited sphere of its operations is not equitable.

The main plea put forward for this method is that it is an equitable one. Is it? If its operations be strictly confined to actual losses in total disregard of concessional deductions, it is probably as simple and effective a method as could be devised to meet variations arising solely from one cause, namely:—that the operations of the taxpayer have in a particular year left him on the wrong side of the line which separates losses from profits, but it is otherwise valueless as a protection from inequities inseparable from the taxation of fluctuating incomes, modulated on a system of graduation. Not until the taxpayer's accounts show a positive loss could he derive any benefit whatever from this method. It is consequently limited in its scope: It is applicable to a small number of cases only, and is not of that general application which should characterize the provisions of a taxing Act which requires contributions from all sorts and conditions of men whose incomes fluctuate from year to year in every conceivable manner. For instance, it affords no relief whatever to a taxpayer who

in one year has an income of	..	£100 and is taxed	..	£2 8s. 0d. and in
the next year has an income of	..	£1,000 and is taxed	..	£47 19s. 9d.

being on a total income of	..	£1,100 taxed at	..	£50 7s. 9d.
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as against another taxpayer, who in the 24 months receives precisely the same amount, namely:—

in one year	..	..	..	£550 and is taxed	..	£19 15s. 11d. and
in the next year	£550 and is taxed	..	£19 15s. 11d.

being on the same total income of	£1,100 taxed at	..	£39 11s. 10d.
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Such cases are not exceptional. The income of almost every taxpayer fluctuates from year to year, and it is the fluctuation, so general that it might truly be called universal,

characteristic of all incomes in every year (and not merely the occasional descent in any one year into absolute loss), which causes the harsh inequalities as between taxpayer and taxpayer, of which the Commission has received so many eloquent examples.

44. Examination of the table of 50 cases supplied by the Federal Commissioner and compiled from the returns of persons engaged in the primary industries, where there is the most violent ebb and flow, shows that of the 50, there were only 21 whose operations had in any year resulted in an actual loss. In two cases the taxpayer had two losses, making the total years showing any loss only 23—that is, out of the experience of 50 persons engaged in the most hazardous classes of business embracing a period of five years each—equal to 250 years in all—on only 23 occasions was an actual loss sustained. The method of “carrying forward of losses” would, therefore, affect only 21 of the 50, and would confer a benefit in only 23 instances out of 250, a degree so minor in application that the mere statement evidences the inadequacy of the method. **It would leave entirely unredressed the injustice done to all taxpayers by reason of the fluctuations above a loss point.** As will be clearly seen, the method can be applied to only a very small percentage of taxpayers, and is even to them a weak palliative, whereas there is required an unrestricted far-reaching and penetrative remedy. It has already been shown that even amongst primary producers less than 10 per cent. of the annual statements show losses, and the percentage will be still less in the case of more steady businesses : to the remainder, numbering more than 90 per cent. of the whole, no alleviation whatever of the present unequal burden is extended. Nor is the relief equitable even in the few cases to which it can be extended. For example :—

Two taxpayers—A and B—each show a loss of (say) £3,000 in one year, consequently do not pay tax, but by this method have each a sum of £3,000 available as a set off against future profits. In the second year, A makes a profit of £7,000, and deducting the £3,000, pays on a net income of £4,000.

The Federal tax on £7,000 is	..	..	..	£1,455	12	11
The Federal tax on £4,000 is	..	..	..	511	17	6

making the carry forward of the £3,000 worth to him .. £943 15 5

B—a man of smaller means and relatively more severely hit by the loss of £3,000—makes in the second year a profit of £3,500, and deducting the £3,000, pays on a net income of £500.

The Federal tax on £3,500 is	..	..	..	£401	4	9
The tax on £500 is ..	..	..	..	17	6	7

making the carry forward of the £3,000 worth to him .. £383 18 2

Thus to the wealthier and more prosperous person there is an allowance of £943 15s. 5d., and to the less fortunate an allowance in respect of a precisely similar loss sustained in the same year of only £383 18s. 2d. Can this be called equitable?

45. The “carrying forward of losses” also introduces a radical change of method and differentiates unduly between taxpayers, in that it provides for the alteration in some cases of the yearly period (not to some other definite period, but) to one of indefinite duration, terminating only when profits overtake losses or at some other arbitrary date. That it involves a change of method would not necessarily expose it to condemnation, for it has been proved that the present Federal method is itself faulty, but the proposal is a change for the worse and not for the better. It has the demerit of substituting a variable uncertainty in that it is indefinite as to its value to the taxpayer and equally indefinite as to the duration of its operation. This will be best seen in an example :—

Two taxpayers—M. and N.—each show a loss of (say) £5,000 in one year, consequently do not pay tax, but by this method have each a sum of £5,000 available as a set-off against future profits.

In the second year M. makes a profit of £6,000 and, deducting £5,000, pays on a net income of £1,000—

the Federal tax on £6,000 is	..	..	..	..	£1,087	14	8
the tax on £1,000 is ..	..	..	..	..	47	19	9

making the carry forward of the £5,000 worth to him .. £1,039 14 11

N. has in the second year an income of £1,000 and in the third year an income of £2,000, and not having yet retrieved the loss of £5,000, does not pay tax in either year. He has in

the fourth year a profit of £3,000 and being exempt in respect of £2,000 (the balance of the £5,000) pays tax on £1,000 only. He has consequently been relieved of tax—

in the second year on £1,000, the Federal tax being	..	..	£47	19	9
in the third year on £2,000, " " "	..	..	149	5	11
in the fourth year he would but for the remission					
have paid on an income of £3,000, the tax being	£303	18	6		
he actually pays on only £1,000 " " "	47	19	9		
thus saving in that year	..	..	..	..	255 18 9
making the carry forward of the £5,000 worth to him	..				£453 4 5

This shows that in addition to being inequitable, the carrying forward of losses in this way involves a radical change of method : It breaks down in a haphazard, irregular way the separation between year and year, and does not substitute a systematic, all-embracing, regular and sharply defined method.

46. Whatever claims are advanced for the method of "carrying forward of losses" it cannot operate more frequently than losses occur, and the certainty of its operation is restricted to within very circumscribed limits,—affecting as it does only that small percentage of taxpayers (probably about 1 per cent.) whose transactions in any year land them in absolute loss. It is not, and cannot be made, general in its application.

47. Beyond what has been said, the only thing that can be urged in its favour is that it is simple to understand, but no one has set up a claim that the present system of taxation with its reducing and varying exemptions, its differentiation as to source, its graduation of rates on bewildering curves and its aggregation of classes of income, to determine the rate applicable to each class of income for any year, is easily understood ; and this mild flavour of simplicity would not exert any appreciable influence towards better comprehension. These other complexities are not removed, and however easily the carrying forward of losses can be grasped, the handful of benefit of its supposed simplicity is hardly worth the holding. But even that small modicum of benefit is destroyed, for the proponents of this method propose also to alter the meaning of the word "losses" as generally understood in all business and accountancy methods by extending it to include any sum by which the taxpayer's income falls below the amount of the general exemption plus the allowance for children (if any). They say : "At present a person is not regarded by the Taxation Authorities" (nor, it may be interjected, by any one else) "as having incurred a net loss if the result of the year's operations leaves him with some income above the zero line. The effect of this proposal is to raise the datum or zero line below which loss is considered to begin—up to the amount of the general exemption or that amount plus the allowance for children, if the taxpayer is entitled to the latter allowance." As thus transmogrified the method becomes involved, difficult of comprehension, confusing to the taxpayer and more costly in administration. Even the minor merit of simplicity claimed by its advocates vanishes.

48. **The method is incapable of general application, and even within its restricted sphere it is not equitable in its operation. Because of its failure to bring about the equitable treatment for every taxpayer that the circumstances demand, this system cannot be recommended by us.**

49. *Other Proposals.*—Modifications of the British Scheme, dealing chiefly with minor phases, were submitted by several witnesses—a full description of which would swell this Report unnecessarily—and were fully discussed and considered, and after careful examination rejected. They included a proposal that a system of five yearly averages be adopted for primary producers, each quinquennium to be treated as quarantined from all preceding and succeeding years, that tax be tentatively collected on the income of each year as at present, but the whole of the period to be reviewed at the end of the five years, the average income of the period ascertained, such average to be applied to each year as though the income of each year had been an unvarying sum. Amended assessments were then to be made in respect of each of the years of the period and any balance shown when compared with the interim payments was to be paid to or refunded by the Department in final adjustment. The sixth year was to commence a second quinquennium to be dealt with exactly like its predecessor and so on. This, being neither in accordance with sound principles nor reasonably practicable in administration, was rejected by us.

50. Another proposal was a modification of the foregoing. Following the same methods up to and including the fifth year, it proposed that the adjusted averages of each year should be treated as if they were the actual income of the respective years and that the basis of taxation of the sixth year should be the fifth part of the income of itself and four times the average income of the preceding quinquennium. The seventh year would be taxed on the aggregate of the adjusted average income of three of these years plus the sixth plus the seventh year divided by five. This overcame one objection to the first named proposal in eventually abolishing its grouping into pockets of five years, but it exhibits other objections which compelled its rejection.

51. Another proposal was that the four years preceding the initiation of any scheme of averaging should be taken and with the income of the fifth year (the first of the scheme) yielding when divided by five the taxable income for that year, in the sixth year (second of the scheme) the first year would be dropped and an average of the latest five taken as the basis of taxation for that year. This proposal is unacceptable because it encroaches upon years the incomes of which have already been fully taxed and it could not be applied in similar way to the returns of new entrants into the taxable field because such entrants would not have any preceding years to bring into computation. It could, therefore, be applied to other taxpayers only in a different way from that in which it would be applied to taxpayers at the time of initiation and on account of its lack of continuity as well as for other reasons your Commissioners are compelled to reject it also.

52. *Averaging System under British Act.*—Seeing the British Act made the first and most sustained effort to reach some fair standard of assessment when one year only was considered insufficient to determine equitable incidence in the case of fluctuating incomes, witnesses naturally turned to the British system for suggestion and example. Your Commissioners feel that it merits careful study, more particularly in the light of the exhaustive inquiry and weighty deliverance of the Commission which reported on the tax in all its aspects in 1920. Its report dwelt at length on the basis for assessment, and on this point the position is summed up thus :—

479. “ There has been a surprising weight of evidence in favour of the profits of the preceding year (*i.e.*, either the year to the 5th April immediately preceding the year of assessment, or the last business year completed prior to that date) being taken as the basis for Schedule D assessment. Hardly any one has had a good word for the average. *The chief benefits we see in taking the preceding year's profits as the basis of liability under Schedule D are—*

- (a) that it will make the amount of profits assessed correspond much more closely in point of time with the amount of profits actually being made ;
- (b) that it will be a very important step in the direction of uniformity and simplicity ; and
- (c) that it seems to be almost universally desired.

We have, therefore, no hesitation in recommending that the change be made.”

53. After giving careful consideration to the representations of its advocates and studying the system as revealed by the evidence given before the British Commission, your Commissioners are compelled to concur, in part at any rate, in its measured judgment and condemnation, of the British system of averaging. The outstanding features of that system may be briefly stated :—

54. Since 1842, the tax in the United Kingdom as to about 77 per cent. of the total yield has been levied on a “ statutory income ” determined by taking the average of three or more years preceding the year of assessment, and in effect the tax on the income of any one year is spread over three or more years and is paid in a corresponding number of annual instalments. Consequently prosperous years being followed by a lean year or a year of absolute loss may throw on a taxpayer a heavy liability to be paid in a year of depleted means. As under the British system the average determines both the statutory income and the rate of tax applicable thereto, a tax of large amount is frequently demanded in a year of heavy loss the payment of which may cause or accentuate serious financial embarrassment.

55. The method of requiring all taxpayers to show in their returns the income for three or more years and not the income for any individual year complicated the task of preparation, assisted evasion and impeded the detection of false returns, and even the averaging system itself was complex, some incomes being assessed on an average of three, others five, others seven years, with varying rules as to charging, allowances, rights of revision, adjustments, and other variations of detail, the whole scheme forming a maze of many methods, through which the general taxpayer found difficulty in directing his steps.

56. The taxpayer could in many cases elect upon which of the many different bases used to determine taxable capacity he should come, while for others one course only was preordained by the Act, or the rules or the practice which had grown round them, and irritation was aroused in taxpayers who felt they were shut out from avenues open to others. The privilege may have been more imaginary than real, but difference in treatment bred hostility and demands for its removal.

57. Further disturbance and frequent loss were occasioned by the fact that the averaging was not applied to individuals only but to businesses and the averaging as applied to the business continued irrespective of change of proprietorship or whether a change was made in the *personnel* of a partnership. Hence a person buying into a lucrative business from which the previous owner was retiring, and which had made large profits in recent years, might be handicapped in his earlier years when profits were unfavorably affected by retirement of his predecessor and by his having possibly less available capital—through being required to pay tax on a statutory income determined by the profits his predecessor had made and drawn and which the entrant had never handled.

58. Assessments under the British Act are made in respect of each fiscal year, from 6th April to the succeeding 5th April, and the returns for that year are due in the intermediate May or June, and since the actual income of the year cannot at that time be declared, the taxpayer is required to assume that in that fiscal year his profits will reach a certain sum. The rule is not invariable but in the majority of cases requires that this be arrived at by averaging the adjusted profits of the three, five, or seven preceding years, the result constituting the taxpayer's "statutory income" upon which tax is then collected. This necessitates special and complicated adjustments when a business begins, changes hands or is discontinued, and again in the event of the death of the taxpayer before expiry of the year. Into the intricacies of these adjustments we need not enter, but they and other elements, not essentially inherent in the system itself but having gradually attached themselves to it, have helped to swell general dissatisfaction.

59. Even this brief outline indicates, as a more exhaustive examination would abundantly prove, that the conclusion of the British Commission was justified, which condemned the system, not because of its iniquity or expense in administration, but because of the inconvenience, confusing complexity and other alien features, whose needless intrusion fostered public demand for uniformity and simplicity.

60. When, however, a system with so many weaknesses has survived for nearly a century the criticism directed against it—it has been more than once the subject of inquiry by Commissions and Parliamentary Committees—and has always had stout defenders, both within and without the Department, it must contain some elements of health and soundness which befit it to occupy a useful place in a well-devised and equitable system of taxation. Pruned and cleaned of parasitic growths, stripped of the confusing excrescences which are not of the essence of the system, averaging is a healthy and beneficent plant whose fruit is wholesome. As will be seen from later paragraphs the intrinsic merits of the averaging system may be successfully grafted upon and become an integral part of a scheme of taxation whose basis of liability is the income of the year immediately preceding the year of assessment.

RECOMMENDATION.

61. We recommend that the income of taxpayers be made subject to tax in accordance with the provisions of the Act for the time being in force :—

- (a) As to basis of liability—on the net taxable income of the twelve months immediately preceding the year of assessment ; and
- (b) As to measure of the rate of tax—at the rate applicable for the year of assessment to the average net taxable income of the taxpayer for all the years for which the taxpayer shall have lodged returns with the Department, not exceeding the five immediately preceding the year of assessment.

[NOTE.—In any case the first year should not be earlier than that ended 30th June immediately prior to this method coming into operation.]

62. The method should be limited to individual taxpayers and need not be extended to companies, for the reason that companies are already taxed at a flat (and not at a graduated) rate. Their fluctuating incomes are in effect already averaged down to an unvarying flat rate, and consequently they already enjoy the advantages of an averaging method—except as to the set off of losses against subsequent profits, a topic which is further dealt with in this report.

63. If the principle of graduation were dropped out of the Act and a flat rate for all taxpayers substituted—a step we do not recommend—the necessity for a system of averaging would simultaneously cease to exist.

64. The scheme as thus enunciated affords the required consideration to primary producers, but your Commissioners have also had in view that any scheme propounded should be capable of extension, as public policy or other reasons dictate, to all sections of individual taxpayers, that is, the scheme should be capable of general application.

65. The scheme should not, in our opinion, be limited to those primary producers whose operations show that losses have been sustained "resulting from adverse weather conditions." It is always difficult and often impossible to trace the exact cause of losses and the limiting of the scheme to such losses only would necessitate the conducting of numerous inquiries into losses to ascertain what in each case was their cause. It is the aim of every taxpayer to avoid losses, and it may be assumed that even when they are the outcome of other causes the taxpayer should not be excluded from benefits. The terms of the reference quoted at the head of this section do not require us to express an opinion as to whether the scheme should be extended to all individual taxpayers, but it should be pointed out that many persons are engaged both in primary industries and in other vocations, the separating of which will cause complication in administration. The scheme is capable of extension to them and to all individual taxpayers without any modification whatever, and its general application to all taxpayers would help to place Federal Income Tax upon a sound and equitable basis.

RECOMMENDED METHOD EXPLAINED.

66. Though the reasons for the proposed scheme are weighty, and the effects important, the change from the scheme at present followed under the Federal Income Tax Act is simple and easily stated. It rests upon the recognition and practical application of the proper function of averaging in determining taxable capacity, and the recognition also of the desirability in the interests of the taxpayer and the Revenue alike of continuing to compute tax on the income of the year immediately preceding that of assessment.

The Federal Act—

- (a) ascertains the taxable income of the year preceding that of assessment ;
- (b) multiplies such taxable income by the rate of tax (as per the scale) applicable thereto ; and the product is the amount of tax payable.

The scheme recommended by us—

- (a) ascertains the taxable income of the year preceding that of assessment, adds to it the taxable income of the preceding years, not exceeding four (which had been ascertained in earlier years) and dividing the total by five, the quotient is the “taxable capacity ;”
- (b) multiplies the taxable income of the year (that is the year immediately preceding the year of assessment) by the rate of tax (as per the scale) applicable to the quotient—the “taxable capacity ;” and the product is the amount of tax payable.

67. This simple scheme complies with all the canons of Adam Smith and with the maxim which some economists have added that any scheme of taxation should be simple in explanation and easy in comprehension.

(1) *The recommended method complies with the canon of Equity—*

68. It cannot be gainsaid that the nearest approach to equality of sacrifice is found by ascertaining the income of the subject over a sufficiently extended period and compelling him to contribute when and as required towards the support of the Government as nearly as possible in proportion to his ability; that is, in proportion to the whole assessable income derived and enjoyed by him under the protection of the State ; and it follows that the more closely any system approaches this goal the more closely does it express equity and fairness and respond to the test of the first canon.

69. Following paragraph 75 are comparative tables, showing details of the working out of twelve examples, all of them based on actual cases submitted by witnesses, and taken at random from them, the only discrimination being to take a sufficient range of cases to include small, intermediate, and large incomes. These are given with such detail as to enable each to be checked.

70. In these tables, the letters—

- P.F.M. mean the Method of the Present Federal Income Tax Act.
- C.F.L. mean the Method of Carrying Forward of Losses, as explained in paragraph 41 of this Report.
- R.A.M. mean the Method of Averaging Recommended by your Commissioners in paragraphs 61 *et seq.* of this Report.
- A.M.S. mean an Averaging Method, with Allowance for Suspense credits, as explained in paragraph 72 of this Report.
- S.I. mean a Steady Income, uniform throughout the whole period.

The figures set against each show the tax payable under each method of computation.

71. The first three methods are already well known or have been explained in this report. The fifth line (S.I.) is not so much a method as a standard of perfection by which the four methods may be judged. It shows the total tax payable on the aggregate income of the period, assuming such income had been uniformly steady throughout, thus the total taxable income of the ten years reviewed in Case A is £850, equal to a steady income in each year of £85, on which the tax at present rates is £2 0s. 1d. per annum, making £20 0s. 10d. for the whole period, as quoted in the line “S.I.”

72. The closest approximation to that standard is the method marked A.M.S., “An Averaging Method, with allowance for Suspense Credits.” It calls for detailed explanation. The operations of a trader in normal times seldom run into an actual loss ; they more frequently fluctuate between relatively large and small profits. For such fluctuations the R.A.M. method applies all adjustments necessary to equate tax payable, but it does not completely adjust actual losses when they occur. A complete adjustment can, however, be effected by establishing in any year

of actual loss a "suspense credit"; of an amount equal to the tax which would have been payable in that year had the result stood in the income and not in the loss column. The effect of any averaging system is to allow a set off of income below the average as against income in excess of the average, and this operates fully in respect of all incomes which do not cross the border line into actual loss, but in fact the crossing into loss is merely an exaggeration of an income below the average and the loss should be subject to the same treatment and be on general principles adjusted in the same way as other less pronounced deficiencies are. For a diminished income which does not drop down to actual loss adequate adjustment is made in the smaller tax paid on that year's income, but when the amount sinks below zero there is no corresponding adjustment for the sub-zero portion (actual loss) unless "suspense credits" or some similar allowance be made. The greater accuracy secured by the inclusion of these "suspense credits" as a set off against subsequent taxes is shown clearly in the comparative tables which follow, and it will be seen that in some cases substantial amounts are involved: in one case (example "L"), covering a period of fifteen years, it reaches £1,479 12s. 1d. (£19,499 19s. 10d.—£18,020 7s. 9d.). The years of actual loss are only a very small percentage of the whole, and such adjustment would necessarily affect only a very small number of taxpayers.

73. The sums so arrived at and named for purposes of this report "Suspense Credits" would be placed to credit of the taxpayer, not as the basis of any cash refund, but to be used as a set off against any tax or taxes payable by the taxpayer in respect of future years and for no other purpose: if not so used, these credits would eventually revert to the Treasurer.

74. The A.M.S. method should not be confused with the "Carrying forward of Losses" referred to in paragraphs 41 *et seq.* It is ancillary to, and not a substitute for, the scheme we recommend. The amount of the "Suspense Credit" is valued and definitely determined by the position in the year of operations: the value of the "Suspense Credit" in relieving tax is not contingent upon the gains or losses of any subsequent year as is the case with losses under the "carrying forward of losses" proposal.

75. *While this method is the closest approximation to correct adjustment, we are not disposed at this stage, to recommend it.* Although losses are comparatively few—averaging about one per cent. of total results—the method, though equitable, introduces an element of complexity, would probably increase the cost of administration, and would not be easily understood by the majority of taxpayers. To that extent it introduces an element of uncertainty, and costliness—it complies closely with the first, but less closely with the other canons of taxation. It is not impossible that at some future date when a better knowledge of the science of taxation prevails and administrative costs are lower the method with or without modifications may be adopted with universal advantage, but **taking a practical view of the matter, and for the reasons already given, we feel unable to recommend its introduction at the present time.**

COMPARATIVE TABLES OF EXAMPLES, SHOWING TAX PAYABLE UNDER SEVERAL METHODS.

Year.	A.		B.		C.		D.	
	Taxable Income.	Loss.	Taxable Income.	Loss.	Taxable Income.	Loss.	Taxable Income.	Loss.
	£		£	£	£	£	£	
1 ..	72	..	..	572	156	..	203	
2 ..	13	..	141	..	..	570	25	
3 ..	3	..	655	..	670	..	579	
4 ..	222	..	558	..	563	..	759	
5 ..	115	..	340	..	722	..	434	
6 ..	72	..	388	..	308	..	203	
7 ..	13	..	..	246	156	..	25	
8 ..	3	..	..	572	..	570	579	
9 ..	222	..	141	..	670	..	759	
10 ..	115	..	655	..	563	..	434	
11 ..	..	..	558	..	..	..	..
Totals ..	850	..	3,436	1,390	3,808	1,140	4,000	
Average Taxable Income	£85		£186		£267		£400	
Tax payable under —	£ s. d.		£ s. d.		£ s. d.		£ s. d.	
P.F.M. ..	21 15 0		120 18 5		139 15 7		146 3 8	
C.F.L. ..	21 15 0		68 0 8		92 1 3		146 3 8	
R.A.M. ..	19 19 4		83 14 10		105 3 1		124 10 2	
A.M.S. ..	19 19 4		62 12 9		89 8 3		124 10 2	
S.I. ..	20 0 10		53 15 3		75 19 2		127 19 2	

Year.	E.		F.		G.		H.	
	Taxable Income.	Loss.	Taxable Income.	Loss.	Taxable Income.	Loss.	Taxable Income.	Loss.
	£	£	£	£	£	£	£	£
1 ..	..	53	1,302	..	2,611	..	..	1,494
2 ..	442	..	..	882	2,629	..	4,826	..
3 ..	831	..	636	..	1,248	..	2,556	..
4 ..	1,109	..	21	..	422	..	1,883	..
5 ..	..	82	347	..	2,008	..	1,871	..
6 ..	30	..	717	..	2,259	..	2,454	..
7 ..	892	..	715	..	160	..	2,600	..
8 ..	1,300	..	420	..	1,132	..	3,871	..
9 ..	669	..	702	..	2,232	..	2,932	..
10 ..	275	..	143	..	2,534	..	..	2,417
11 ..	119	..	442	..	3,079	..	..	622
12 ..	..	..	873	..	..	1,703	1,460	..
13 ..	..	..	1,330	..	2,109	..	4,862	..
14 ..	..	..	1,403	..	2,729	..	5,652	..
15 ..	..	..	1,088	..	..	..	1,224	..
Totals ..	5,667	135	10,139	882	25,152	1,703	36,191	4,533
Average taxable Income	£503		£617		£1,675		£2,111	
Tax payable under—	£	s. d.	£	s. d.	£	s. d.	£	s. d.
P.F.M. ..	257	17 11	477	17 10	2,101	0 1	4,302	18 10
C.F.L. ..	251	8 3	445	9 5	1,950	9 11	3,481	12 5
R.A.M. ..	202	4 9	404	3 5	1,808	6 3	2,678	11 9
A.M.S. ..	199	10 2	380	8 5	1,705	18 5	2,471	0 1
S.I. ..	192	4 6	349	12 6	1,547	5 10	2,457	8 9

Year.	I.		J.		K.		L.	
	Taxable Income.	Loss.	Taxable Income.	Loss.	Taxable Income.	Loss.	Taxable Income.	Loss.
	£		£		£	£	£	£
1 ..	3,856	..	5,642	..	..	530	..	4,482
2 ..	2,922	..	2,132	..	4,417	..	14,478	..
3 ..	3,789	..	1,659	..	8,311	..	7,779	..
4 ..	2,529	..	4,349	..	11,087	..	5,649	..
5 ..	4,484	..	5,112	..	..	817	5,614	..
6 ..	3,924	..	4,131	..	305	..	7,361	..
7 ..	4,563	..	3,855	..	8,915	..	7,800	..
8 ..	3,107	..	5,281	..	13,003	..	11,613	..
9 ..	3,982	..	..	1,719	6,686	..	8,796	..
10 ..	531	..	1,936	..	2,754	..	..	7,252
11 ..	1,894	..	5,170	..	1,195	..	..	1,867
12 ..	4,831	..	10,519	..	..	..	4,380	..
13 ..	4,273	..	10,352	..	..	..	14,587	..
14 ..	1,676	..	5,642	..	..	..	16,957	..
15 ..	5,525	..	2,132	..	..	..	3,672	..
Totals ..	51,886	..	67,912	1,719	56,673	1,347	108,686	13,601
Average taxable Income	£3,459		£4,413		£5,030		£6,339	
Tax payable under—	£	s. d.	£	s. d.	£	s. d.	£	s. d.
P.F.M. ..	6,568	7 2	12,447	10 0	13,716	9 10	28,778	11 10
C.F.L. ..	6,568	7 2	12,312	2 0	13,390	9 5	24,240	7 8
R.A.M. ..	5,901	8 7	9,560	6 5	9,345	3 8	19,499	19 10
A.M.S. ..	5,901	8 7	9,370	19 2	9,229	17 6	18,020	7 9
S.I. ..	5,891	6 3	9,199	15 0	8,599	17 10	18,097	3 9

SUMMARY OF ABOVE EXAMPLES.

No.	Number of Years.	Average Annual Income.	Present Federal Method.	Carrying Forward of Losses.	Recommended Average Method.	Average Method with Suspense Crs.	Steady Income.
		£	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
A ..	10	85	21 15 0	21 15 0	19 19 4	19 19 4	20 0 10
B ..	11	186	120 18 5	68 0 8	83 13 9	62 12 9	53 15 3
C ..	10	267	139 5 7	92 1 3	105 3 1	89 8 3	75 19 2
D ..	10	400	146 3 8	146 3 8	124 10 2	124 10 2	127 19 2
E ..	11	503	257 17 11	251 8 3	202 4 9	199 10 2	192 4 6
F ..	15	617	477 17 10	445 9 5	404 3 5	380 8 5	349 12 6
G ..	14	1,675	2,101 0 1	1,950 9 11	1,803 6 3	1,705 18 5	1,547 5 10
H ..	15	2,111	4,302 18 10	3,481 12 5	2,678 11 9	2,471 0 1	2,457 8 9
I ..	15	3,459	6,568 7 2	6,568 7 2	5,901 8 7	5,901 8 7	5,891 6 3
J ..	15	4,413	12,447 10 0	12,312 2 0	9,560 6 5	9,370 19 2	9,199 15 0
K ..	11	5,030	13,746 9 10	13,390 9 5	9,345 3 8	9,229 17 6	8,599 17 10
L ..	15	6,339	28,788 11 10	24,240 7 8	19,499 19 10	18,020 7 9	18,097 3 9
Total Taxes under respective methods	156 averaging 13 years	..	69,089 6 2	62,968 6 10	49,733 12 1	47,576 0 7	46,612 8 10
Relative percentages ..	..	..	118.22	135.09	106.70	102.07	100

76. The summary shows that in the twelve representative examples epitomized, having an average of 13 years, the amounts by which the other totals are in excess of the total tax (£46,612 8s. 10d.) payable by taxpayers having unfluctuating steady incomes of equal aggregate amounts are—

	£ s. d.
Present Federal Income Tax method (P.F.M.)	22,476 17 4
Carrying forward of losses method (C.F.L.)	16,355 18 0
Recommended Averaging method (R.A.M.)	3,121 3 3
Average method (with allowance for Suspense Credits) (A.M.S.)	963 11 9

The divergencies are 48.22 per cent., 35.09 per cent., 6.70 per cent., and 2.07 per cent. respectively as compared with the tax payable (S.I.) by the recipients of steady incomes of similar volume. **The close approximation of the A.M.S. method to the standard of the tax on steady incomes bears striking testimony to its accuracy: it is closely followed by the method (R.A.M.) which for reasons already stated your Commissioners recommend.**

2. *The recommended method complies with the canon of Certainty.*

77. When Adam Smith wrote that a considerable degree of inequality is not near so great an evil as a small degree of uncertainty, he had in view the capricious exactions of eastern potentates and the overbearing demands of their underlings. The rule is not an exotic. Any scheme of taxation should be systematic and easily understood by the people, "the quantity to be paid should be clear and plain to the contributor." The scheme recommended by your Commissioners is easily understood; for instance, taking two of the examples in paragraph 75, let us trace the steps in determining the tax in (say) the twelfth year on the income of the eleventh year in—

	B.		K.
	£		£
Income of the 7th year ..	Loss 246 ..	Income 8,915	
" " " 8th " ..	" 572 ..	" 13,003	
" " " 9th " ..	Income 141 ..	" 6,686	
" " " 10th " ..	" 655 ..	" 2,754	
" " " 11th " ..	" 558 ..	" 1,195	
Total income for five years ..	536 ..	32,553	
Average (Total divided by 5) ..	107 ..	6,511	
Rate of tax applicable to Average ..	5.8034 ..	46.7790	
Tax payable ..	(5.8034 x 558) £13 9 10	(46.7790 x 1195) £232 18 5	

The method is simple and uninvolved and such as when once explained the ordinary taxpayer can understand and follow.

3. *The recommended method complies with the canon of Convenience.*

78. Unlike their British prototype, all the Australian Income Tax Acts have placed the basis of liability on the income of the immediately preceding year. The scheme recommended by us is in this respect Australian—it studies the time most convenient to the contributor by calculating the tax upon the income of the immediately preceding year and collecting it as soon as possible after the income on which it is based was earned, ere the surplus of a specially good year has been dissipated by the profligate or lost by the speculative, and it studies the convenience of the Treasury by making the tax at once available without risking the losses which occur when the payments are, as in the United Kingdom, virtually spread over a number of years. The British system throws its tentacles into the third, fifth or seventh year; **the scheme recommended by us assesses the whole income of the year at once and, the tax paid, the thing is done with once for all.** It avoids the inconvenience to the contributor and loss to the Treasury, inseparable from the British system, which in a year of abundance does not collect the full tax in respect of the previous year's income, and in a year of depression often seeks payment from persons who may be in financial straits, insolvent or fugitive.

4. *The recommended method complies with the canon of Economy.*

79. Systems can be conceived involving such expense in administration as to run counter to the canon of Economy, which requires that the amount contributed by the taxpayer should reach the Public Treasury with as little diminution as possible, and that it should not involve unnecessary restraint on trade or encourage evasion or cause unnecessary vexation, "for though vexation is not, strictly speaking, expense, it is certainly equivalent to the expense at which a man would be willing to redeem himself from it."

80. The cost of collecting the tax under the Method of Averaging recommended by this Commission would be very little, if any, greater than under the present method.

81. Under it, inspection of practically all returns is imperative, but any system which demands close examination of all returns whether they at first sight exhibit profit or loss should be welcomed by the Treasurer as essential towards seeing that no revenue is lost by the "mere glance" now given by the receiving officers to some apparently "loss" returns. We have been informed by the Federal Commissioner of Taxation that the Department does examine these returns sooner or later to see if the loss is justified. If this be done expense is **now** involved in the examination, and a closer and more purposeful examination would entail little or no extra expense. If it be admitted that under any Taxation Act the ascertainment of income is important, the averaging method carries with it no further obligation on the part of the Commissioner's staff than the ascertaining of the five years' average—a very easy process involving simple addition and simple division—seeing that every figure embraced in each progressive quinquennium has under any thorough system of taxation already been ascertained.

82. The mechanical work of calculating the tax by the Department has been unduly magnified. When one remembers the large proportion of returns which contain composite incomes—that is income from personal exertion and income the produce of property—every one of which demands under the present method a two-fold calculation of tax, each one of which must be individually worked out, for the Departmental Ready Reckoner lends no aid, and if to these be added the large number of returns from partnerships, estates, trusteeships, and the like which are not directly taxable, and of companies who are assessed at a flat rate, there are seen (a) a very large area in which under the present method special computations of tax must be expressly made, not by the Department only, but by every taxpayer who checks his assessment, and (b) another area where the returns do not under either present or recommended methods require calculation of tax at all.

83. In view of the statement made by the Federal Commissioner of Taxation in his Seventh Annual Report that "The average of income for purposes of an income tax assessment would greatly increase the administrative difficulties and costs by introducing complexities from which the administration is now free, and it would considerably add to the difficulties of taxpayers in understanding their assessments," your Commissioners endeavoured to obtain an authoritative estimate of the cost of change, but the information received was so vague and unsubstantial that we have been unable to make any use of it. In his evidence before the Commission, the Federal Commissioner of Taxation declared—"When I tell you that the averaging of incomes will involve the doubling of our assessing staff, I am not exaggerating the position," but when specific requests were put to him to ascertain how his estimates of costs had been arrived at, he was forced to admit "it is all a guess, I am sorry to say, because we have not the figures." The Deputy Federal Commissioner in Sydney estimated the increase at possibly 35 per cent. of the present cost of assessing, but he too was unable to submit any figures in substantiation of his estimate. A witness who had had fifteen years' experience in responsible positions as a taxation officer gave it as his

opinion that "under an average system there will be a **little extra work**, but this can be provided for by strict supervision and reorganization. If the present system of arriving at average cost values of stock is done away with, there will be a great saving, which can be offset against any increases in administration costs consequent upon the introduction of an averaging system."

84. It has already been made clear that the method we recommend does not "introduce complexities from which the Department is now free," and it is equally evident from the illustrations in paragraph 77, as well as the general explanations given in this report, that the scheme will not "add to the difficulties of taxpayers in understanding their assessments." On the contrary, it may pave the way for substantial economies. For instance: the intricate and costly attempt to fix for purposes of taxation the price of live stock on grounds which neither the principles of accountancy nor the practice of business approve can be modified or abandoned. The scrutiny of merchants' stock sheets can also without any loss of revenue be relaxed if the method be extended to taxpayers other than primary producers.

85. It would require substantial increase indeed in cost—a very much heavier increase than there is any reason to apprehend—to condemn a method so essentially equitable in principle and easy of application as that recommended by your Commissioners.

ILLUSTRATIONS.

86. A few examples founded on statements of actual operations furnished by witnesses may be given to explain clearly the method of averaging recommended:—(In each of the following examples tax is computed at the rates on incomes from personal exertion at present current under the Federal Income Tax Act).

Example 1 (actual case).

A. Year.	B. Taxable Income for the Year.	C. Total Income for the Five (or less) Years to date.	D. Average Income of Five Years. Taxable Capacity.	E. Recommended Averaging Method.		F. Averaging Method. Suspense Credits.	G. H. Present Federal Method.		I. Present Federal Method with carrying forward of losses.
				Rate of Tax applicable to Average Income (C).	Amount of Tax on Taxable Income (B) × (D).		Rate of Tax applicable to Income (B).	Tax on Taxable Income (B) × (G).	
	£	£	£		£		*	£	*
1 ..	14,818	14,818	14,818	77·4341	4,781	..	77·4341	4,781	4,781
2 ..	6,496	21,314	10,657	67·6970	1,832	..	46·6883	1,264	1,264
3 ..	608	21,922	7,307	57·8721	131	..	9·009	23	23
4 ..	L. 31	21,891	5,473	40·1374	..	5	..	..	..
5 ..	4,533	26,424	5,285	38·9345	735	..	34·1229	644	636
6 ..	3,853	15,459	3,092	24·9027	400	..	29·7719	478	478
7 ..	4,401	13,364	2,673	22·2218	407	..	33·2783	610	610
8 ..	4,523	17,279	3,456	27·2317	513	..	34·0589	642	642
9 ..	6,645	23,955	4,791	35·7737	990	..	47·6364	1,319	1,319
10 ..	L. 5,115	14,307	2,861	23·4247	..	499	..	..	..
11 ..	601	11,055	2,211	19·2657	48	..	8·9642	22	..
12 ..	5,411	12,055	2,413	20·5582	464	..	39·7407	896	41
13 ..	7,393	14,935	2,987	24·2309	746	..	52·4224	1,615	1,615
14 ..	22,207	30,497	6,099	44·1428	4,084	..	85·7238	7,933	7,933
15 ..	24,558	60,170	12,034	71·6570	7,332	..	87·3259	8,936	8,936
Average Annual Income ..	6,727	Totals for 15 years ..	..	..	22,463	504	..	29,613	28,278

* Columns "G" and "H" do not relate to the recommended method, but are inserted to show in comparison how tax is computed under the present Federal method.

Column "F" shows the Suspense Credits. This method is *not* recommended.

Column "I" shows how tax would be computed under the carrying forward of losses method.

87. From the opening year the normal working of the method recommended during the initial four and the eleven following years is shown in column "E". The two last years have been especially prosperous, and the tax payable under the method recommended is increasingly heavy, being calculated on the rate (D) applicable to the taxable capacity (C) attained during the five years of which it is the latest, on the basis of the income (B) actually received during the year itself. Leaner years may be expected to follow, but the prosperous years will continue to exert an influence on the rate of tax until in course of time they fall out of the active quinquennial period.

Example 2 (actual case).

A. Year.	B. Taxable Income for the Year.	C. Total Income for the Five (or less) Years to date.	D. Average Income of Five Years. Taxable Capacity.	E. Recommended Averaging Method.		F. Averaging Method. Suspense Credits.	G. Present Federal Method.		H. Present Federal Method with carrying forward of losses.
				Rate of Tax applicable to Average Income (C).	Amount of Tax on Taxable Income (B) × (D).		Rate of Tax applicable to Income (B).	Tax on Taxable Income (B) × (G).	
	£	£	£		£	£		£	£
1 ..	10,444	10,444	10,444	66·9887	2,915	..	66·9887	2,915	2,915
2 ..	10,519	20,963	10,481	67·1136	2,942	..	67·241	2,947	2,947
3 ..	4,994	25,957	8,652	59·6596	1,241	..	37·0725	771	771
4 ..	1,687	27,644	6,911	49·3384	347	..	15·9129	112	112
5 ..	8,032	35,676	7,135	50·7716	1,699	..	56·3623	1,886	1,886
6 ..	9,039	34,271	6,854	48·9736	1,844	..	61·4884	2,316	2,316
7 ..	640	24,392	4,878	36·3303	97	..	9·2137	25	25
8 ..	4,529	23,877	4,785	35·7333	674	..	34·0973	643	643
9 ..	8,927	31,167	6,233	45·0002	1,674	..	60·9751	2,267	2,267
10 ..	10,136	33,271	6,654	47·9940	2,014	..	65·9134	2,784	2,784
11 ..	12,315	36,547	7,309	51·8849	2,662	..	72·3647	3,713	3,713
12 ..	L. 6,812	29,095	5,819	42·3513	..	1,202	..	..	..
13 ..	8,436	33,002	6,600	47·3484	1,664	..	58·5658	2,058	105
14 ..	10,915	34,990	6,998	49·9850	2,269	..	68·5112	3,116	3,116
15 ..	L. 7,886	16,968	3,394	26·8350	..	882	..	..	..
Average Annual Income ..	6,700	Totals for 15 years .. ..		..	22,042	2,084	..	25,553	23,602

88. From the opening year the normal working of the method recommended is shown in column (E). For the treatment of the first five years of the initiation of the method either now or on the entrance of a new taxpayer into the taxable field, two proposals have been made, one only of which commends itself to us, and is illustrated above. Under it, the first year having no predecessor, its income alone is treated as determining taxable capacity, and it is taxed at the rate appropriate thereto. The second year averaged with the first determines the taxable capacity at the end of the second year, and at the rate applicable to the taxable capacity the tax is calculated on the actual income of the second year. Similarly the taxable capacity at end of the third year is found by averaging the three known years, and on the rate applicable to such average, calculating the tax on the actual income of the third year, and so on with the fourth and fifth years. For the sixth year the first year is allowed to fall out, and the taxable capacity is obtained by averaging the quinquennium containing the second, third, fourth, fifth, and sixth years. In every case the basis of liability on which the tax is calculated is the last year of the quinquennium (or shorter period if there be less than five years).

89. It may be interesting if these examples be summarized as in the table following paragraph 75.

Example No.	Number of Years.	Average Annual Income.	Present Federal Method.	Carrying Forward of Losses.	Recommended Average Method.	Average Method with Suspense Crs.	Steady Income.
1	15	£ 6,727	£ 29,613	£ 28,278	£ 22,463	£ 21,959	£ 20,245
2	15	6,700	25,553	23,602	22,042	20,811	18,756
Totals ..	30	6,714	55,166	51,880	44,505	42,800	39,005
Relative percentages			141·43	133	114·10	109·72	100

90. Both of these cases show Suspense Credits as explained in paragraph 72 of this Report, but these Suspense Credits are for reasons given in paragraph 75 entirely disregarded in the method we recommend. The aggregate taxes payable in these cases under the method recommended by us would be £22,463 and £22,042 respectively. In these figures no allowance is made for Suspense Credits.

91. Under the British averaging system, tax on the income of any earning year is in fact collected in one, three, five, or seven instalments spread over as many years. This, allied with another feature of that system, under which the averaging is applied to businesses as well as individuals,

involves intricate adjustments at the commencing, closing, or transferring of a business, adjustments which are wholly unnecessary in the system we recommend. It will be observed that the tax payable under the method recommended is always based upon the actual income of the immediately preceding year, in that respect, following precisely in the footprints of the Federal and all the Australian State systems—so that the payment of the tax follows closely upon the year in which the income was earned, the difference from those systems being that the rate of tax is determined by the “taxable capacity” of the subject as disclosed by his income “on a long time basis” (in these cases up to five years) instead of by the income fortuitously high or low of the immediately preceding year.

ALLEGED HARDSHIP.

92. The system of taxation which is an unmixed blessing has not yet been discovered, and it may be said that averaging as formerly understood, though its beneficent intention cannot be questioned, left much to be desired, but the scheme as herein recommended will show in comparison with any others a resolute advance towards recognised ideals. While it was quite true that in the British averaging scheme undue generosity was extended to expanding incomes and undue hardship meted out to dwindling incomes, this was mainly due to the creation by the British system of averaging of a “Statutory Income” at variance with the true income (augmented or diminished by the position of its tapering parts). In the scheme now proposed, the tax is based on the actual income of the immediately preceding year, the rate only being fixed by the averaging period, and should it be proved, which is unlikely, that the rate is unduly inflated in any special and peculiar case, the remedy could be supplied by some provision on the lines of section 64 of the present Act. This contingency is so remote that for practical purposes its consideration, beyond the mere mention, can be disregarded, for in nearly all cases where a taxpayer has been enjoying a larger income in former years any increment in rate consequent thereon when his income is lessened, seeing that such rate is applied solely to his actual income of the immediately preceding year, will not carry with it sensible hardship.

OBJECTIONS TO THE SCHEME.

93. Objections which may be voiced against the scheme recommended have already been anticipated in explaining and setting forth its advantages, but there still can be said that its adoption will involve a reduction in revenue. Any scheme, whether it be equitable or not, of allowing for losses or granting relief or providing any other method whereby taxation is eased or waived, necessarily depletes the revenue, so that even this cannot be specially urged against the proposed change now advocated. It is common to every scheme designed to secure relief from unjustly excessive taxes.

94. The claim made by primary producers is not for preferential treatment, but that they may be put on the same footing as their fellow citizens receiving steadier incomes. Their petition is for release, not from just tax, but from the inequity under which they feel they suffer by reason of uncontrollable circumstances and the failure of the present system to adapt itself to inescapable fluctuations, and they affirm that the measure of loss to the revenue which will follow if justice be now done to them is precisely the measure of the injustice under which they have hitherto laboured and still suffer. In this statement of their position your Commissioners cannot do otherwise than concur. Furthermore, the greater the loss to the revenue due to the introduction of this needed reform, the more urgent is the call for prompt and equitable adjustment and the redistribution of the burden.

95. While recognising the necessity for maintaining the revenue required for public services, we have not yet received such particulars as will enable us to estimate closely the sum which may be involved in giving effect to our recommendation, but the whole matter will be further dealt with in our Final Report. Meanwhile, it ought to be emphasized that our minds have not been swayed by questions of individual or revenue loss or gain in the adoption of one or another system. While not excluding the revenue aspect, we have confined ourselves strictly to the inquiry which the Right Honorable the Treasurer has requested us to treat as specially urgent, viz.:—What amendments are necessary or desirable with the view of placing the system of taxation upon a sound and equitable basis, and particularly to the giving to primary producers of special consideration, &c.

96. The method we recommend—as defined in paragraph 61—will afford effective consideration to primary producers, and may without alteration be extended to all or any section of the whole body of individual taxpayers immediately or as general demand and public policy may determine. If this be enacted there will cease to be any need for the giving of “special consideration” to primary producers or any other taxpayers to whose assessments the method is applied.

[NOTE.—From this section of the Report Commissioners Kerr (Chairman), Mills, and Duffy express dissent. See page 49.]

SECTION II.

TAXATION OF PROFITS ON THE SALE OF MINING LEASES.

97. Any one interested in mining who opens the Income Tax Assessment Act at section 18 (1) (i), which allows all calls paid upon mining shares to be deducted from assessable income, might reasonably conclude that the Commonwealth Parliament looks upon the mining industry as one which should be given specially favoured treatment.

98. That conclusion would be strengthened by a reference to section 17 of the same Act, which grants special concessions to mining companies by permitting capital expenditure in necessary plant and development to be deducted in yearly amounts based on the life of the mine. Alternatively, a taxpayer is allowed to deduct income expended for development and which, but for this section, would not be deductible from the taxable income.

99. But the evidence tendered to the Commission in Western Australia shows that expert opinion in that State regards the income taxation of the Commonwealth in its effect upon mining, particularly gold mining, as one of the obstacles to that revival of the industry which is at present an urgent need of the State.

100. The position is that the famous gold-mining centre, Kalgoorlie, like the numerous smaller centres, finds its output of gold steadily declining. The State output of gold, which in 1903, the year of maximum production (not only for Western Australia, but also for the Commonwealth), was valued at £8,770,719, had shrunk in 1918 to a value of £3,723,183. Growing costs of production, partly due to the greater expense of mining at lower levels, and still more to increased wages, are tending to make gold mining unprofitable in the "Golden Mile" and elsewhere, although the mines are stimulated by the "precarious oxygen" of the existing premium on gold.

101. The prospector is the hope of the industry. But the responsible chiefs of the industry seriously assert that the Federal income tax upon the profits of the sale of a mining lease, the chief means by which a lucky prospector may reimburse himself for years of privation and solitary toil, falls with such crushing weight that the best men are discouraged, and some cannot now be persuaded to undertake the work at all.

102. The Commission, at Kalgoorlie and at Perth, heard the evidence of leading men in the industry, including some very experienced prospectors, all of whom strongly urged that some relief from the present high taxation should be given to the prospector who discovers a saleable mine or field.

103. Instances were given such as that of a man who, after some years of skilled searching, discovered a mine, the lease of which he took up and sold for £10,000. The Commonwealth Income Taxation Department claimed £3,421 as tax, and the State claimed £2,300.

104. This would be a very formidable deduction from the profit, even if the whole consideration for the sale were paid in cash. It was represented, however, that a large part of the consideration is frequently paid in shares; that, for taxation purposes, in the absence of any established market price, these shares are assumed to possess a value not less than face value, when the fact often is that at the time they are either wholly unsaleable or are saleable only at a price representing a small proportion of the face value, and that in such cases the imposition of tax at the high rates above indicated leaves the solvency of the taxpayer at the discretion of the Commissioner.

105. Even without such discouragement, it is said that capable prospectors, never too numerous, are fast dwindling in numbers, and that few of the younger generation are attracted by a life in which the only certainties are hardships, and the rewards, if occasionally great, are rare.

106. Apart from section 14 (a) of the Act, and the definition of "income" which "includes the proceeds of any business carried on by the taxpayer, taxation of the profits on the sale of a lease is specifically imposed under the provisions of section 14 (d) inserted in the Federal Act in 1918. The sub-section reads:

14. The income of any person shall include—

(d) Money derived by way of royalty or bonuses, and premiums fines or foregifts or consideration in the nature of premiums fines or foregifts demanded and given in connexion with leasehold estates, and the amount of any payment received by a lessee upon the assignment or transfer of a lease to another person after deducting therefrom—

- (i) the part (if any) which, in the opinion of the Commissioner, is properly attributable to the transfer of any assets belonging to the lessee; and
- (ii) so much of any fine premium or foregift paid by the lessee or any amount paid by the lessee for the assignment or transfer of the lease as, in the opinion of the Commissioner, is properly attributable to the period of the lease unexpired at the time of the assignment or transfer by the lessee.

107. It was stated in evidence that this provision was originally inserted with a view to the taxation of profits on the sale of hotel leases, but its wording is wide enough to include mining leases, and the section is so interpreted by the Department.

108. It was urged on behalf of the prospectors that, in their case, the tax is a tax on a casual profit, and that, under Federal income taxation practice, casual profits (unless coming within a specific provision, such as section 14 (d) above cited) are not taxed. That is true.

109. Two questions then emerge from the discussion on the taxation of a prospector's profits on the sale of a mining lease. The first is whether such profits should be treated as an accretion of capital—a casual profit—and exempted from tax; the second whether the profits from such sales should be made the subject of special consideration. On the first question it was specially contended that the infrequent profit of a prospector is, and should be, regarded as an accretion of capital, and on that account non-taxable.

110. Whether profits from the sale of a mining lease be properly regarded as capital and not income, courts of law and taxation administrators agree that profits made in pursuance of a man's main business cannot be classed as accretions of capital. Nor is there any apparent justification for treating such income as casual profit. A prospector is a man whose business it is to seek for new mines, and, when found, to sell those mines, and, consequently, his profits do not fall under the accepted category of casual profit. Under section 10 of the Act they are treated as proceeds derived from sources within Australia of a business carried on by the taxpayer.

111. It was further contended, however, that such profits should alternatively be treated as deferred income eventually paid in a lump sum, and that the taxable sum should, for the purposes of determining the rate of income tax, be divided by a number representing the number of years during which the search had proceeded, and that the rate applicable to the amount so found be the rate charged on the whole taxable sum. This contention is dealt with in paragraph (121) of this Report. Such treatment could not, of course, be extended under the Act as it now stands.

112. The discussion so far has been kept on the simplest basis, by speaking only of the "prospector." The prospector, however, is generally equipped and maintained during his period of search by a "backer." That term should be read as meaning an individual, or a number of individuals united under some form of contract, statutory or otherwise. To what extent relief to a prospector would mean relief to the "backer" cannot be stated.

113. Again, if a fairly promising "field" is discovered, scores of leases change hands, the transactions often involving large profits to speculators and brokers or other company promoters, who certainly cannot be regarded as having done anything entitling them to special consideration.

114. The conclusion seems justified that, if relief from income taxation is to be granted to the finder of promising mines or "fields," that relief should be founded upon a view that the work and skill of a prospector is so specially valuable to the community, that it should be rewarded by granting him exemption, wholly or in part, from taxation of his profits.

115. Referring specially to Western Australia, the only State in which evidence on the question was tendered, the following statements are supported by the evidence:—

1. The mining industry, especially gold mining, is declining.
2. Its revival and continuance will depend chiefly upon fresh discoveries.
3. The vital need is for a sufficient number of capable prospectors.
4. The incidence of Commonwealth and State income taxation is causing skilled prospectors to abandon their calling, and is deterring others from entering upon that calling.

116. As to points 3 and 4, it is probable that the evidence stresses too strongly the present difficulties. The Governor's speech at the opening of the Western Australian Parliament on the 28th July of this year, included a statement that—"The rains on the gold-fields have stimulated prospecting, and 72 parties have been assisted and despatched." The speech also stated that—"The heavy impost on the sale of mines will be removed by an amendment of the Land and Income Tax Act." So far as State taxation is concerned, it appears, therefore, that the grievance complained of will shortly be remedied. But the Commonwealth impost is much the heavier.

117. Our inquiries do not lead us to the opinion that prospectors should be specially and peculiarly favoured by being granted a bounty or bonus in the shape of relief from taxation of the profits of their business, though that is really involved in the request for favorable treatment. If at any time the payment of such a bounty were found expedient it should not, in our opinion, be made in the form of a suspension of or release from taxation under the income tax law.

118. It is undoubtedly an injustice that the whole of the proceeds of a discovery should be taxed at a high rate in the year of success, and that no allowance whatever should be made for the years of unrequited toil which have preceded and contributed to the profitable discovery.

RECOMMENDATION.

119. The prospector's case will, in our opinion, be met if the method of averaging income over a period of five years as recommended by us in paragraph 61 of this Report be enacted, and we recommend accordingly.

120. An illustration may make the matter clear. After four years during which the prospector, a married man without children, earned, after payment of all expenses, £100, £160, £200, and £150 respectively each year, he in the fifth year found and sold a mine for a sum which, after covering all expenses, commission, and other charges, left him a net return of £10,000. With this as capital, he started in business as (say) a storekeeper or contractor, and made in the

sixth and following years net incomes of £500, £600, £700, £700, and £800 respectively. He would at present rates be subject to Federal income tax as shown in Column E, which is contrasted in Column H, with the tax under the present Federal method:—

A Year.	B Taxable Income for the year.	C Total Income for the five years to date.	D Average Income of five years. Taxable Capacity.	E Recommended Method.		G Present Federal Method.	
				Rate of Tax applicable to average Income "C."	Amount of Tax on Taxable Income (B x D).	Rate of Tax applicable to Income "B."	Tax on Taxable Income (B x G).
	£	£	£	d.	£ s. d.	d.	£ s. d.
1	Nil	..	..	..	..	..	..
2	5	5	2	5·1315	0 2 1	5·1507	0 2 2
3	58	63	21	5·2531	1 5 4	5·4899	1 6 6
4	Nil	63	16	5·2211	..	..	..
5	10,000	10,063	2,012	17·9924	749 13 8	(Per scale)	2,725 14 8
6	458	10,521	2,104	18·5811	35 9 2	8·0492	15 7 3
7	592	11,108	2,222	19·3361	47 13 10	8·9066	21 19 5
8	700	11,750	2,350	20·1551	58 15 8	9·5977	27 19 10
9	700	12,450	2,490	21·0509	61 7 11	9·5977	27 19 10
10	800	3,250	650	9·2777	30 18 6	10·2375	34 2 6
	13,313	..	..	..	985 6 2	..	2,854 12 2

121. The large income in the fifth year has ceased to exert a direct influence in determining his taxable capacity in the tenth year, and consequently the rate of tax in column D has become more normal. During the ten years he would, under present Federal method, pay £2,854 12s. 2d. in tax, as against £985 6s. 2d. under the recommended method. His total income for the ten years is £13,313, or, including exemptions (not deductible from the steady income), £13,910, and if he had received a steady income of equal volume, viz., £1,391 yearly, the tax of £81 5s. per annum would have amounted for the period to £812 10s. In the foregoing the prospector has been treated in exactly the same way as any other primary producer would be under our recommended method—an illustration of its general applicability. The four years preceding the year of discovery were not necessarily spent in searching; their income may have been derived from this or any other avocation. His income from *any* source in Australia in the four years would average with the income of the fifth year. It is highly improbable that his operations would in any of the earlier years show an absolute loss, and consequently relief from excessive tax cannot in his case be looked for from the "carrying forward of losses" method.

122. There may arise, however, cases in which a prospector has been engaged in the search for a longer period before meeting success, and if such cases be deemed matter for special consideration, it may be suggested—though for reasons given in paragraph 110 we do not recommend—that the Commissioner be given power, on production of satisfactory evidence of the duration of the search, to determine the taxable capacity of the prospector for the purpose of taxing the income of the year of sale only, by using a divisor larger than five but not larger than the number of years spent in the search.

123. Thus under the method recommended by us, if this suggestion be adopted and it be proved to the satisfaction of the Commissioner (or the Board of Appeal) that the prospector had spent seven years in the search, the tax for the fifth (now the seventh) year would be (assuming the first two to have been unprofitable): $\frac{10063}{7}$ = average, or taxable capacity, for that year, £1,438, the rate on which, 14,3917 pence multiplied by 10,000, gives the tax, £596 13s. 1d., being a reduction of £153 0s. 7d. on the amount shown for that year in column E of the table. Other years would remain as shown in the table. If the prospector should leave the country, taking his gains with him immediately after realizing on his discovery, the position is exactly the same as with any other person who retires from business and leaves Australia—the source of his income and his residence being then both outside of Australia he is not any longer liable to Federal income tax. The tax paid by him in the sixth year in respect of his income of the fifth year is a full discharge of his liability to the Commonwealth in this regard.

124. If portion of the consideration for which the mine is sold be partly or fully paid-up shares in a company or syndicate or any other actual or contingent payment, the actual value at the time of sale of such shares or other payment should be included as part of the income and be taxable accordingly.

125. The profits of backers and speculators do not call for consideration other than that which would be extended to other taxpayers by general application of the average method recommended by us.

126. The question of the taxation of casual profits generally will be dealt with in a subsequent Report.

[NOTE.—From the recommendation in this section Commissioners Kerr (Chairman), Mills, and Duffy express dissent. See page 49.]

SECTION III.

BONUS SHARES.

127. The taxation of what are called bonus shares, at least in some of their forms, was the subject of strong protest by many witnesses. At present income tax is levied on such shares under the authority of section 14 (b) of the Income Tax Assessment Act, which provides that :—

The income of any person shall include—

- (b) dividends, interest, profits or *bonus credited or paid* to any depositor, member, shareholder, or debenture-holder of a company which derives income from a source in Australia or of a company which is a shareholder in a company which derives income from a source in Australia, but not including a reversionary bonus issued on a policy of life assurance.

128. The practice is to treat the amount represented by the face value of the shares as income for the purposes of the tax, irrespective of market value, if any.

129. The distribution of bonus shares arises from the "capitalization" of amounts representing :—

1. Trading profits of the current year.
2. Trading profits of previous years which have not been distributed in the form of cash dividend.—
 - (a) made prior to 1st July, 1914 ;
 - (b) made subsequent to 1st July, 1914.
3. The increased value of fixed or "capital" assets.
4. The gains on the sale of fixed or "capital" assets.

130. All the witnesses who touched the subject agreed that bonus shares issued in respect of the sale or writing up of fixed or capital assets (items 3 and 4 above) being indubitably of capital origin, should be regarded only as accretions of capital, and should not be subject to tax in the hands of either the company or the shareholders. The taxation in the hands of shareholders of bonus shares issued in respect of "undistributed profits," and this term must be taken to include profits under both the headings 1 and 2 above, though Item 1 was rarely mentioned, was regarded by most witnesses as reasonable, or at least not open to the same objections as exist in items 3 and 4 above.

131. But the following considerations should be taken into account :—

- (a) Undistributed profits, before issue in the form of shares, are first in accordance with powers conferred by the Companies Acts converted into capital.
- (b) Capital is not a proper subject for taxation under an Income Tax Act.
- (c) Those undistributed profits have already been taxed in the hands of the company.
- (d) If shareholders are to bear an additional tax on these amounts when converted into capital and issued as shares, it is obviously necessary to show that the issue has in some way added to the shareholder's taxable capacity.

132. As to (a) and (b), the question of conversion into capital of what was originally income in the hands of the company has been recently considered by the House of Lords in the case of *Commissioners of Inland Revenue v. Blott, Commissioners of Inland Revenue v. Greenwood* (commonly known as Blott's case), where it was held that a resolution of a company effecting that conversion is "good as against the whole world, including the Crown, claiming or taxing for any other purposes." (*Times Law Reports*, Vol. 37, No. 26, June 17th, 1921.) The judgment in Blott's case is that of a majority of the House of Lords, which confirmed the judgment of the Court of Appeal and the Court of first instance.

133. As to (c) and (d) the difficulty to be faced by advocates of the taxation of bonus shares is more formidable. The issue of the shares does not alter the proportion of the shareholder's interest in the company, and adds nothing to his taxable capacity. In the words of Viscount Cave in the case above cited, "The transaction took nothing out of the company's coffers and put nothing into the shareholders' pockets; and the only result was the company which, before the resolution, could have distributed the profit by way of dividend or carried it temporarily to reserve, came thenceforth under an obligation to retain it permanently as capital." If the company had gone into voluntary liquidation, the next day, the shareholder's interest in the distributable surplus would have been neither more nor less than it would have been if the shares had not been issued.

134. In a few instances, it may be true that the aggregate market value of a shareholder's holding would be slightly greater after the bonus issue than before, and, if so, the taxable capacity of the shareholder would be increased to the extent of that margin. The rarity of such instances may be inferred from the fact that such a contingency was not suggested in any one of the five judgments delivered in the House of Lords in Blott's case.

RECOMMENDATION.

135. On the grounds specially that bonus shares are capital and that the issue of those shares affects neither the proportionate interest of the shareholder in the company nor his taxable capacity, the Commission is of opinion that bonus shares should not be treated as liable to income tax in the hands of the recipient shareholders.

136. As to the revenue effect of that course, the Federal Commissioner of Taxation stated that the company rate was fixed as representing a fair average of the rates paid by individual

shareholders. The more accurately the company rate reflects the true average of shareholder's rates, the less will be the effect on the revenue, but there are two factors, each of which will have an adverse revenue effect.

137. The non-inclusion of bonus shares in the recipient's taxable income, from the fact that their value would not become operative in determining the aggregate taxable income of the taxpayer, would result in the rate of tax chargeable to him being less than it would be if the bonus shares were treated as taxable in his hands.

138. Under the present method of allowing rebate to a shareholder in his assessment in respect of a dividend upon which the company has already paid tax, he is only allowed (section 16 (2) (a) of the Act) a rebate in respect of the amount paid by the company at his individual rate of tax when it is less than the rate paid by the company. This practice means in many cases some revenue gain, which would have to be foregone if bonus shares are not taxed as income in the hands of the recipients.

139. There is, however, one situation as to which provision would have to be made in order to prevent certain company trading profits escaping taxation altogether. That is the case in which profits of the current year are immediately capitalized and issued in the form of bonus shares.

140. This practice is specially liable to be followed in cases of large businesses in the form of proprietary companies, either "one man" companies or companies owned by a small number of persons. The Commissioner of Taxation pointed out that, as the Act now stands, under such circumstances a company would not be liable to taxation, and if, in accordance with the above recommendation, the shares be treated as capital, the shareholder would be untaxed. The provision to be made to meet this situation should preferably be in such a form as to make taxable the profit in question while it is still income in the company's hands.

[NOTE.—From the recommendation in this section Commissioners Farleigh and Duffy express dissent. See page 39.]

SECTION IV.

BOARD OF APPEAL UNDER THE INCOME TAX ACT.

141. There was perhaps no single subject upon which such unanimity of opinion was manifested by witnesses as upon the necessity for the appointment of a tribunal, other than a Court, to deal with the numerous cases under the Income Tax Act in which taxpayers dissent from the decisions of the Commissioner, but for various reasons are unable or unwilling to assert what they believe to be their rights, in a superior Court.

142. The present position is that the Income Tax Assessment Act (section 37) provides that a taxpayer who is dissatisfied with an assessment made by the Commissioner, may lodge an objection in writing, and, if he is also dissatisfied with the decision of the Commissioner upon the objection, he may ask the Commissioner to treat his objection as an appeal, and forward it "either to the High Court, the Supreme Court, or a County or District Court of a State, or such other Court as is specified in that behalf by proclamation." Sub-section (6) of section 37 precludes the proclamation of any Court of status inferior to that of existing District or County Courts, and, in practice, the choice of the taxpayer lies between the High Court and the Supreme Court of a State.

143. The expense, delay, and risk of proceedings in the superior Courts are said to deter taxpayers (particularly where the amount involved is not large) from seeking a judicial determination of points at issue between themselves and the Taxation Department, and some witnesses considered that there were occasions on which departmental officers had taken advantage of this reluctance. It is contended also that, in many cases, no point of law arises, but the issue is one depending upon differing views as to facts. All the witnesses were agreed that, where a question of law is involved, an appeal should lie from the suggested Board of Appeal to the High Court or a Supreme Court.

144. As to the nature of the tribunal to be made available to taxpayers, there were a few exceptions from the general view. Two witnesses preferred the County Court to any tribunal specially appointed to deal with taxation matters only, and in Western Australia, where there are no Courts corresponding to the District or County Courts of other States, and where the practice is for the City Magistrate of Perth to adjudicate upon appeals from decisions of the State Commissioner of Taxation, some witnesses favoured the jurisdiction of magistrates to deal with all such cases, Federal and State. One obvious objection to the imposition of new duties upon existing Courts is that they already seem overloaded with current law work, and another objection is that the evidence taken by the Commission disclosed a very widespread desire for a tribunal less hampered by technical rules of evidence and procedure than are the ordinary Courts of law. There is undoubtedly a general belief that such a tribunal would be cheaper, more direct, and more speedy in its methods, and would give greater satisfaction to the taxpayers.

RECOMMENDATION.

145. The Commission is of opinion that it is desirable to constitute a Board of Appeal on the lines suggested by many witnesses, that is, a tribunal of three persons with fixed tenure for a term of five or seven years, one of whom should have preferably, but not necessarily, knowledge of law, one general commercial experience, and one experience in accountancy.

146. Many witnesses suggested that such a Board should be appointed in each State. Experience alone can supply the data for a safe judgment as to the number of Boards which would be permanently required. Amendments of practice, for example the early issue as announced in the Taxation Commissioner's evidence of the departmental rulings and interpretations affecting taxpayers and also possible amendments of the law in consonance with recommendations of the Commission, may reduce the volume of disputes between taxpayers and the Department.

147. In the opinion of the Commission, the wisest course as a beginning will be to appoint one Board. After making allowance, so far as possible, for a probable reduction in the number of appeals from the Commissioner's decisions, the experience gained by the working of the first Board would within a reasonable time enable a decision to be reached as to whether and to what extent the constitution of additional Boards would be justified.

148. The Commission is satisfied—

- 1st. That with the present heavy burden of direct taxation it is imperative that some action be taken to allay existing discontent by giving taxpayers access to an independent tribunal (with a simple and inexpensive procedure) for the determination of disputes with the Department.
- 2nd. That the expense of maintaining a tribunal to meet the clamant requirements of taxpayers is abundantly justifiable.
- 3rd. That there is no justification for the immediate creation of a number of Boards, some of which might become redundant.

149. It may be impossible to afford at once all the facilities desired, but taxpayers will no doubt appreciate the inauguration on careful lines of a reform, the machinery of which can be extended as experience warrants.

150. The Board when appointed should be given power to deal with appeals in all matters in which the Commissioner's discretionary power is not subject to review [with the exception of purely administrative matters, such as prescription or delegation of powers, (sections 5A, 6, and 7), power to require returns, make default assessments, &c., &c. (sections 28 (2), (3), 29, 32, 41 (2), (3), 42, 46A (2), 50A, 52 (f), 52A (d), 55, 56)], and generally with all matters in which taxpayers are dissatisfied with the Commissioner's decision, including those in which there is now a right of appeal to a Court under section 37 of the Income Tax Assessment Act.

151. The Commission approves of the view generally expressed by witnesses on the subject, that the Board's decisions as to matters of fact should be final.

152. It is considered that it should be the duty of the Commissioner to forward an objection to his decision to the Board when requested to do so by any dissatisfied taxpayer within 30 days of the receipt by him of such request.

153. The parties should have the right to appear before the Board in person, or by representative.

154. With a view to discouraging appeals to the Board on unimportant issues or on frivolous or unreasonable grounds, it is suggested that the appellant should be required to deposit a prescribed fee at the time of lodging an appeal. In the event of the Board considering the appeal frivolous or unreasonable the Board shall have the power to order the forfeiture of the whole or part of the fee.

155. It is, perhaps, hardly necessary to say that it is not intended—

- (a) That the Board should have administrative functions ;
- (b) That a taxpayer should have access to the Board except by way of appeal from a decision of the Commissioner ; or,
- (c) That the right of a taxpayer to appeal either direct from the Commissioner or from the Board to a superior Court should be in any way restricted.

156. The Board would, of course, be given all powers necessary for the exercise of the jurisdiction to be conferred upon it. Among special powers, it is recommended that the Board be given the right, when it thinks necessary, and after hearing the parties, to state a case for determination of the High Court, the expenses of the proceedings before the Court to be borne by the Crown.

157. In cases also where a taxpayer succeeds in proceedings before the Board, and the Commissioner of Taxation appeals to the High Court, it is recommended that irrespective of the result the whole expenses of the proceedings in the Court be borne by the Crown.

158. A taxpayer desiring to appeal to the High Court from a decision of the Board should, in our opinion, have the right to apply to the Board for a certificate (which the Board should have discretionary power to grant) that the matter is one of such general importance as to warrant the payment by the Crown of the appellant's taxed costs of the appeal (but not exceeding an amount to be specified by the Board), and that, where such a certificate is issued, the Crown should assume responsibility for payment of taxed costs up to the amount so specified.

159. It may be said that, where there is an appeal to the High Court from the Board's decision, either by the Crown, as represented by the Commissioner of Taxation, or by a taxpayer,

the decision as to whether the matter in issue is one of such general importance as to justify payment of costs by the Crown, irrespective of the result, should be for the High Court, and not for the Board. The Commission has considered that point, and is of opinion that the responsibility for that decision should be intrusted to the Board. If left to the High Court, a taxpayer would not know until final judgment had been given whether or not he would have to bear the whole costs if he failed, or the difference between taxed costs and costs between solicitor and client if he succeeded. The Commission is of opinion that this uncertainty and risk would have the very undesirable effect of reducing to a large extent the accessibility and value of the Board to taxpayers, as a taxpayer would be likely to refrain from approaching that tribunal if he knew that, in the event of a decision favorable to his claim, the Commissioner of Taxation would almost certainly appeal to the High Court. A taxpayer might equally be impelled to refrain from approaching the Board by the consideration that, if he failed there, any appeal to the High Court would be wholly at his own risk, although the point at issue were one the decision upon which would be of wide application.

160. With the discretionary powers recommended to be given to the Board, there should be an adequate safeguard against frivolous or unreasonable appeals to the High Court at the expense of the Crown.

161. The British Commission made a recommendation similar in effect to those made above. The paragraph in which they deal with the matter reads as follows :—

(594) “ With regard to costs, it is argued that an important point of principle may be raised by an appellant who is not financially strong enough to take the risk of fighting his case through to the highest Court, and that for this reason points of principle may sometimes be decided by default rather than by judicial determination. On the other hand, it is pointed out that if it were laid down as a rule that, where a case is carried from a Court of First Instance by the Revenue, further costs on both sides would be paid by the Crown, litigants would be encouraged to take “ fighting points ” to the High Court by the knowledge that if they obtained a favorable decision in the first Court they would have a comparatively light bill of costs in any subsequent proceedings. It is to be remembered that costs paid by the Revenue are ultimately borne by the general body of taxpayers. We have considered this matter very carefully, and have borne in mind that the Revenue authorities in certain test cases consider the circumstances of the appellant, and by agreement, at their discretion, pay the costs of both sides ; but we do not think that this is enough, and we therefore suggest that, *where the taxpayer has taken the case to the High Court, and has obtained a decision in his favour in that Court or the Court of Appeal, the Revenue, if they decide to take the matter higher, should pay the costs of the taxpayer as well as their own in the higher Court.* ”

It may be remarked that the High Court referred to in the paragraph quoted is not, as in Australia, the final Court of Appeal, but the Court to which such cases would in the first instance be taken.

162. Another function which, in the opinion of the Commission, should be intrusted to the Board is that of deciding the extent of remission of taxation (if any) which should be granted to an applicant under the relief section 64. That section constitutes, as the Board to deal with such cases, the Commissioner, the Secretary to the Treasury, and the Comptroller-General of Customs. No imputations were made against the fairness and capacity of the existing Board, but there were numerous and strong expressions of a desire on the part of the public, that applications under section 64 should be decided by a Board, the members of which are independent of Commonwealth Departments. Three specific complaints were made against the present arrangement, namely—first, that long delays are too frequent ; second, that, from the absorbing nature of their other duties, the public officers now forming the Board under the section cannot afford to give the time requisite to deal promptly and effectively with the cases arising ; and, third (this was given great emphasis), that taxpayers have no right of appearance before the Board. As to delays, a number of specific instances were submitted to the Commission, and, although the Department showed in a general reply that these are sometimes due to the taxpayer's failure to supply information promptly, there was clearly a considerable residue of cases in which the taxpayer was not the cause of delay.

SECTION V.

DOUBLE INCOME TAX.

163. The Commonwealth scheme of Income Taxation applies only to incomes arising within Australia. The British scheme, like that of India, Canada, and Newfoundland, takes a wider sweep and taxes incomes of residents whether those incomes arise within the country of residence or elsewhere. For the purposes of the British Income Tax, a resident is a person who lives within the British Isles for six months in any one year. The British system leads inevitably to double taxation of incomes gained in Australia by a person resident in the United Kingdom as both Commonwealth and British taxes are leviable.

164. This double taxation, that is in both the Dominions and the United Kingdom, of the profits from Dominion investments owned by persons resident temporarily or permanently in the United Kingdom, had been a subject of complaint for many years before the war. During the war the rapid increase of rates of taxation throughout the Empire transformed a chronic but not very severely felt grievance into one much more acute.

165. In 1917 the subject was discussed at the Imperial War Conference, which passed the following resolution:—

“That the present system of double income taxation within the Empire calls for review in relation—

- (1) to firms in the United Kingdom doing business within the Overseas Dominions India and the Colonies;
- (2) to private individuals resident in the United Kingdom who have capital invested elsewhere in the Empire, or who depend upon remittances from elsewhere within the Empire; and
- (3) to its influence on the investment of capital in the United Kingdom, the Dominions and India, and to the effect of any change on the position of British capital invested abroad.

166. The Conference, therefore, urges that this matter should be taken in hand immediately after the conclusion of the war, and that an amendment of the law should be made which will remedy the present unsatisfactory position.”

167. In 1916 and 1918 a partial remedy was provided wholly at the expense of the British Exchequer, and when in 1919 a British Royal Commission was appointed to inquire into Income Tax, arrangements were made for a Conference between the members of the Commission and, representatives of the Dominion Governments in order that the views of the Dominions might be ascertained on the subject of Double Income Tax within the Empire. The Commission selected eight of its members as a sub-Committee to confer with the Dominion representatives and make a report to the main body. At the Conference which followed, Australia was represented by Mr. G. H. Knibbs, C.M.G. (then Commonwealth Statistician), and representatives of Canada, India, New Zealand and South Africa also attended. After prolonged discussion, the sub-Committee adopted and the Commission later indorsed, a recommendation in these terms:—

“Firstly, that in respect of income taxed both in the United Kingdom and in a Dominion, in substitution for the existing partial reliefs, there should be deducted from the appropriate rate of the United Kingdom Income Tax (including super-tax) the whole of the rate of the Dominion Income Tax charged in respect of the same income, subject to the limitation that in no case should the maximum rate of relief given by the United Kingdom exceed one-half of the rate of the United Kingdom Income Tax (including super-tax) to which the individual taxpayer might be liable; and, secondly, that any further relief necessary in order to confer on the taxpayer relief amounting in all to the lower of the two taxes (United Kingdom and Dominion), should be given by the Dominion concerned.”

168. The Federal Commissioner of Taxation has informed us that this recommendation has been accepted by all the Dominions except Australia, and has been made operative in Great Britain so far as the relief from Double Taxation to be afforded by British authorities is concerned. The question whether Australia should adopt the recommendation of the Royal Commission and bear its share of the full measure of relief which is suggested has been fully considered by us.

169. The Federal Commissioner of Taxation in his evidence before us expressed the view that if the Commonwealth entered into the arrangement, Australia should abandon its present method of taxing only incomes which arise in Australia, and in future should also levy taxes on the ex-Australia incomes of its residents.

170. We consider that there is no essential relationship between these two matters (the adoption of the British Royal Commission's recommendation and the taxation of ex-Australia incomes) and that the adoption of either one of the suggestions should not be regarded as necessarily dependent upon the adoption of the other.

171. There is, however, a revenue aspect. The estimate supplied to the Commission as the present annual cost to the Commonwealth and States of adopting the arrangement with Great Britain is £45,000. The mode by which this and any other reduction in revenue, consequent upon the adoption of our recommendations, may be made good will be dealt with in a subsequent report. There are, however, other considerations which in this instance may be as important as those of revenue. Apart from allaying the irritation which is still felt, though in a lesser degree than that which found frequent and vigorous expression before the present measure of relief was afforded by the British Government, the opinion was freely voiced by several witnesses that Double Income Taxation (even the lower measure which now operates) acts as a distinct deterrent upon the investment

of British capital in Australia. No very precise estimate could be formed from the evidence as to the extent to which Double Income Taxation operates in this direction, since it was admitted by witnesses that other factors may have contributed in specific instances to the actual or threatened withdrawal of capital from investment in Australia.

172. There is a further aspect of the subject which should be borne in mind. The concession which the Commonwealth is asked to make in the proposed arrangement, may, in our opinion, be rightly regarded as a practical expression of the spirit of reciprocity which, as far as possible, should govern the transactions between fellow citizens of the Empire.

173. The whole theory of the British arrangement is that the Empire should for certain important purposes be regarded as a unit, and that while each self-governing portion retains its full right of imposing taxation at its own rates and within the limits which itself fixes, from the point of view of membership of such an Empire no taxpayer can consider himself aggrieved if his total taxation, where he is taxed by more than one authority, does not exceed the higher of the two taxes.

174. The question so far has been of importance only as between the Dominions and Great Britain, but in the future it may become of moment in the relations between one British Dominion and another. Canada, for example, taxes incomes on the same basis as Great Britain, and if it became advisable for Australia to enter into such an arrangement with Canada as the Commonwealth is now invited to make with Great Britain, there would necessarily be some negotiation as to the amount of relief to taxpayers to be afforded by each of the two Governments.

175. The relation of the Australian States to the British proposal is a matter which should not be overlooked. While the Commonwealth was represented at the British Conference, it does not appear that the States, as such, had any representation. It is clear, however, from cable advice recently received by the Federal Government that in computing relief from Double Taxation of Income, the British scheme takes into account both Commonwealth and State taxation. It is, therefore, very desirable that if the Commonwealth joins in the reciprocal arrangement, each of the State Governments should give early attention to the subject with a view of defining its position, as evidently the question must arise in a practical form so soon as the Commonwealth gives effect to the proposal. The fact that different States levy different rates will not create any practical difficulty, for it is recognised that such differences will exist, and it will be merely a question of arriving at the proportionate contributions to be made by the Commonwealth and a State or States respectively, where the deduction made in Great Britain is not sufficient to provide complete relief against Double Taxation.

176. We are in accord with the opinion expressed by the British Royal Commission in dealing with these subjects (see paragraph 69 of their Report):—

69. We are of opinion that any sound solution of this problem should have regard to the following principles:—

- (a) That where Income Tax is charged on the same income both in the United Kingdom and in a Dominion the total relief to be given should be equivalent to the tax at the lower of the two rates of tax imposed;
- (b) that there should be no interference either by this country or by a Dominion with the basis of assessment adopted by any other part of the Empire, and further that the settlement should be independent of increases and decreases in rate of tax, and alterations in the bases of assessment, whether here or in the Dominions;
- (c) that so far as may be practicable, relief should be given before payment of tax;
- (d) that so far as is possible, the adjustment should be made in the country where the taxpayer resides;
- (e) that there should be no interpayments of tax between the Government of the United Kingdom and the Governments of the respective Dominions.

RECOMMENDATION.

177. We recommend therefore—

1. That in respect of incomes taxed both in the United Kingdom and the Commonwealth, in all cases where the deduction at present allowed from the United Kingdom tax is not in itself sufficient to insure the payment only of an amount equivalent to the higher of the two taxes, the Commonwealth Government should grant such further relief to the taxpayer as will effect that end.
2. That consequent upon the adoption of this recommendation, the Commonwealth and State Governments should mutually agree on the question of proportional deductions from their respective taxes in all cases where complete relief from Double Taxation is not entirely secured by the deductions under the British law.

[NOTE.—From paragraph 170 in this section Commissioner Duffy expresses dissent. See page 40.]

SECTION VI.

TAXATION OF LESSEES' ESTATE IN CROWN LEASEHOLDS.

178. While we are agreed that in principle there are substantial grounds for not discriminating in Taxation between interest in Freeholds and interest in Leaseholds, we are unable at this stage to recommend the continuance or otherwise of Taxation of Lessee's Estate in Crown Leaseholds. This issue will find appropriate place in the recommendations of the Commission on the subject of Land Taxation as a whole which will be included in our later report.

SECTION VII.

THE GENERAL EXEMPTION AND ALLOWANCE FOR CHILDREN UNDER THE INCOME TAX ACT.

179. A considerable volume of evidence was tendered on the question of the amounts at which the general exemption and allowance for children should be fixed, and widely differing opinions on the subject were voiced by witnesses. In the majority of instances, the suggestions made seemed to be prompted by the view that the present cost of living justified an increase in the amounts fixed in the Federal Income Tax Assessment Act, apparently on the assumption that the present deductions of £100 (diminishing by £1 for every £5 by which the income exceeds £100, and so vanishing when the income reaches £600) for a single person without dependants, and of £156 (diminishing by £1 for every £3 by which the income exceeds £156, and so vanishing when the income reaches £624) for a married person, and £26 in respect of each dependent child under sixteen years of age, had been fixed with special reference to the cost of living at the time the Act came into force. It is not safe to infer that these deductions were fixed originally with such degree of conformity to an unimpeachable standard or established principle as to constitute a reliable guide in fixing the deductions which might suitably apply under the altered conditions of to-day.)

180. Nor do the various State Acts disclose any generally accepted guiding principle. The following is a summary of the provisions of the State Acts. (For a fuller statement see Appendix 3.)

	General Exemption.		Allowance to Children.
	Gross Amount.	Special Condition.	
New South Wales	£250 .. .. .	.. .. .	£50 in respect of each dependent child under 18 years of age
Victoria ..	£150. Assessments not issued on incomes not exceeding £200	If taxable income does not exceed £500	Nil. New Bill drafted provides for £26 in respect of each dependent child under 16 years of age
Queensland ..	£200	Diminishes at the rate of £1 in every £4. Disappears when income reaches £1,000	£26 in respect of each dependant* under 16 years of age, if taxpayer's income does not exceed £800
South Australia ..	£150 .. .. .	.. .. .	£15 in respect of each dependent child under 15 years of age, if taxpayer's income does not exceed £550
Western Australia	£156 for married person or person having a dependant £100 for single person	Where the income chargeable from all sources of a taxpayer who is married or has a dependant amounts to £157 and no more, the tax payable by him shall not exceed £1	£26 for each dependent child under 16 years of age
Tasmania ..	£156 for married person £200 for married person, if returned soldier £125 for single person £156 for single person, if returned soldier	See Appendix ..	Deduction of 6s. from tax for each dependent child under 16 years of age, if taxpayer's income is under £350

* NOTE.—An allowance of £26 is also made in respect of a wife and every relative by blood or marriage of the taxpayer ordinarily resident in Queensland if such wife or dependant is wholly maintained by the taxpayer. There is also an allowance of £26 for a female relative of the taxpayer ordinarily resident in Queensland whose net income does not exceed £800 if such relative resides with him, for the purpose of caring for any child or adopted child of his, and is incapacitated, either by age or infirmity, and has not an income of her own exceeding £25 per annum, and is actually dependent on him. If the taxpayer's income exceeds £800, the above allowances are reduced by £1 for each £5 of the amount over £800.

181. By way of illustration of the variety of opinion on the subject, some of the suggestions submitted by witnesses to the Commission may be cited. One suggestion was that, if a definite basis of the cost of living were arrived at, the maximum exemption should be that amount,

irrespective of income. Another suggestion was that incomes up to £500 should be exempt from taxation, while others held that all persons in receipt of more than a living wage should contribute to taxation. Upon the question as to whether the general exemption should be a diminishing one, or should apply in all cases irrespective of the amount of income, there was a similar diversity of opinion.

182. While a number of witnesses favoured the increase of the allowance for children to £50 or more, one representative stated that, in a plebiscite on the subject, 282 members of the Association he represented (out of 346 who voted) were in favour of continuance of the present allowance in the Federal Act of £26. Some witnesses expressed themselves in favour of the children's allowance being extended to cover the whole period of education, inclusive of University Course.

183. It will be observed, on reference to the summary in paragraph 180, that Tasmania is the only State in which the allowance in respect of children is not made by way of deduction from the assessable income, but by a specific deduction from the tax. The generally expressed view of witnesses was that the allowance for children should take the form of a deduction from assessable income.

184. Evidence was tendered showing that in many cases sub-section (4) of section 4 of the Income Tax Act, which imposes a tax of £1 on any gross income not less than £100, operates harshly. For example, it was contended that widows should be exempt from the special taxation applying to single persons, and, by way of illustration, one responsible witness stated that—

“Instances are known where the gross income of a widow derived from rents has totalled just over £100. By deduction of the necessary rates and taxes, repairs, &c., the net income is brought well below the £100, and yet this person is assessed for the minimum amount of £1.”

The harshness of this provision of the Act is also seen in the case of a small retailer whose net income *from all sources* amounts to not less than £100, and who might not otherwise be liable to pay any tax, yet is subject to the minimum tax of £1.

185. The opinion was also advanced that, under a system of progressive taxation, the graduated scale of rates could be more equitably adjusted if exemptions were non-diminishing. The view that any general exemption should apply to all incomes, irrespective of their amount, is partly based upon the theory that the State in the full exercise of its powers of taxation may tax incomes up to a rate of 20s. in the £1, and that, unless the income area below the line of taxable capacity is free from encroachment, the citizen's whole means of livelihood might become forfeit to the State. That possibility is, we consider, so remote that it may be disregarded. While in theory, as well as from an administrative point of view, there may be a balance in favour of the abolition of the diminishing element, that, in our opinion, is outweighed by the practical consideration of the revenue effect of such abolition and the irritation that would be occasioned by the necessary readjustment of rates to make good the loss that would be entailed.

186. The revenue effect of altering certain provisions in the Federal Act in respect of the general exemptions and allowances for children is indicated in the following statement, the estimates in which were furnished by the Federal Taxation Authorities:—

	Estimated Revenue Loss if the alterations in the opposite Column were adopted.
1. To repeal sub-section (4) of section 4 of <i>Income Tax Act</i> 1919, which imposes (where there is otherwise no liability to pay an income tax of £1 or upwards) a minimum tax of £1 on :—	
(a) a single person with no dependants who has a gross income of not less than £100 ;	
(b) a person in business whose total income is not less than £100	£65,000
2. To repeal section 19 (2) of principal Act, which provides, in the case of a single person with no dependants, a diminishing exemption of £100, and to amend the Section to allow a diminishing exemption of £156 to all persons	£168,000 (inclusive of the £65,000 shown above)
3. To allow a diminishing exemption of £200 to all persons (the exemption decreasing by £1 for every £3 of the excess over £200)	£500,000 (inclusive of the £168,000 shown above)
4. To allow a diminishing exemption of £250 to all persons (the exemption decreasing by £1 for every £3 of the excess over £250)	£780,000
5. To allow a non-diminishing exemption of £156 on all incomes ..	£1,000,000
6. To allow a non-diminishing exemption of £200 on all incomes ..	£1,400,000
7. To increase the allowance for children from £26 to £39 ..	£125,000. (NOTE.—The present loss on the allowance of £26 is £230,000)
8. To increase the allowance for children from £26 to £52 ..	£260,000, in addition to the £230,000 shown above

NOTE.—These estimates are (with the exceptions of Nos. 3 and 5) exclusive of the recent 5 per cent. increase in the rates of tax.

187. It will be seen that neither the State Statutes nor the suggestions of witnesses provide any clear guidance as to the amounts at which the exemptions should be fixed, nor as to the principle which should be followed. To the question—When should a citizen first begin to contribute through an Income Tax towards the financial needs of the State? we consider the reply should be:—So soon as his income is more than is sufficient to maintain him in health and economic efficiency. The bare subsistence level discloses no taxable capacity; the level just above that of economic efficiency indicates the point at which the State may justly levy some direct contribution, however small. We are not convinced of the necessity for making any material changes in the general exemptions. The exemption for single persons should, we think, be slightly raised—from £100 to £104—so as to exempt £2 per week, and the imposition of £1 tax upon *gross* incomes of not less than £100 should be abolished. At present the exemption for single persons without dependants diminishes at the rate of £1 for every £5 by which the income exceeds the amount of the exemption. In our opinion the rate of diminution should be the same as in the case of the exemptions for married persons, viz., £1 for every £3 by which the income exceeds the amount of the exemption. This alteration will mean that the exemption will disappear when the income reaches £416 instead of £600 as at present. The exemption of £156 for a married person without dependants does not, we think, need alteration at present. We propose that the allowance for each child should be £30, in lieu of £26, as at present.

188. The following statement shows the tax which in a few typical cases would be payable under the present Act compared with that payable if effect be given to the amendments we recommend:—

	Tax payable.	
	Under present Act.	If Act be amended.
	£ s. d.	£ s. d.
1 A single person with no dependants having a gross income of £100	1 0 0	Nil
2 A single person with no dependants, having net earned income of £200	2 18 10	3 3 4
3 A married person with no dependants, having net earned income of £200	1 7 0	1 7 0
4 A married person with one dependent child, having net earned income of £200	0 10 7	0 8 4
5 A married person with two dependent children, having net earned income of £260	1 12 0	1 7 0
6 A married person with three dependent children, having net earned income of £312	2 10 2	2 1 8

RECOMMENDATION.

189. We recommend as follows:—

1. The repeal of sub-section (4)* of section 4 of the "Income Tax Act 1919," which imposes (where there is otherwise no liability to pay an income tax of £1 or upwards) a minimum tax of £1, where there is a gross income of not less than £100.
2. The retention of sub-section (1) of section 19 of the Income Tax Assessment Act, which in the case of a married person (not being an absentee) provides a general exemption of £156, diminishing at the rate of £1 for every £3 by which the income exceeds £156.
3. The amendment of sub-section (2) of section 19 to provide, in the case of a single person having no dependants (and not being an absentee) a general exemption of £104, diminishing at the rate of £1 for every £3 by which the income exceeds £104.

* This sub-section reads as follows:—

"Notwithstanding anything contained in the last three sub-sections, the tax payable by any person who—

(a) is not married, has no dependants, and is not an absentee; and

(b) has a gross income of not less than One hundred pounds, or, in the case of a person carrying on a business in Australia, has an income from the business which, after deducting from the gross income the deductions specified in paragraph (a) of sub-section (1) of section eighteen of the *Income Tax Assessment Act 1915-18*, amounts together with his income from all other sources in Australia to not less than One hundred pounds; and

(c) would, apart from this sub-section, not be liable to pay an income tax of One pound or upwards, shall be One pound."

4. The amendment of sub-section (k) of section 18 of the Act, so as to provide an increase in the deduction from the assessable income of a taxpayer who is not an absentee in respect of each dependent child under 16 years of age, from £26 to £30.

[NOTE.—From this section of the Report Commissioners Jolly and Duffy express individual dissent. See pages 40 and 45 respectively.]

In concluding this our first Report,

We have the honour to be,

Your Excellency's most obedient servants,

W. WARREN KERR, (Chairman).

JOHN JOLLY.

J. G. FARLEIGH.

W. T. MISSINGHAM.

JOHN THOMSON.

S. MILLS.

M. B. DUFFY.

A. G. BROWN,

Secretary.

Melbourne, 27th October, 1921.

TAXATION OF PROFITS ON THE SALE OF MINING LEASES.

RESERVATION.

1. The Report expresses the opinion that "the prospectors' case will be met if the system of averaging income over a period of five years, recommended by the majority of the Commission, be enacted." **We do not favour that system, however, either for general or for special application.**

2. Two examples are furnished of the possible effects of its application in the case of a prospector.

3. Should a prospector dispose of his "find" in his first year, using the income figures given in the Report for that and the five subsequent years, the result would be as shown in the following table:—

Table 1.

Year.	Income.	Total, Five Years or Less to Date.	Average Income.	Rate on Average.	Tax Payable. Average Rate applied to actual Income.	Present Federal Method.	
						Rate.	Amount.
	£	£	£		£ s. d.		£ s. d.
1	10,000	10,000	10,000	As per scale	2,725 14 8	As per scale	2,725 14 8
2	458	10,458	5,229	38·5762	73 12 4	8·0492	15 7 3
3	592	11,050	3,683	28·6842	70 15 1	8·9066	21 19 5
4	700	11,750	2,938	23·9174	69 15 2	9·5977	27 19 10
5	700	12,450	2,490	21·0509	61 8 0	9·5977	27 19 10
6	800	3,250	650	9·2777	30 18 6	10·2375	34 2 6
					£3,032 3 9		£2,853 3 6

4. The large income in the first year not only pays at its appropriate rate of tax, but also influences the rate in the four subsequent years, thus making the tax payable during six years under the system recommended in the Report greater than under the present Federal system.

5. As the prospector is generally of a nomadic disposition, it might easily happen that the Taxation Department would not know of his existence till he had discovered something substantial. We are of opinion that results similar to those indicated in the above Table would more frequently occur through the application of the recommended averaging system than might be assumed from the Report.

6. Again, there is a not unremote possibility of the vendor of a Mining Lease leaving the country soon after reaping the results of his "find." In such a case the revenue would not receive even its lessened quota, as the large income would not influence any subsequent years of smaller income. This may be more clearly shown by taking the first five years of the example in the Report, as under:—

Table 2.

Year.	Income.	Total, Five Years or Less to Date.	Average Income.	Majority Report.		Present Federal Method.	
				Rate on Average.	Tax Payable.	Rate.	Amount.
	£	£	£		£ s. d.		£ s. d.
1	Nil	..	..		..		..
2	5	5	2	5·1315	0 2 2	5·1507	0 2 2
3	58	63	21	5·2531	1 5 5	5·4899	1 6 6
4	Nil	63	16	5·2211	..	..	..
5	10,000	10,063	2,012	17·9924	749 14 4	As per scale	2,725 14 8
					751 1 11		2,727 3 4

7. It will be seen that if the taxpayer left the country after payment of tax on the income of the fifth year he would not contribute a reasonable amount to the revenue.

8. If the system of carrying forward losses, as recommended in the Statement, p. 37, on "the giving of special consideration to Primary Producers," were in operation, any losses (as defined in that Statement) occurring during the four years preceding the year of large income would reduce the amount of tax in that year; while, if the sale from which the large income results takes place in the prospector's first year, that method would prevent the total amount of tax for that year and the four subsequent years rising above that leviable under the present law.

9. If it is desired to give special encouragement to mining prospectors, through the medium of the Federal Income Tax Law, then special rates could be prescribed for that purpose.

W. WARREN KERR.
S. MILLS.
M. B. DUFFY.

BONUS SHARES.

RESERVATION.

1. We regret that we are unable to concur in the recommendation of our colleagues in this matter in respect of *Bonus Shares issued out of current or accumulated trading profits*, which have previously been taxed in the hands of the Company at the flat company rate.

2. The taxation, on distribution, of Bonus Shares of this nature was not contested before the Commission, and invariably witnesses stated that they considered it reasonable to tax this form of share distribution.

3. We feel that if the principles of aggregation and graduation are to be maintained, it is necessary to follow the distribution to the shareholder, as in the case of a cash dividend.

4. The decision of the House of Lords in the Blott Case, referred to in the Report, allows a "technical" conversion of a distribution of profits into a distribution of capital, but the fact remains that it is a distribution of accumulated or current profits to the advantage of the shareholder.

5. The following extracts from Lord Sumner's dissenting judgment in the Blott case are interesting in this connexion:—

" It cannot matter for the purposes of the revenue what he did with the money or money's worth distributed to him, or whether its disposal was the subject of prior agreement or not.

Suppose Mr. Blott had had to sue the company to get these shares; is it to be said that his action would fail? If not, he would succeed by virtue of a legal right, founded on the company's resolution, to receive his portion of that which had become divisible among the shareholders. He would be entitled to have this brought into his hands by action. True, he would have to claim and take it in the form of newly issued capital stock, but it would come to him as dividend. If, peradventure, the company sued Mr. Blott for calls on his shares, what would his defence be? Why, that by payment or set-off he had satisfied his liability. It would not be that the company had contracted not to ask for calls, for there is no consideration for any such contract; yet some defence he must have, for if he had none, everybody's intention would be defeated. If he had, it must be because dividends have been paid to him or to his use, for no other source of payment exists.

" There is no ground that I know of for saying that money is not paid to a shareholder unless the intention is that he may dispose of it just as he pleases, any more than there is for saying that money may not be duly paid by book entries, but can only be paid in cash. There will be a payment even though by prearrangement there is a repayment immediately afterwards. Money, though it comes with a clog on it, is taxable, if and because it comes. How can mere nomenclature affect rights which depend on what has to be done in order to satisfy the law? Could a company declare and pay a dividend in the ordinary way, and yet, by first calling it 'capital,' and saying it was not 'income,' prevent the cash from being taxable as income in the shareholders' hands? Granting that the company is free to give a shareholder the money, with which to pay up his calls on shares newly issued to him, this is paying money to him or to his use, and to send him this money out of the year's profits along with his dividend warrant, or to apply it to his use in the same way and at the same time is surely to put in his hands an annual profit or gain, whether the company chooses to call it capital or nothing at all."

6. We are forced to the conclusion that if Bonus Shares issued as the result of current or accumulated profits are not taxed in the hands of the shareholder in the year of receipt, a fair amount of profit will find outlet in this way, and thus to this extent nullify the aggregation and graduation principles of the Act.

7. The fact that the profits have already been taxed in the hands of the Company does not affect the position, as the same applies to a cash distribution from accumulated profits, and there is no suggestion that a cash distribution should not be followed to the shareholder.

8. Since the shareholders, by their own votes at the Company meeting, say that the distribution shall be made to them in the form of shares instead of cash, it cannot be said that the shareholders have no voice in the form in which the distribution is made.

9. We, therefore, recommend that Bonus Shares issued out of current or accumulated profits should be taxed in the hands of the shareholder in the year of receipt, but that an adjustment should be made by allowing to the shareholder the amount of tax already paid on those profits by the Company.

J. G. FARLEIGH.

M. B. DUFFY.

DOUBLE INCOME TAX.

RESERVATION.

1. I regret that I am unable to concur with paragraph 170 of the Report, in which it is stated—

“ We consider that there is no essential relationship between these two matters (the adoption of the British Royal Commission's recommendation and the taxation of ex-Australia incomes) and that the adoption of either one of the suggestions should not be regarded as necessarily dependent upon the adoption of the other.”

2. The adoption of the British Commission's recommendation, which is advocated in the Report, means the sacrifice by Australia of revenue on income earned in Australia, to prevent double taxation, because the British Government continues to tax the income of its residents, although earned in Australia.

3. The acceptance of this position, therefore, appears to me to recognise the principle in the British Act of taxing residents on income, irrespective of its origin, in addition to taxing income earned within its boundaries, and the Australian Act should therefore be based on this principle also, if reciprocity is to be given effect to, otherwise Australia is giving up what is rightly hers without any compensating factor at all.

M. B. DUFFY.

THE GENERAL EXEMPTION AND ALLOWANCE FOR CHILDREN UNDER THE INCOME TAX ACT.

RESERVATION.

1. I am unable to concur in the recommendation of the Commission on this matter for the following reasons :—

(1st) The recommendation of the Commission would perpetuate the inequities of the present Federal Income Tax Act, which—

- (a) In the allowances for children confers greater privileges on the taxpayer with large income than upon the taxpayer of less means, whereas relief, if varying in value, should be graduated the other way about ;
- (b) Allows a general exemption to the breadwinner and guardian of the family, which exemption is gradually diminished and wholly extinguished at some arbitrary point—a course inconsistent with the extension of the allowance for children to all classes of taxpayers, rich and poor, without distinction and increasing in value with the increase of income ;
- (c) Expresses and values exemptions and concessional allowances in terms of income alone whereas under any system into which steep graduation of rates enters, exemptions and concessional allowances, though expressed in terms of income, should also be expressed, valued, and applied in terms of tax assessment, and (as a corollary thereto) :
- (d) Expresses exemptions and concessional allowances in terms difficult or impossible (because of their variable character and application) for the general taxpayer to accurately appraise, whereas they should be so stated that all taxpayers may know precisely the effective value of each exemption and allowance and that the exemptions and allowances made to themselves are exactly the same as those made to other taxpayers having the like marital, domestic, or other relevant responsibilities, “ the value ought to be clear and plain to the taxpayer and to every other person ” ; and

(2nd) The statutory exemptions should, alike with the allowances for children and other concessional allowances, apply uniformly and have identical effect throughout the whole field of taxation.

2. One need only set out clearly the manner in which the provisions of the present Federal Income Tax Act (section 19) as to the General Exemption, and (section 18) as to other concessional allowances operate to reveal striking anomalies arising partly from (a) some being on a diminishing scale, (b) others on an expanding scale, and (c) all being treated as deductions from assessable

income which has the effect of reducing both the taxable income and also (owing to the graduating rates) the rate of tax on the remaining taxable income, and of causing wide divergencies between the value of the exemption or allowance in one case and the values in others.

3. Before exhibiting the effects of these conflicting and inequitable conditions, attention may be directed in a sentence to another anomaly, namely:—That though the allowance to parents is restricted to a deduction of £26 from the assessable income in respect of each child, it is without any apparent reason raised by £82 in the case of a single person or widower upon whom a child is the only dependant. Apart from this provision, the exemption of a single person is limited to £100 (diminishing as the income increases), but if the person supports a child, the exemption is raised to £182, part of which (£156) diminishes on a different scale from that applicable to the previous £100, but as to £26 (part of the £82) is continuous throughout the whole range, irrespective of how high the income may be. Clear principle is not easily discoverable in a whimsical arrangement which allows only £26 to its parents for the child born in wedlock and £82 for a child maintained by a single person.

Allowances for Children and Concessional Allowances.

4. Turning to the main question, the view that the general exemption and the allowance for children should apply to all incomes is not based on the theory that the State may tax incomes up to 20s. in the £1, as stated in the Report (para. 185), though such a tax if enacted would have the effect of leaving all persons, except those whose incomes are below the amount of the exemption, without the means of subsistence, but on the theory that there should be secured to every citizen, rich or poor, immunity from direct taxation of the income necessary to provide for himself and his dependants the necessities of efficient economic life. It is in the interest of the State, not less than of the individual to exempt these necessities. Moral sentiment and prudent statesmanship unite in placing a reasonably liberal construction on the term "the necessities of efficient economic life," and regard it as including what is required to equip and sustain a healthy citizen in efficiency, economically, socially, and as a parent. The minimum required for mere physical existence is not enough; there should be suitable housing and clothing as approved by law or custom, and nourishment sufficient for the strain of efficient work and the good development of children. Less than that is impolitic for the physique of ill-fed races degenerates, and the sources of wealth and of tax dry up; more is unjust, for excessive exemption throws an unduly heavy burden upon the non-exempted incomes upon which the tax is levied. To all citizens, irrespective of rank or wealth, the means of subsistence interpreted with reasonable liberality—but stopping short of any expenditure which different social classes incur for the maintenance of purely conventional standards of housing, clothing, food, education, or recreation—should be sacrosanct from direct taxation. At that point the citizen should assume the financial responsibilities of citizenship and contribute directly and consciously, in degree increasing with his prosperity, to the carrying on of the public services of the country in whose control he has or may acquire a voice.

5. This principle finds partial expression in sub-section 18 (k) of the Federal Income Tax Act, which allows from assessable income an allowance of £26 in respect of each child under a certain age wholly maintained by the taxpayer. It applies to *all* children under the prescribed age, and looks like generous and even-handed justice. It will be seen, however, that in practice it works out inequitably. The following tables set this out. (For clearness of illustration it is assumed that the general exemption, so far as it applies, has already been deducted, though in actual practice the general exemption is the last to be deducted):—

FIRST TABLE.

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
Total Income.	General Exemption.	Net Income.	Tax Thereon.	Deduct for One Child.	Net Balance of Income.	Tax Thereon.	Reduction of Tax Due to Allowance for Child. (D)–(G)
£	£	£	£ s. d.	£	£	£ s. d.	£ s. d.
176	150	26	0 11 5	26	Nil	Nil	0 11 5
231	131	100	2 8 0	26	74	1 14 6	0 13 6
306	106	200	5 6 8	26	174	4 10 4	0 16 4
381	81	300	8 15 11	26	274	7 16 11	0 19 0
456	56	400	12 15 11	26	374	11 14 1	1 1 10
531	31	500	17 6 7	26	474	16 2 0	1 4 7
606	6	600	22 7 11	26	574	21 0 6	1 7 5
624	..	624	23 13 10	26	598	22 5 9	1 8 1

This shows (Column H) that the greater the income the greater is the value of the allowance in respect of a child. Larger incomes show the allowance to be still more valuable, thus :—

SECOND TABLE.

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
Total Income.	General Exemption.	Net Income.	Tax Thereon.	Deduct for One Child.	Net Balance of Income.	Tax Thereon.	Deduction of Tax Due to Allowance for Child. (H)—(G)
£		£	£ s. d.	£	£	£ s. d.	£ s. d.
1,000	No exemption allowed to parents	1,000	47 19 9	26	974	46 1 4	1 18 5
2,000		2,000	149 5 11	26	1,974	145 19 9	3 6 2
3,000		3,000	303 18 6	26	2,974	299 4 7	4 13 11
4,000		4,000	511 17 6	26	3,974	505 15 10	6 1 8
6,000		6,000	1,087 14 8	26	5,974	1,078 17 7	8 17 1
8,000		8,000	1,872 12 2	26	7,794	1,861 10 3	11 1 11

from which it is seen that while the allowance is *nominally* the same in all cases (£26 for each child), the person of small income is allowed a deduction from his tax in respect of the upkeep of his child of only 11s. 5d., and the person of ample means is allowed for the upkeep of his child a deduction of up to £11 1s. 11d. The rate, ostensibly proportionate, is in operation steeply graduated. Is it graduated in the right direction? Should it be graduated at all?

If there were more than one child the contrast would be intensified.

6. As a further illustration of these uniform (?) allowances, let us take the cases of married taxpayers, each with three children, for whom the aggregate allowance is £78, and having during the year paid, say, £150 in life insurance premium, charitable donations, calls on shares in mining companies, subscription to superannuation fund, &c. (all being concessional deductions), and trace the actual allowance in tax to each in respect of the £228 deducted from the assessable income in each case.

THIRD TABLE.

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
Total Income.	General Exemption.	Net Income.	Tax Thereon.	Deduct for Allowances.	Net Balance of Income.	Tax Thereon.	Reduction of Tax Due to Allowances. (H)—(G)
£		£	£ s. d.	£	£	£ s. d.	£ s. d.
1,000	No exemption allowed to parents	1,000	47 19 9	228	772	32 7 1	15 12 8
2,000		2,000	149 5 11	228	1,772	121 10 1	27 15 10
3,000		3,000	303 18 6	228	2,772	263 19 7	39 18 11
4,000		4,000	511 17 6	228	3,772	459 15 5	52 2 1
6,000		6,000	1,087 14 8	228	5,772	1,011 6 3	76 8 5
8,000		8,000	1,872 12 2	228	7,772	1,775 7 0	97 5 2

that is, for an outlay of £228 from his abundant resources, the wealthy taxpayer is allowed a deduction from tax of £97 5s. 2d., or more than six (6.22) times as much as is the £15 12s. 8d. allowed for exactly the same outlay to the taxpayer who has only one-eighth of his income.

7. Such an anomaly was probably never intended, and cannot easily be justified. If it was not so intended, the question arises—How can it be most conveniently rectified? Having regard to the variations in individual circumstances arising from the very different ways in which such outlays are made by taxpayers, and the wide range of incomes, almost all of which one or other of them affects, it would be difficult to frame a clause which would secure absolutely equal allowance in all the varying cases if the deduction be expressed and applied in terms of income. It, however, lends itself to easy solution if the allowances be expressed in terms of income *but applied at their assessment value in direct reduction of the tax assessment*. Thus, if the income exempted from tax in respect of a child be £26, and the assessment value of £26 be as per the current scale of rates 11s. 5d., the allowance may be expressed as a sum equivalent to the tax applicable to a net taxable income of £26 to be deducted in respect of each child from the tax otherwise ascertained. This will at once secure uniform and equal allowance and easy adjustment

of tax. The same method may be extended to all "concessional deductions." To repeat the examples in the first Table the adjustments in respect of one child would be—

(1) Taxable Income ..	£26.	£100.	£200.	£300.	£400.	£500.	£600.	£624.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
(2) Tax thereon ..	0 11 5	2 8 0	5 6 8	8 15 11	12 15 11	17 6 7	22 7 11	23 13 10
(3) Allowance for child	0 11 5	0 11 5	0 11 5	0 11 5	0 11 5	0 11 5	0 11 5	0 11 5
(4) Net tax payable ..	Nil	1 16 7	4 15 3	8 4 6	12 4 6	16 5 2	21 16 6	23 2 5
(5) Present tax ..	Nil	1 14 6	4 10 4	7 16 11	11 4 1	16 2 0	21 0 6	22 5 9

and in the second Table—

(1) Taxable Income ..	£1,000.	£2,000.	£3,000.	£4,000.	£6,000.	£8,000.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
(2) Tax thereon ..	47 19 9	149 5 11	303 18 6	511 17 6	1,087 14 8	1,872 12 2
(3) Allowance for child	0 11 5	0 11 5	0 11 5	0 11 5	0 11 5	0 11 5
(4) Net tax payable ..	47 8 4	148 14 6	303 7 1	511 6 1	1,087 3 3	1,872 0 9
(5) Present tax ..	46 1 4	145 19 9	299 4 7	505 15 10	1,078 17 7	1,861 10 3

8. If the general exemption and the concessional allowances for children, &c., were made uniform and general to taxpayers irrespective of grade or amount of income throughout the whole area of taxation, and if the allowances as provided under the present Federal Act were in addition to being stated in terms of income also stated and were applied in terms of their respective tax values, viz:—

					Tax Value. £ s. d.
Taxpayer ..	{ together }	say £78	..	1 16 6	
Consort ..	{ £156 }	each	..	1 16 6	
3 children ..	£26	= £78	..	1 16 6	
Insurance ..	£50	..	..	1 2 8	
Donations ..	£30	..	..	13 3	
Calls on shares	£70	..	..	1 12 6	

the allowances totalling £384 would be adjusted by deducting £8 17s. 11d. from the tax on the taxable income of each taxpayer. The several taxpayers referred to in the third Table above would be taxed as under—

(1) Taxable Income ..	£1,000.	£2,000.	£3,000.	£4,000.	£6,000.	£8,000.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
(2) Tax thereon ..	47 19 9	149 5 11	303 18 6	511 17 6	1,087 14 8	1,872 12 2
(3) Allowances ..	8 17 11	8 17 11	8 17 11	8 17 11	8 17 11	8 17 11
(4) Net tax payable ..	39 1 10	140 8 0	295 0 7	502 19 7	1,078 16 9	1,863 14 3
(5) Present tax (as per third Table) ..	32 7 1	121 10 1	263 19 7	459 15 5	1,011 6 3	1,775 7 0

9. The deducting of all allowances at their tax value, as exemplified in lines 2, 3, and 4 of the preceding illustrations, secures equality of treatment of **all** taxpayers in regard to such allowances. The present Act is inequitable as between taxpayers with similar responsibilities but dissimilar incomes, principally because its exemptions and allowances always operate on the topmost pounds of each taxpayer's income, and their value increases therefore with the increase of income and consequent increase in the rate of tax applicable to the topmost pounds, whereas to secure equal treatment to all taxpayers the respective allowances should all operate on the lowest pounds in each income where the value of them in tax is uniform throughout all taxable incomes. To deduct the allowances at their tax values would thus bring about precise agreement in the valuation of all allowances whether they be from small or large incomes. Being, under

the procedure suggested, in all cases deducted (in effect) from the lower pounds of the income, the respective deductions, though still expressible at the same amounts in terms of assessable income as at present, are in most cases less valuable if also expressed and applied in terms of tax assessment. Hence the result shown in the above illustrations that the net tax payable would be somewhat greater than the present tax, and consequently either the revenue would be enriched by its use or a more ample allowance, uniform throughout the entire field of taxation, could be made without encroaching on revenue, or the advantage thus gained could be retained and treated as a set-off for such other adjustments as may entail reduction of revenue.

General Exemptions.

10. In marked contrast with the operations of these allowances is the general exemption of £100 to persons unmarried and without a dependant, and of £156 to persons married or with a dependant—in both cases the exemption is a diminishing one—in the case of single persons by £1 for every increase of £5 in income, and in the case of married persons by £1 for every increase of £3 in income. Why the disappearance should be more rapid in the case of a married person, who is fulfilling citizenship duties in a fuller sense than is the single person, is another anomaly. The following tables show the manner in which, to the point where it disappears altogether, the general exemption operates on tax payable:—

FOURTH TABLE.—VALUE IN TERMS OF TAX OF DIMINISHING GENERAL EXEMPTION.

1. Person—single and without dependant—

(A) Income.	(B) Amount of Tax if there were no Exemption.	(C) Exemption Under Act.	(D) Taxable Balance.	(E) Tax on such Balance.	(F) Reduction Due to Exemption. (B)—(E)
£	£ s. d.	£	£	£ s. d.	£ s. d.
100	2 8 0	100	Nil	Nil	2 8 0
150	3 16 0	90	60	1 7 6	2 8 6
200	5 6 8	80	120	2 18 10	2 7 10
250	7 0 0	70	180	4 14 1	2 5 11
300	8 15 11	60	240	6 13 1	2 2 10
350	10 14 7	50	300	8 15 11	1 18 8
400	12 15 11	40	360	11 2 8	1 13 3
450	14 19 11	30	420	13 13 3	1 6 8
500	17 6 7	20	480	16 7 7	0 19 0
550	19 15 11	10	540	19 5 10	0 10 1
600	22 7 11	Nil	600	22 7 11	Nil

2. Person—married or having a dependant—

(A) Income	(B) Amount of Tax if there were no Exemption.	(C) Exemption Under Act.	(D) Taxable Balance.	(E) Tax on such Balance.	(F) Reduction Due to Exemption. (B)—(E)
£	£ s. d.	£	£	£ s. d.	£ s. d.
156	3 19 6	156	Nil	Nil	3 19 6
200	5 6 8	142	58	1 6 6	4 0 2
250	7 0 0	125	125	3 1 8	3 18 4
300	8 15 11	108	192	5 1 7	3 14 4
350	10 14 7	92	258	7 5 7	3 9 0
400	12 15 11	75	325	9 14 11	3 1 0
450	14 19 11	58	392	12 9 2	2 10 9
500	17 6 7	42	458	15 7 3	1 19 4
550	19 15 11	25	525	18 10 11	1 5 0
600	22 17 11	8	592	21 19 5	0 8 6
624	23 13 10	Nil	624	23 13 10	Nil

The manifest effect of these unequal exemptions and of their gradual diminution is an interference with the scheme of graduation of rate of tax and a steepening of the rate for the recipients of relatively small incomes. Incomes above £600 and £624 respectively are affected only negatively.

11. While recognising the justice of the allowance of a general exemption for the income receiver, and of allowances for children, it is one thing to recognise the justice of the principle in the abstract and quite another to support the particular shape given to it in practice, and I am unable to trace sound practice or equitable treatment in the contradictory inconsistencies of the provisions of the present Act as exemplified in these illustrations. By a strange inconsistency,

while the present Federal Act refuses in many cases to exempt from tax the bread of the bread-winner, it does grant exemption for his child, and that irrespective of whether his income be small or large; not only so, but by a climax of inconsistency the Act which denies to the citizen of substantial income the general exemption allowed to the poorer, exempts to the richer man for the maintenance of his child an amount many times greater in tax value than that allowed to the poorer taxpayer.

12. It has been held that in a graduated income tax system the tax should not be treated as a function of **the abatement**—that is, of the general exemption as provided in the Federal Act; this would, of course, apply also to the varied concessional allowances to children, &c., under the Federal Act. The foregoing illustrations show that if the tax be treated as a function of **the surplus of the taxable income** over and above the abatements, sometimes called “surplus income” (the practice of the present Federal Act, which deducts the abatements **before** computing the tax), inequities result—one taxpayer is treated less favorably than another. Sound principle and equitable incidence therefore require that the tax be treated as a function of **taxable income before any deduction of abatements is made**, that the tax on such taxable income should first be ascertained and that the abatement (that is, the exemptions and concessional allowances) should be computed at their true tax value and (as is now done within certain limits only under the State Act of Tasmania) be deducted at such tax value from the tax applicable to the taxable income previously ascertained, thereby insuring that these abatements shall in every case be of equal value to all taxpayers entitled thereto.

13. Particulars were sought from the Department as to what is the loss of tax due to the allowance of the present diminishing general exemptions, but figures could not readily be furnished. From information made available however, it would appear that if the general exemptions and the allowances for children and similar concessional allowances were computed and allowed in tax values, instead of by direct deductions from assessable income, the total deductions from tax would be about the same—that is, **the extension of the general exemptions to all taxpayers and the computing of it, and also of all children and other concessions on the basis of actual tax payment instead of the basis of deduction from assessable income, would entail little, probably no, loss, and might possibly yield a slight gain to the revenue, while at the same time putting all such allowances on a basis just and equitable to all taxpayers.**

14. I respectfully submit that the real value to the taxpayer of these and similar allowances is not their action on the assessable or taxable income, but their action on the actual tax itself, and that each of the exemptions or allowances should be separately appraised, and that such appraised tax value should become and be dealt with as a direct deduction from tax assessment. The true effective value of each of the exemptions or allowances should be clearly seen and appreciated by all, and the same allowance should be made to all taxpayers, without distinction, in accordance with their marital, domestic, or other pertinent outlays.

15. I concur in the first recommendation of the report, viz., that the minimum payment of £1 by single persons having no dependants should be abolished, but dissent from the second, third and fourth recommendations, and recommend—

- (a) That whatever exemptions and concessional allowances are prescribed should be constant and not diminishing or (in effect) expanding.
- (b) That each exemption, and each separate true concessional allowance (excluding rates and taxes which are obligatory and payable in the ordinary course of income production, and should be treated as necessary outgoings and expenses) should be deducted in equivalent terms of tax at the scale of rates operative at any time, and applicable to the amount of such exemption or allowance, and
- (c) That the amount of each exemption and allowance for children to be prescribed should be determined in accordance with the principles outlined in the fourth paragraph of this reservation, and be specifically expressed in terms of assessable income but be applied in the equivalent terms of tax assessment.

JOHN JOLLY.

THE GENERAL EXEMPTION AND ALLOWANCE FOR CHILDREN UNDER THE INCOME TAX ACT.

RESERVATION.

1. I am unable to concur in the recommendation of the Report in regard to the amount of General Exemption. The basis on which to determine the subject is certainly somewhat difficult, but consideration must be given to the following:—

- (a) What standard of living should be exempt from taxation.
- (b) What amount of indirect taxation is borne by small incomes.

(c) The expense to the Revenue in seeking after small incomes.

(d) The amount of benefit contributed to and received from the State by recipients of different incomes.

2. A witness, who had given special consideration to the subject, stated :—

“It will now be conceded that the idea of bare subsistence exemption is not in conformity with the social conscience. Rather there should be exempted an income sufficient, not only for a healthy existence, but for the provision of conventional comforts and luxuries usually enjoyed by what are commonly called the working classes. . . . The married couple without children should have a clear margin of savings for their future responsibilities. For single men an exemption of £150 would seem equitable. . . . Small incomes bear considerable indirect taxation.”

3. Another witness, representing the Taxation Standing Committee of Brisbane (embracing the commercial interests of that city), also a student of taxation, said :—

“I think we all feel that, through the increased taxation which has been imposed through the Customs, persons with an income below £500 are paying very nearly twice as much as they should. . . . In connexion with employees receiving incomes of less than £500, you will find that there is an immense amount of work given to the Department in collecting the tax.”

4. It is essential, in considering this question, to take into account a person's total contribution in work to the State of which he forms a part. It is because this important consideration is often overlooked that we get propositions for the taxation of wages, either irrespective of their size or with some small exemption limit. A true valuation of the personal contribution of each citizen to the State as a whole and the benefits received by each citizen from the State immediately dispel this idea.

5. The miner, wood-worker, iron-worker, or small farmer gives to the State the full power of his labour for the production of the State, and receives in return a limited living allowance, while others may receive much larger incomes, without much exertion, and thereby receive benefits much in excess of what they contribute to the State as a whole. In view of the dimensions of the National Income and its distribution, the work done by those with small incomes represents all the sacrifice for the Commonwealth that can be properly demanded from them, and any money required to be raised for public purposes should be levied on incomes above that figure, especially when the amount of indirect taxation is taken into account.

6. Indirect taxes fall upon small incomes by reason of—

Customs duties,

Excise duties,

Passing on of income tax by traders.

That the latter is indulged in was admitted by several witnesses.

7. *Diminishing Exemption.*—The present Federal method of diminishing the general exemption by £1 for every £3 by which the income exceeds the amount of the general exemption, besides being an element of complexity in the Act, in reality has the effect of sharpening the rise of the graduation in the early stages of taxable incomes as compared with the steady rise on larger incomes, and is an injustice to the smaller taxpayers. As an example : A Taxpayer having an income of £204, or £48 over the amount of the general exemption, does not pay tax on £48 at the rate applicable thereto, but since there are 16 times 3 in 48 the taxable amount is increased by £16 and the tax is payable on and the rate fixed by £64.

8. There appears to be no reason why the taxpayer should not clearly know his position as compared with his fellow taxpayers, and why the rate of graduation should not be plainly expressed, instead of an artificial method being adopted to increase the rate by reducing the exemption. If the amount of general exemption is fixed on a fair and reasonable basis, then there is no reason why every taxpayer should not be entitled to the same exemption, the necessary percentage being added to the present rates of tax to meet the deficiency in revenue.

9. Taxable capacity does not exist until an income exceeds a certain exemption, and to deny this exemption to some and allow it to others is not treating all taxpayers on an equitable basis. Graduation (if properly designed) should insure equity amongst taxpayers according to their taxable surplus, and no surplus is available for taxation until the exemption limit is exceeded.

10. At the present time the allowance per child applies to all taxpayers, as it is considered an amount representing the cost of upkeep, and must be borne by all who have children. This appears reasonable, but the allowance for a wife is not common to all married taxpayers, although the obligation for upkeep is the same. It therefore appears reasonable that the amount of the allowance for maintenance of wife and children of a taxpayer should be excluded from the taxable area of all taxpayers, irrespective of income.

11. Income tax should only be levied upon surpluses above these allowances, and whatever percentage is necessary added to the rates to adjust the revenue. The adjustment will not mean that any greater amount of income tax will be collected over the whole field, but it will be collected in a more equitable manner; the greater or diminished amount of tax payable by the individual will be the measure of inequity of the present method, brought about mostly by the diminishing exemption.

12. A few examples of different grades of income will serve to illustrate this aspect, estimating that 10 per cent. will need to be added to present rates, to compensate for revenue lost by allowing the exemption of £156 to all taxpayers, and estimating that 20 per cent. will need to be added if £260 is allowed to all taxpayers.

	Actual Net Income.	Taxable Income.	Rate.	Amount Tax Payable.
	£	£	d.	£ s. d.
£156 diminishing exemption (present method) ..	204	64	5.5282	1 9 6
£156 fixed exemption	204	48	5.4259 + 10%	1 3 10
£260 fixed exemption	204	..	..	..
£156 diminishing	408	333	7.2494	10 1 2
£156 fixed	408	252	6.7312 + 10%	7 15 6
£260 fixed	408	148	6.0657 + 20%	4 9 10
£156 diminishing	624	624	9.1114	23 13 10
£156 fixed	624	468	8.1132 + 10%	17 8 0
£260 fixed	624	364	7.4478 + 20%	13 11 0
£156 diminishing	1,000	1,000	11.5172	47 19 9
£156 fixed	1,000	844	10.5190 + 10%	40 13 10
£260 fixed	1,000	740	9.8536 + 20%	36 9 2
£156 diminishing	2,500	2,500	21.1148	219 18 11
£156 fixed	2,500	2,344	20.1167 + 10%	216 2 6
£260 fixed	2,500	2,240	19.4512 + 20%	217 17 1
£156 diminishing	5,000	5,000	37.1109	773 2 10
£156 fixed	5,000	4,844	36.1128 + 10%	814 2 4
£260 fixed	5,000	4,740	35.4173 + 20%	810 2 0

13. One suggestion to preserve equity between taxpayers was that the amount of general exemption or children's allowances should be deducted at the minimum rate of tax from all taxpayers' assessments, the claim being made that this would insure the allowances being of equal value to all taxpayers, but by comparison with the present system it would mean that the smaller incomes would pay more tax and some of the larger incomes less tax. As an illustration, take—

“ A.”—A married man receiving £166 income in a year and entitled to an exemption of £156.

“ B.”—A married man with three children receiving an income of £244 and entitled to the allowance for three children at £26 each, plus £156 exemption.

The latter would have the same taxable surplus as “ A,” and under the present Federal system, both having the same surplus, would be taxed at the same rate and on the same amount, but if the deduction at the minimum rate of tax is applied the result would be as under—

	Income.	Rate.	Amount.	Tax payable.
	£	d.	£ s. d.	£ s. d.
Rebate “ A ”	166	6.1809	4 6 1	
	156	5.1251	3 6 7	
Present method—taxable income	13	5.2019	0 5 8	0 19 6
				0 5 8
Rebate “ B ”	244	6.6800	6 15 10	
	234	5.1251	4 19 11	
Present Method—taxable income	13	5.2019	0 5 8	1 15 11
				0 5 8

The above examples speak for themselves, and show the inequity of asking one taxpayer with the same amount of surplus as another to pay nearly twice as much tax.

Take also the case of "C," a married taxpayer without children, with an income of £1,000, and compare with above example "A"—

	Income.	Rate.	Amount.	Tax payable.
	£	d.	£ s. d.	£ s. d.
"C"	1,000	11.5172	47 19 9	
Rebate	156	5.1251	3 6 7	
				44 13 2

Under the present method "C" would pay £47 19s. 9d., but the rebate reduces his contribution to the revenue by 7 per cent., while imposing an extra burden on "A" of 250 per cent.

14. In addition to the comparison of the various State allowances, as set out in the Report, the British and New Zealand exemptions may be quoted—

	Single.	Married.	Per Child.
Great Britain	£150	£250	£36
New Zealand	£300	£300	£50

It may also be mentioned that in these countries income tax rates are very high, and in Britain run as high as 15s. in the £1.

15. The Royal Commission on Income Tax, which submitted its Report to the British Government in 1919, recommended the acceptance of the figures quoted above, and stated:—

"In recommending these figures, we have had regard to ability to pay and to the cost involved in collecting small sums of income tax, and we have also borne in mind that no tax can be successfully administered that is contrary to the general sense of justice in the community."

16. To determine the amount of exemption, the Report states that the standard should be sufficient to maintain a man in health and economic efficiency, but I regret that their interpretation of this standard is £104 per annum. In the face of the present cost of living, I cannot conceive that any sum so low can be said to be sufficient to maintain economic efficiency. I quite agree that there may be very wide differences of opinion as to the figure representing this standard, but £2 per week is certainly inadequate to provide an adult with bare necessities, without taking into consideration the other aspects enumerated herein.

17. After considering fully the whole of the evidence submitted on this subject and closely examining the Report of the British Royal Commission, and keeping in mind the financial position of the Commonwealth, I recommend that the present Federal Act should be amended to provide that—

1. Exemption from income tax be allowed on that portion of a taxpayer's income which does not exceed £156 per annum in case of a person who is not married or has no dependants.
2. Exemption from income tax be allowed on that portion of a taxpayer's income which does not exceed £260 in the case of a person who is married or has dependants.
3. Exemption from income tax be allowed in respect of £36 for every child under the age of 16 maintained by the taxpayer.

M. B. DUFFY.

(Presented by Command; ordered to be printed and to be added to First Report, 4th November, 1921.)

THE GIVING TO PRIMARY PRODUCERS OF SPECIAL CONSIDERATION AS REGARDS THE ASSESSMENT OF INCOME TAX, PARTICULARLY IN RELATION TO LOSSES RESULTING FROM ADVERSE WEATHER CONDITIONS.

STATEMENT AND RECOMMENDATION OF DISSENTIENT COMMISSIONERS.

As we find ourselves unable to subscribe to the section of the Report dealing with the above subject, we submit the following statement and recommendation :—

REPRESENTATIVE EVIDENCE.

1. A considerable amount of evidence, both individual and representative, was tendered, indicating by examples :—

- (1) The fluctuations in incomes to which primary producers were subject.
- (2) The greater burden of taxation which, over varying periods of years, was borne by fluctuating incomes in comparison with that which fell upon steady incomes of equal aggregate volume.

The claim for consideration was urged on behalf of those whose profits, while fluctuating, rarely resulted in loss, as well as on behalf of those who frequently experienced heavy losses. Shortly after our inquiry began a witness representing the Federated Graziers' Association of Australia tendered a lengthy statement of the case from the pastoralists' point of view, citing particularly an actual case in which during a period of seven years a grazier had alternations of profit and loss of a somewhat sensational character. The remedy urged was in its main feature to base the tax upon the average income of a period, and a period of five years was proposed on the ground that it "would include a fair average of those favorable and adverse seasonal conditions which affect the primary producers' ability to contribute to taxation." The Report quotes freely from the witness's statement, including the figures of the grazier's affairs just referred to.

Computation of tax for the seven years upon those figures, comparing the result under the method above indicated (which is also the British method) with those obtained respectively from the averaging method recommended in the Report and with the system of carrying forward of losses, gives the following :—

Tax under British method	..	..	..	..	..	£19,568
Tax under method of averaging recommended in the Report	..	..	..	..	..	£21,177
Tax under the system of carrying forward of losses	..	..	..	..	..	£19,878

2. The question inevitably arose as to whether a system of averaging, if adopted, could justly be confined to any one section of taxpayers. Witnesses asserted with obvious cogency that the incomes of country storekeepers and many other suppliers of goods required for use or consumption by primary producers are also affected materially by seasonal influences. Witnesses representing the interests of primary producers, while claiming relief for themselves through a system of averaging or through the system of carrying forward losses invariably expressed their willingness that the same privilege should be extended to all sections of taxpayers who desire it; or they expressly refrained from opposing any such extension.

OPPOSITION TO METHODS OF AVERAGING.

3. In no State, with the doubtful exception of New South Wales, did a system of averaging find acceptance with the State Commissioners of Taxation, but preference was generally expressed for the system of allowing any balance of loss to be carried forward to be used as a set-off against subsequent profits. Among the reasons advanced for disapproval of an averaging system were :—

1. That under that system there is frequently an amount of taxable income which has not paid tax, and may never pay tax ;
2. That it would increase the expense and the difficulties of administration.

In that expression of opinion the State Commissioners had not before them the form of averaging recommended in the Report. One State Commissioner who perused the Statement describing the mode of averaging, which, with the exception of the feature of "Suspense Credits," is recommended in the Report, said :—

"The suggestion is in effect a modification of and an added complication to the system of tax graduation in operation."

4. A system of averaging, while it would be new to Australian Income Tax law, has been in existence in Great Britain since 1842, and that system is described with considerable detail in the Report. It is not necessary to repeat the information there given, but one or two facts should be mentioned. Under the British system the ordinary trader or professional man makes his return on the average of the three preceding years, and the farmer, while having the option of being assessed under Schedule "D" as a trader, is normally taxable under Schedules relating to the ownership or occupation of land, particularly under Schedule "B," which provides that the assessment shall be made on a statutory profit of twice the annual value of lands occupied wholly or mainly for the purpose of husbandry. The recent British Royal Commission on the Income Tax recommended that farmers should be assessed in the same way as other traders, and further recommended that ordinary traders should no longer be assessed on an average of three years, but upon the income of the previous year, which is the present Commonwealth system. That Commission remarked that "hardly any one had a good word for the average" (British system).

5. The evidence taken by the British Commission shows that where the average system works against the taxpayer (as under certain circumstances any form of averaging will), there are pressing demands for relief, and, in fact, forms of special relief have been created. The position as stated to that Commission by a representative of the Board of Inland Revenue is that "it is heads I win and tails you lose in favour of the taxpayer."

6. A taxation expert, the only witness appearing before us who had the opportunity of seeing the British system of averaging at close quarters, and with the friendly assistance of English officials, stated that it created many anomalies, and he expressed himself in favour of the system of carrying forward of losses.

7. The evidence has made it clear that neither as individuals nor as groups are primary producers united in opinion as to the respective merits of "Averaging" and "Carrying forward of Losses." For example, the United Graziers Association of Queensland put the case thus :— "Perhaps the most important matter affecting primary producers is the present annual assessment of income without regard to the operations of other years. It appears to be generally admitted that this involves considerable injustice, and suggestions have already been made to you with the object of rectifying this injustice. The two suggestions are—(1) The averaging of income over a period of years ; (2) setting of losses against subsequent profits. This Association has given long and careful consideration to this matter, and desires to record its support of the "Averaging System." So far as can be judged from the evidence already given, the second suggestion was made, not because it was not considered that the averaging principle was the most equitable and just, but owing to the administrative difficulties arising out of the introduction and continuance of that principle. While it is recognised that there are difficulties attending its introduction, and that additional work will in all probability be thrown on the Department in carrying out the scheme, we consider the principle is right, and that the difficulties are not insuperable ; also that the fact that administrative costs may be increased to a small extent is not sufficient excuse to warrant a continuance of what is considered an injustice. Much has been said as to the effect of any such scheme in the case of—(a) a taxpayer with an increasing income, and (b) one with a diminishing income. It has been contended that the former will not pay as much as he should, and that the latter will pay more than he should. The Association considers that this is a bogey which can be dismissed without injustice to any one. In the first place, the conditions of the

pastoral industry are such that no taxpayer has a regularly increasing or regularly diminishing income. The income is one which fluctuates according to the season and financial conditions. Secondly, it is considered that if such cases do exist they are so rare that consideration of them can safely be rejected for the sake of the larger principle." On the other hand, the Stock-Owners' Association of South Australia, after discussion of both systems, decided unanimously in favour of the system of carrying forward losses, on account of its greater simplicity and of the fact that where losses occur it reduces or temporarily extinguishes the tax for longer periods, and does so during the time that taxpaying capacity is at its lowest point. Individual witnesses, two of whom may be quoted, also urged the same view. One of these witnesses, with large interests in more than one State (including New South Wales and Queensland), who was heard late in the inquiry, said that "the majority of pastoralists now think the averaging system would prove very conflicting, and that the carrying forward of losses would prove the more simple way of getting over their difficulties." Another, also with large interests in Queensland, who first suggested averaging as the desired method, said, "but allowing for losses would be quite alright."

**FORM OF AVERAGING WHICH, WITH THE EXCEPTION OF ONE FEATURE, IS RECOMMENDED
IN THE REPORT.**

8. Just before the close of our inquiry a second representative of the Federated Graziers' Association appeared before the Commission and submitted a form of averaging which differed from that advocated on behalf of the Association and which had been generally accepted by all other witnesses who favoured averaging. The witness stated that the form of averaging now put forward embodied the latest views of the Council of his Association on the matter.

9. This proposed method is not, as originally suggested, to average the net income for the period chosen, and apply the appropriate rate of tax to that average, but to apply to the income of the tax-year, the *rate* appropriate to the net average income. For example, if the net average income for the five years 1916-20 was £2,000, and the income for the year 1919-20 was £1,200, the tax for that year would be payable upon £1,200, calculated at the rate applicable to an income of £2,000. Where in any year a loss occurs, not only would that loss be treated as a deduction from the profits of the other years which make up the cycle of five years used for determining the average rate, but it was also claimed as an essential feature of the system that the taxpayer should be credited in respect of a year of loss with a sum equal to the tax for which he would have been liable had the loss been a profit of the same dimensions, and that the credit so established (designated "Suspense credit" in the Report) should be deducted from the tax subsequently leviable.

10. It will be seen that the Report, while adopting the main principle of the amended method of averaging, has for the present discarded the feature of suspense credits, though it describes that feature as being "equitable" and as "the closest approximation to correct adjustment." The feature of suspense credits, would, in our opinion, be unacceptable as part of a taxation system.

11. The following table shows how in the zone where "Suspense Credits" do not occur, the system may operate:—

Year.	Income.	Continuous Totals of Income up to Five Years and thereafter the Totals of Last Five.	Average.	Average Rate of Tax.	Tax at Average Rate on Actual Income of Year.
	£	£	£	d.	£
1	3,943	3,943	3,943	30·3478	499
2	4,499	8,442	4,221	32·1266	602
3	4,618	13,060	4,353	32·9711	634
4	5,819	18,879	4,720	35·3194	856
5	4,701	23,580	4,716	35·2938	691
6	6,729	26,366	5,273	38·8577	1,089
7	5,387	27,254	5,451	39·9966	897
8	21,983	44,619	8,924	60·9613	5,584
9	7,295	46,095	9,219	62·2867	1,893
10	23,834	65,228	13,046	74·0465	7,353
	£88,808		£63,866		£20,098

NOTE.—For the first year the income of the year is taken as the average on which to determine the rate, for the second year the average of the first and second and so on to the fourth. For the fifth and subsequent years the average is that of the tax-year and the four preceding years.

The figures used in the table are hypothetical; but hypothetical figures, so long as they fairly represent a probable experience, are just as reliable for purposes of illustration as actual figures, which, as they are never likely to recur exactly, can only be regarded as typical.

12. The total income for ten years is £88,808, or a yearly average of £8,881. The tax payable in ten years on a yearly income of that amount is £22,484, but as the above figures show, the owner of the fluctuating income pays only £20,098, or £2,384 *less* than the taxpayer with steady income of the same aggregate amount.

13. It may be remarked that examples "A" and "D" of the "Comparative Examples" (p. 18 of the Report) which do not include "Suspense Credits," show a result similar though on a trifling scale compared with that in the above table, *i.e.*, that the total tax paid in respect of a fluctuating income under the system recommended is less over a term of years than that paid by the owner of a non-fluctuating income of the same aggregate amount.

14. Under this system the total of the averages arrived at for the purpose of fixing the rate over any period except in the first year will rarely correspond with the total income of the taxpayer. The difference referred to may be more readily understood by perusal of the table above.

15. In years numbered 5, 7, and 9 in the above table only do the average figures which fix the rate equal or exceed the actual income for the year, and in two of those years the difference is trifling. The above figures indicate that over the period shown £24,942 of income have in effect not entered fully into the fixing of the rates of tax, with the consequence that the scale of graduation has been materially modified. It would be no answer to this contention to say that every pound of the income is taxed simply because *some* rate is applied to each year's income. If an income of £5,000 is taxed at the rate applicable to £2,000 it would be more correct to say that every pound is partially taxed. With the exception of three years, that is the nature of the operation which occurs under the system, as exemplified in the preceding Table. Under this method the revenue is sometimes ahead of and sometimes behind on the actual income, and while over the whole field of taxation there may be a rough balance, it is not fair between individual taxpayers. In the above example the revenue would have to wait two, three, and four years before getting the full benefit of the good years 8, 9 and 10, and if the taxpayer died or left the country at the latter point, the revenue would never obtain its full quota.

16. In the first five years' period hardship will result in the case of a taxpayer having a declining income. The following (hypothetical) example shows that in the second, third, fourth, and fifth years the rate of tax is higher than that which would apply under the present Federal system:—

Year.	Income.	Average for Rate.	Present Rate.	Present Tax.	Average Rate.	Tax under proposed Average System.	
	£	£		£		£	s. d.
First	10,000	10,000	65·4176	2,725 14 8	65·4176	2,725 14 8	
Second	6,000	8,000	43·5094	1,087 14 8	56·1783	1,404 9 2	
Third	2,000	6,000	17·9156	149 5 11	43·5094	362 11 7	
Fourth	2,000	5,000	17·9156	149 5 11	37·1109	309 5 2	
Fifth	2,000	4,400	17·9156	149 5 11	33·2719	277 5 4	
				£4,261 7 1		£5,079 5 11	

17. It will be seen from the above that this taxpayer would pay in the first five years £817 18s. 10d. more in tax than under the present system. A position similar in effect, though varying in degree—it may be more or less oppressive than the example shown—will be created under this system, whenever the level of income is materially lowered.

18. The Report, summing up the results of twelve examples on page 17, attaches the greatest importance to the approximation of the results of the recommended method to the standard mentioned in the preceding paragraph. But there is a method, not mentioned in that summary, which gives, on the total of those twelve examples, a result nearer to the standard than the result given by the recommended method. The superior result in those instances is given by what has generally been referred to as the British method, a method condemned by the British Commission, and in the condemnation of which the Report concurs.

19. Apart from any other inferences which may be drawn from this statement of fact, it is, we submit, clear that the Report, in adopting comparison with a steady income as the supreme test of any method, has chosen a standard much too rigid and narrow. Another inference may be drawn. Although the English method in the total of the twelve instances referred to shows a closer conformity with the standard than does the recommended method, it happens that, taking the cases individually, six on the Report method and six on the English method show the closer conformity. This suggests (what in our opinion is the fact) that *the two systems differ only in detail and not in essence* and, further, it illustrates the uncertain effects produced by the system recommended.

20. A minor, but to a large number of taxpayers not unimportant, disadvantage which would result from the adoption of the averaging system recommended in the Report would be that the present Ready Reckoner issued to the public would be of use only as a means of ascertaining the *rate* of tax. Under that system the rate so ascertained is not applied to the income to which it is appropriate, hence the amount of tax would need to be worked out in each case. The same difficulty occurs at present in the case of composite incomes, which constitute about 30 per cent. of the total taxable incomes, but the change of system would extend the difficulty to all taxable incomes. A Ready Reckoner compiled in a form (necessarily quite different from that of the present publication) which would enable the amount of tax under the averaging system to be ascertained by inspection, would be so large and expensive that it would probably be considered impracticable. The absence of such an aid means that an immense amount of extra time and effort would be consumed in tedious calculations, which under the present system are unnecessary.

THE PRINCIPLE OF GRADUATION.

21. The principle of graduation of the Income Tax was not called in question in evidence, but on the question of its equity when applied to incomes which fluctuate (though not to the extent of involving actual loss) widely differing views were expressed by witnesses. It was asserted by some that equity cannot exist where a person whose income fluctuates may be liable to pay a greater aggregate amount of taxation during a given number of years than would be paid by a person having the same net income received in regular annual amounts. Witnesses of equal authority contended or clearly implied, on the other hand, that once the system of graduation is admitted as being generally the most equitable, there can be no valid claim of inequity where that system is applied to the income of the year if proper allowance be made for actual losses. The form of averaging recommended in the Report does not explicitly challenge the principle of graduation, but in effect materially modifies the scale of graduation by substituting a new standard for determining the rate of tax (*viz.*, the average income over a period of five years) in place of the hitherto accepted standard (the taxable income of the tax year). Under the substituted standard an income of £500 in one year might be taxed at the rate applicable to an income of £7,000, or an income of £20,000 in one year be taxed at the rate applicable to £600. In any tax year if there were a large number of incomes of £500 a different rate might be applied to each of those incomes in the hands of different taxpayers.

22. It has been said that the method of carrying forward of losses also modifies the scale of graduation in respect of incomes which in some years fall below zero; but under this method it is always the appropriate rate, and not a variable rate, that is applied to the taxable income.

23. The purpose of graduation is to adjust the burden of taxation to the ability to pay. The scale operates upon taxable incomes, and, though it is not a perfect instrument, it will, if well designed, preserve a high degree of equity above the line where taxation begins. The purpose of the method of carrying forward losses which we recommend is to preserve equity below that line.

CARRYING FORWARD OF LOSSES.

24. The system of carrying forward any balance of loss from one year until extinguished by subsequent profits needs no elaborate discussion. While the deduction of current losses from the gross income in any tax-year is perhaps as old as income tax law, the extension of that practice has only recently come into prominence. Every taxpayer paying Income Tax on the profits of any trade, business, or profession in which losses incidental to the trade, &c., may occur, is aware that losses occurring in any one year may at present be set off against the gross profits of that year in order to arrive at the taxable income. The system of carrying forward of losses extends the present practice, so that if a year's transactions result in a net loss, say, of £1,500, and the net profits of the next year are £1,000, there would be no tax to pay in respect of that year, but a balance of £500 would remain to be carried forward; and if in the third year the net profits are £1,200, the tax would be payable upon that amount less the £500 carried forward, that is, upon £700.

25. If this system be adopted then in our opinion the meaning of the term "loss" should for the purpose of the allowance of losses be extended to include any sum by which the taxpayer's income falls below the amount of the general exemption, plus the allowance for children (if any).

It seems reasonable that a taxpayer whose income falls below the total of those two amounts (or below the general exemption if that only is applicable) should be regarded as having incurred a loss, and that he should have the right to carry forward that loss to be set off against future taxable income.

26. At present, a person is not regarded by the Taxation Authorities as having incurred a net loss if the result of the year's transactions leaves him with some income above the zero line. The effect of the proposal here made is to raise the datum or zero line (below which loss is considered to begin) up to the amount of the general exemption, or that amount plus the allowance for children if the taxpayer is entitled to the latter allowance.

27. Thus, assuming for the purpose of simplicity that a taxpayer is entitled to the general exemption only (taken at £156, the present rate) the possible positions arising would be :—

1. Where after taking off all allowable deductions including the general exemption, £156, there is a taxable income, the system would have no application.
2. Where through losses of any kind, including failure to earn income, the income is reduced—
 - (a) exactly to the amount of the general exemption, there would be no tax, and no loss to be carried forward ;
 - (b) below the general exemption £156, but not below £1, the difference would be deemed a loss which may be carried forward. Example :—
If the net income was £140, i.e., £16 below the amount of the general exemption, there would be a "loss" of £16 which could be carried forward to be set off against the taxable income of the next year.
 - (c) below zero by, say, £100, the loss to be carried forward would be £100, plus £156, or £256 in all.

If the taxpayer were entitled to an allowance for children of, say, £52, the above illustration would be altered merely by adding £52 to £156 where the latter figure is used.

28. It should, we think, be permissible for losses not extinguished by subsequent profits to be carried forward for a period of five years but not longer. This limitation will not affect the practical value of the allowance ; but we recommend that power be conferred upon the Commissioner to extend the time where in his opinion there are special circumstances justifying such extension. In cases where application is made for an extension of time, and the Commissioner decides against the applicant, the latter should have a right of appeal to the Board of Appeal recommended in Section IV. (Board of Appeal under the Income Tax Act).

29. The British Commission, while recommending abolition of the average system, recognised that consideration is necessary where losses occur. The British *Income Tax Act 1918* contains a provision similar in effect to the provision of the Commonwealth Act under which losses occurring during the year which is the subject of assessment may be set off against the profits of that year. That provision, however, affords no adequate relief in cases where heavy losses occur in any one year which are not extinguished for two or more subsequent years. The British Commission, while recommending the continuance of the present provision with regard to the deduction of losses in respect of the year in which they occur, made a further recommendation that any balance of loss should (unless earlier liquidated by profits) be permitted to be carried forward for a period of six years. This period was chosen as corresponding with the period fixed under the Statute of Limitations.

30. In the United States a recent amendment of the Income Tax Law extends the allowance for losses incurred in the regular business of a taxpayer beyond the year in which the loss occurs. The effect of the amendment is stated by Montgomery (*Income Tax Procedure 1919*, p. 486) as follows :—

"The 1918 Law provides that when the business of a taxpayer as ascertained for a taxable year beginning 1st November, 1918, 1st December, 1918, or 1st January, 1919, results in a net loss such net loss may be deducted from the net income of the next preceding taxable year, and the tax of such preceding year shall be redetermined and the balance due to the taxpayer as so ascertained shall be refunded. If the net loss is greater than the net income for the preceding year, the entire net income shall be used up and a refund made, and the balance of the loss not deducted may be carried over to the next succeeding taxable year. The losses so applicable to preceding or succeeding taxable years may be those incurred in the regular business of the taxpayer."

This is obviously a tentative and incomplete application of the sound principle of making allowance for losses.

31. In Queensland, the Governor's Speech at the Opening of Parliament in August, 1921, announced an intention to introduce a bill for the purpose of amending the Income Tax law to provide for the application of that principle to farmers. The latest official information on the subject received by the Commission is that the provisions of the Bill have not yet been finally settled, but it is probable that the benefit of the amendment of the law will be confined to farmers. The Commission does not know how the term "farmer" is to be defined.

32. The Report disapproves of the system of carrying forward of losses, and states objections which may be thus summarized:—

1. That it is not equitable; that it is not general in application, and particularly that it affords no relief to a taxpayer whose income fluctuates, but who does not incur loss.
2. That it introduces a radical change of method and differentiates unduly between taxpayers.
3. That it cannot operate more frequently than losses occur.
4. That practically the only thing that can be urged in its favour is that it is simple to understand, but that "the handful of benefit of its supposed simplicity is hardly worth the holding" . . . and that with the proposed extension of the term "loss" to include any sum by which the taxpayer's income falls below the amount of the general exemption plus the allowance for children (if any), even the "minor merit of simplicity" vanishes.

33. It is obvious that a system dealing with actual losses cannot operate more frequently than such losses occur. The charge that the system is not general in its application is, of course, true to the extent that it does not affect incomes in which losses are not sustained, but one does not complain, for example, of the allowance for children that it confers no benefit upon a childless taxpayer.

34. It is true of an averaging system also that to many incomes (*i.e.* non-fluctuating incomes) it will have no practical application; to many others a very slight application, while in numerous other cases its application may be to the pecuniary detriment of the taxpayer, a result which in no case follows the application of the system of carrying forward of losses.

35. It may be pointed out that our recommendation that losses should be defined as beginning as soon as the income falls below the amount of the general exemption plus the allowance for children (if any) will have the effect of causing the system to operate much more widely than is assumed in the Report, and of affording substantial relief to taxpayers of moderate though fluctuating incomes, whose transactions rarely, if ever, result in positive net loss.

36. The alleged inequity of the system of carrying forward of losses is illustrated in the Report (paras. 44-45) by two examples. The supposed inequity in the examples is one which would occur equally under an averaging system, and is due to the operation of graduated rates. The statement that the system in addition to being inequitable involves a radical change of method appears to us to be without foundation.

37. As to No. 4, whatever may be said or implied to the contrary, we consider the carrying forward of losses system, as recommended by us, is economically sound in principle, easy of comprehension, and will be found to be simple in practice. We regard its comparative simplicity as an additional merit which, independently of its capacity to afford substantial relief where losses are incurred, would be welcomed by that large body of taxpayers who place a high value on simplicity as an element of any taxation method.

EFFECT ON REVENUE.

38. While the effect on Revenue should not be the dominant factor in the appraisal of any proposed change of system having for its object a more equitable distribution of the burden of Taxation, it is an element which cannot be ignored in any estimate as to its practicability.

39. A careful scrutiny of all the figures available to us relating to both the Averaging and the Losses Systems revealed such conflicting results that we are led to the conclusion that any estimate we could make as to the Revenue effect of either system would be unreliable.

40. It is clear, however, that the adoption of either the Averaging System recommended in the Report, or the System of Carrying Forward of Losses, would involve a reduction in the total revenue derived from Income Tax, and it is equally clear from the numerous illustrative examples we have had under review that the revenue would suffer to a greater extent under the "Averaging System" than under the "Losses" System.

TAXABLE CAPACITY.

41. With regard to paragraphs 38 and 40 of the Report, in which a duality of purpose is attributed to the British system of averaging, and also a failure on the part of the British Commission to distinguish between the "basis of liability" and "measure of taxable capacity," in our opinion the averaging under the British system has always served one purpose and one purpose only, viz., the determination of taxable capacity or taxable income, which we regard as interchangeable terms. Under the British system, averaging has nothing to do with ascertaining the rate of tax. Once the figure of income to be taxed—or, more shortly, the taxable income—is determined by the averaging system, the legislative provisions fixing rates of tax (with which averaging has no connexion) automatically come into operation.

42. In the section of the report of the British Commission to which reference is made in paragraph 40 of the Report, that Commission had recommended the abandonment of averaging, and were discussing whether, on the single-year system, it was more desirable to take as the basis of liability the profits of the year of assessment or of the preceding year. For practical reasons they decided in favour of the latter, and added a recommendation as to the carrying forward of losses similar to that which we make.

43. We do not share the opinion of our colleagues that there was any failure on the part of the British Commission to distinguish between "basis of liability" and "measure of taxable capacity"; for the reasons that when "averaging" is logically applied "taxable capacity" is also the "basis of liability," and that under the single year system, with which that Commission was then dealing, no distinction between the two can be drawn, either in theory or practice. (See also para. 60.)

44. The method recommended in the Report, whatever may be said for it from a practical point of view, is, in our opinion, illogical inasmuch as it does not base the tax upon the ascertained average income, but applies the rate appropriate to that income to the income of the year. That rate may be very much higher or very much lower than the rate prescribed by the existing scale of graduation as appropriate to an income of the same amount as the income of the year.

GENERAL COMMENT AND CONCLUSIONS.

45. While the mode of averaging recommended in the Report would afford a useful measure of relief to taxpayers in certain circumstances, in our opinion it would in other circumstances operate unfairly and engender anew the sense of injustice which it is designed to eradicate.

46. It is to be regretted that this mode of averaging was introduced to the Commission only at the close of the inquiry. Consequently, it did not receive that careful consideration by many competent witnesses which was given to the mode of averaging first submitted, and to the method of carrying forward losses. As we have seen the chief proponents of the mode of averaging first submitted, who said that "the only remedy which will meet the case and create the least anomalies is to impose the tax on the basis of the average income gained over a number of years," were moved later on (presumably as a result of further examination and the criticism their scheme encountered) to propose this modification. **The new scheme is simply a different mode of averaging.** It is, in our opinion, an improvement upon the mode for which it was suggested as a substitute, since in some cases it reduces in scale the inequities which arise under this as well as under other modes of averaging. The "standard of perfection" in the view of the Report would be reached if a system produced an arithmetical identity between the total tax paid during a selected period on a fluctuating income and on a non-fluctuating income of the same total amount. The complaint is that a fluctuating income is excessively taxed in comparison with a non-fluctuating income, but the example in para. 15 on page 5 shows that, in certain circumstances, the mode of averaging recommended produces the opposite result, and causes a non-fluctuating income to pay much more than a fluctuating income of the same aggregate amount during the same period.

47. It has been shown previously that this mode of averaging, among other disadvantages and anomalies which attach to it, would in certain frequently-occurring circumstances (1) cause a taxpayer to pay more tax during a period of five years than he would pay under the present system; (2) cause a steady income to pay more tax than a fluctuating income of the same total amount; and (3) cause the position to arise that in effect a large amount of income would not enter into the fixing of rates with the consequence that the revenue may never receive its due share.

48. It has also been shown that, on the test laid down in the Report as that upon which all methods should be judged, that is by the degree of conformity of the amount of tax payable by a fluctuating income with that payable by a steady income, there is a mode of averaging (which has been considered and rejected by the Commission) but which under that test shows better results when applied to the twelve examples in the Majority Report than that given by the mode recommended.

49. The Report, paragraph 31, quotes Sir Josiah Stamp as in favour of an averaging system. Sir J. Stamp may, in our opinion, with greater weight, be cited against averaging, for, as a member of the British Royal Commission, he concurred in the recommendation for the abolition of averaging and the substitution of the system of carrying forward losses.

50. In a paragraph under the heading "Alleged Hardship" in the Report (page 24) the statement is made that—

"While it was quite true that in the British averaging scheme undue generosity was extended to expanding incomes and undue hardship meted out to dwindling incomes, this was mainly due to the creation by the British system of averaging of a "Statutory Income" at variance with the true income (augmented or diminished by the position of its tapering parts). In the scheme now proposed, the tax is based on the actual income of the immediately preceding year, the rate only being fixed by the averaging period, and should it be proved, which is unlikely, that the rate is unduly inflated in any special and peculiar case, the remedy could be supplied by some provision on the lines of section 64 of the present Act. This contingency is so remote that, for practical purposes, its consideration beyond the mere mention can be disregarded, for in nearly all cases where a taxpayer has been enjoying a larger income in former years, any increment in rate consequent thereon when his income is lessened, seeing that such rate is applied solely to his actual income of the immediately preceding year, will not carry with it any sensible hardship."

51. The statement that the admitted injustices arising under the British averaging system are mainly due to the taxation being based upon the average income, and the implication that an alteration of the mode of averaging will greatly diminish the frequency of these injustices, seem to ignore what in our opinion is the fact that the mode recommended will inevitably cause injustices similar in type and probably in volume with the sole difference that, in some instances, they will be reduced in scale. With a "dwindling income," or more certainly with a sharply-reduced income, a taxpayer may find himself liable to pay tax on income of a given year at a rate many times the rate appropriate to his actual income. He may find too—as the illustration in para. 20 shows—that during a cycle of five years he will be called on to pay a greater amount of tax than he would pay under the present law. In such cases any benefit he may have derived from the system in years of expanding income will probably be forgotten, and the sense of injustice that will inevitably arise in his mind is not likely to be allayed by the assurance that, "seeing that such rate is applied solely to his actual income of the immediately preceding year, [it] will not carry with it any sensible hardship."

52. In seeking to improve our taxation system, it is desirable that any new method adopted should be simple, certain in its operation, and, wherever applied, should be manifestly just. In our opinion no averaging system adequately responds to these tests.

53. In the relations it creates between the revenue and the taxpayers (apart from the question of any reduction of receipts due to its adoption) any averaging system would operate in a manner contrary both to the general public interest and to the interest of individual taxpayers. If a period of slackness or decline is followed by one of growing wealth and prosperity, the revenue lags behind as to its just share, and the taxpayers, who in such a time of quickly advancing gains and general confidence could most easily support the necessary burdens of taxation, find those burdens lightened by the effect of the previous years, while they will have to bear the heaviest load in a period of shrinking profits and difficult financing.

REASONS FOR PREFERENCE FOR CARRYING FORWARD OF LOSSES SYSTEM.

54. We regret having to differ from our colleagues in our conclusions and recommendation on this subject, but the cumulative force of the objections we see to the scheme of averaging recommended by them compels us to seek an alternative. The alternative to which we turn is the system of carrying forward any balance of loss from one year to be used as a set off against tax of subsequent years until extinguished by future profits (*see para. 29 et seq.*).

55. We question the accuracy and soundness of the assumption which is fundamental to the mode of averaging recommended in the Report, viz., that for practical purposes true "taxable capacity" is best found in the average income over a period of five years. We regard the average income over a period of five years as an arbitrary standard of taxable capacity, not demonstrated to be an accurate standard suitable for general application. Our conception of taxable capacity is that on the whole it is likely to be more accurately reflected in the "annual net income." We consider that a profit resulting from any one year's transactions should not, for the purpose of taxation, be regarded as income for that year till it is subjected to a deduction of any unextinguished loss incurred in a previous year. Both equity and sound practice demand that the profit of any year should first be applied in extinguishing any loss carried forward from a previous year's transactions. We apply the term "annual net income" to the resulting balance of profit, and this we consider should constitute taxable income. This view is clearly implied in the recommendation of the British Commission.

56. The method of carrying forward of losses in the form we recommend insures that no taxpayer will be called upon to pay tax on an amount in excess of his annual net income (as defined above) over a period long enough to cover any probable succession of losses. (This suggestion is also in harmony with the view of the British Commission.) The annual net income (determined after the absorption of any previous losses incurred within five years) is taxed at the rate applicable under the current scale to that annual net income. The full weight of whatever scale of graduation is in force falls therefore where it is designed to fall, on the net annual income of the subject, which in our opinion is invariably the best index of his true taxable capacity.

57. If complete equity is ever attained in a taxation system, in our opinion it will not be through an attempt to achieve mechanical identity of tax payment, but through a just estimate of the many factors which constitute the basis of accurate comparison.

58. The system of carrying forward of losses, though more limited in scope than the system of averaging, is free from the complexities and disappointing inequities which characterize that system. It operates, as indicated by the words used to describe it, upon incomes in which the fluctuations extend to actual net losses. Within that area its action is simple, just, beneficial to the taxpayer, and involves no unfairness to the revenue. The evidence shows that there is a large body of opinion among primary producers, and other sections of the taxpaying community, which prefers this system to a system of averaging. It gives full relief up to the point where public opinion as expressed in evidence unanimously agrees that relief is justly due, that is where actual losses occur, and we are convinced that, in practice, it would give more widespread satisfaction than the averaging system recommended in the Report.

59. The system of carrying forward of losses—

- (a) Would supply an element of equity which is lacking in the existing system, as it makes full allowance for the losses which that system ignores.
- (b) Would not act to the pecuniary detriment of the taxpayer (as any averaging system frequently would), while, at the same time, it would secure to the revenue its just share.
- (c) Is much simpler than the averaging system, and consequently will be understood by a much larger body of taxpayers.
- (d) Would, as compared with an averaging system, involve much less trouble to taxpayers in checking their assessments.
- (e) Would free taxpayers from payment of tax or reduce the payments during the years of greatest stress.
- (f) Is in consonance with recognised business and accountancy methods, and would be applicable without any change of method to all classes of taxpayers.
- (g) Would be much less difficult and expensive in administration than an averaging system. Official evidence showed that, for the first few years at least, there would be very great difficulty in obtaining the additional competent officers who would be required if an averaging system were adopted.
- (h) Would operate normally from the first year. The averaging system as recommended in the Report does not operate normally for five years.

RECOMMENDATION.

60. We recommend—

1. That the Income Tax Assessment Act be amended so as to incorporate in the determination of "taxable income" the system of carrying forward of losses up to a period of five years, unless earlier extinguished by subsequent profits.
2. That, for the purposes of the system, the meaning of the term "loss" be extended so that a taxpayer should be entitled to carry forward (as a loss) any sum by which his income in any year falls below the amount of general exemption plus the allowance for children (if any) to which he may be entitled.

(Signed) W. WARREN KERR
S. MILLS.
M. B. DUFFY.

SECTION 1.

**THE GIVING TO PRIMARY PRODUCERS OF SPECIAL CONSIDERATION AS REGARDS
THE ASSESSMENT OF INCOME TAX, PARTICULARLY IN RELATION TO LOSSES
RESULTING FROM ADVERSE WEATHER CONDITIONS.**

SUPPLEMENTARY STATEMENT BY MAJORITY COMMISSIONERS.

The members of the Commission who support unreservedly this section of the Commission's Report, cordially welcome criticism of the recommendations made by them for placing the system of the Federal Income Tax Law upon a sound and equitable basis, and as they submit their own so would they have left untouched the Minority's views, to run the gauntlet of public examination; but considering the very important interests involved, and being sensible of their duty to the general public who have not the opportunity of reading in full the evidence submitted, and will therefore expect to be fully informed as to what bearing the material used by the Minority has on the matter in question, they feel reluctantly compelled to issue a statement supplementary to and corrective of the "Statement and Recommendation of Dissident Commissioners."

The word "Reservation" in this supplementary statement means the "Statement and Recommendation of Dissident Commissioners."

"REPRESENTATIVE EVIDENCE."

2. In the first paragraph of the Reservation are quoted certain figures, but as they are of most meagre description and do not convey any substantial evidence, we feel that more information is necessary, and venture to supplement them by submitting a table showing the calculations of tax under a variety of methods and over an extended period, using for the purpose the case referred to by the Minority.

TABLE A—OPERATIONS OF A TAXPAYER, as submitted by a witness, showing how same would be taxed under present and recommended methods, viz.:—

In column E, the method recommended by the Commission.

In column F, the averaging method with allowance for suspense credits.

In column H, the method of the present Federal Income Tax Act.

In column I, the "carrying forward of losses" method.

In column J, the method of the British Act (on a five years average).

A.	B.		C.	D.	E.	F.	G.	H.	I.	J.
Year.	Taxable Income for the Year.	Total Income for the Five Years (or loss) to Date.	Average Income of Five Years. (or loss) Taxable Capacity.	Recommended Averaging Method.		Suspense Credits.	Present Federal Method.		Carrying Forward of Losses Method.	Method of British Act (5 years).
				Rate of Tax Applicable to average Income (e).	Amount of Tax on Taxable Income B. x D.		Rate of Tax Applicable to Income B.	Tax on Taxable Income B. x G.		
	£	£	£		£	£		£	£	£
1 ..	24,105	24,015	24,015	86·9857	8,704	..	86·9857	8,704	8,704	8,704
2 ..	23,805	52,820	26,410	88·3812	10,608	..	89·5448	10,747	10,747	9,726
3 ..	Loss 34,646	18,174	6,058	43·8805	..	6,335	..	..	..	1,108
4 ..	Loss 67,255	Nil	Nil	..	..	..	..	..	..	..
5 ..	4,163	Nil	Nil	..	..	..	31·7554	551	..	..
6 ..	55,531	Nil	Nil	..	..	..	95·7197	22,148	..	..
7 ..	45,835	3,628	726	9·7640	1,865	..	94·3118	18,012	427	30
8 ..	24,015	62,289	12,460	72·7601	7,275	..	86·9857	8,704	8,704	3,775
9 ..	23,805	15,8349	31,670	90·7054	10,887	..	89·5448	10,747	10,747	11,969
10 ..	Loss 34,646	116,540	23,908	86·9168	..	12,547	..	..	..	8,658
11 ..	Loss 67,255	Nil	Nil	..	..	..	..	..	..	..
12 ..	4,163	Nil	Nil	..	..	..	31·7554	551	..	..
13 ..	55,511	Nil	Nil	..	..	..	95·7197	22,148	..	..
14 ..	45,835	3,628	726	9·7640	1,865	..	94·3118	18,012	427	30
15 ..	24,015	62,289	12,460	72·7601	7,275	..	86·9857	8,704	8,704	3,775
16 ..	23,805	158,349	31,670	90·7054	10,887	..	89·5448	10,747	10,747	11,969
17 ..	Loss 34,646	11,9540	23,908	86·9168	..	12,547	..	..	..	8,658
18 ..	Loss 67,255	Nil	Nil	..	..	..	..	..	..	..
19 ..	4,163	Nil	Nil	..	..	..	31·7554	551	..	..
20 ..	55,511	Nil	Nil	..	..	..	95·7197	22,148	..	..
21 ..	45,835	3,628	726	9·7640	1,865	..	94·3118	18,012	427	30
..	..	..	..	..	61,231	31,429	..	180,486	59,634	68,432

3. It will be noted that under the system of the British Act, there would fall to be paid in the fourth and eleventh years taxes of £1,108 and £8,658, notwithstanding that heavy losses had been incurred in the immediately preceding years—the third and tenth. In the method recommended by your Commissioners no such conjunction could take place. A year of loss always exempts the following year from payment of tax. Whatever comments may apply to the British method of averaging, it cannot be said of the method recommended by your Commissioners that “under the latter system a heavy tax (£8,658) would have been paid in respect of a year of severe loss, and during a year of much more severe loss.” Under the method recommended by your Commissioners, when there is no income in any year there is no Income Tax in the following year.

This is one of the important improvements which the method recommended by your Commissioners has over the British method. The method recommended should be clearly distinguished from other averaging methods, to which reference is frequently made in the Reservation. Many of these references do *not* apply to the method recommended by your Commissioners.

That the working may be closely scanned it has been carried out over three periods to 21 years. The income during the period has averaged £8,064 yearly, on which the Federal Income Tax at present rates would be £1,900 per annum.

4. To further assist comparison we insert another table (B) in which are shown the progressive aggregate amounts payable in tax by the taxpayer referred to in table A under each of the contrasted methods up to the end of each year, so that running the eye along the line one can compare exactly one method with another at any given date; the several methods are those described in paragraph 70 of our Report.

TABLE B: TOTAL TAX AS PAYABLE IN RESPECT OF INCOME UP TO END OF EACH YEAR UNDER CONTRASTED METHODS—

Years.	S.I.	A.M.S.	R.A.M.	C.F.L.	P.F.M.	British Method.
	£	£	£	£	£	£
1	1,900	8,704	8,704	8,704	8,704	8,704
2	3,800	19,312	19,312	19,451	19,451	18,430
3	5,700	19,312	19,312	19,451	19,451	19,538
4	7,600	19,312	19,312	19,451	19,451	19,538
5	9,500	19,312	19,312	19,451	20,002	19,538
6	11,399	19,312	19,312	19,451	42,150	19,538
7	13,299	19,312	21,177	19,878	60,162	19,568
8	15,199	22,117	28,452	19,878	68,866	23,343
9	17,099	33,004	39,339	28,582	79,613	35,312
10	18,999	33,004	39,339	39,329	79,613	43,970
11	20,899	33,004	39,339	39,329	79,613	43,970
12	23,799	33,004	39,339	39,329	80,164	43,970
13	24,699	33,004	39,339	39,329	102,312	43,970
14	26,599	33,004	41,204	39,756	120,324	44,009
15	28,499	33,004	48,479	48,460	129,028	47,775
16	30,398	40,484	59,366	59,207	139,775	59,744
17	32,298	40,484	59,366	59,207	139,775	68,402
18	34,198	40,484	59,366	59,207	139,775	68,402
19	36,098	40,484	59,366	59,207	140,326	68,402
20	37,998	40,484	59,366	59,207	162,474	68,402
21	39,898	40,484	61,231	59,634	180,486	68,432

5. This is a very extreme and exceptional case, so much so that a witness—a pastoralist of wide experience—to whom it was shown stated it might be excluded from consideration because of its exceptional character. It is exceptional not only in regard to the extreme range of its violent fluctuations but also that it is an example of the very rare case in which the method of carrying forward of losses is more favourable to the taxpayer than the more equitable and generally applicable method recommended by your Commissioners. Incidentally table “A” throws light on the proper treatment when a quinquennium of average loss occurs.

6. Taxation is not an abstract science but an art of practical importance in the affairs of life, and however interesting it may be to the doctrinaire to theorize on exceptional cases, the proper test of a system of taxation is its behaviour when applied in practice to the experience of every-day life. The Reservation does not contain or discuss a single such case. Of the three detailed examples it refers to, one only (the first) is actual, the other two are hypothetical—and all are out of the current of general experience. There were submitted to the Commission in evidence from 130 to 150 examples of the actual operations of different taxpayers, extending over various periods up to fifteen years. Yet all these—with the solitary exception of one exceptional case—are thrust aside and hypothetical cases of unusual character substituted.

7. The second example (paragraph 11) will be discussed under the heading Averaging (see paragraph 21 of this Statement).

8. Criticism of the third example in paragraph 16 of the Reservation has been anticipated in paragraphs 120 and 123 of our Report in discussing a case which conforms to reasonable experience. This claim cannot be sustained on behalf of the case in paragraph 16 of the Reservation, which would instance as an ordinary occurrence a taxpayer leaping at a bound from no income at all to the dazzling splendor of £10,000 a year. We are only concerned with practical business affairs. If such a case should occur, and if out of an income of £22,000 he has to pay £5,079 in tax, very little sympathy need be wasted on the recipient, nor need equitable treatment be denied to other taxpayers in order to protect this brilliant sybarite. The taxation of the ordinary trader who strikes a particularly good year is equitably provided for under the averaging method recommended by us—(see paragraphs 120 to 123 of our Report).

9. It is beyond our function to suggest how the Minority should present their views, but seeing that the complaint of a large section of the community is against the incidence of the present Federal Taxation Laws, what one would naturally look for is a comparison between any method suggested and the method which it is intended to displace. In all the examples given in the main Report opportunity was taken to compare suggested schemes with the method now in use so that the whole position could be intelligently scanned. The results of the British system were not tabulated, though each example submitted in the table in paragraph 75 of your Commissioners' Report had been worked out on that system. The divergence between the British method and the tax on a steady income is fractionally less than the divergence between the tax on a steady income and the method recommended by your Commissioners, but it is greater than that between a steady income and the A.M.S. method (which for reasons stated in paragraph 75 we do not recommend). The chief feature of the British scheme, is that when applied to actual as against hypothetical cases the taxes payable under it would in the majority be less than those payable by steady incomes. Applied to the twelve examples summarized at the end of paragraph 75 of our Report, the results are—

Tax Calculated on—	Total amount of Tax.	Relative percentage.	Divergence from Tax on Steady Income.
	£ s. d.		
Steady Income	46,612 8 10	100	Nil
Method of British Act	43,967 15 3	94·33	— 5·67
A.M.S. Method	47,576 0 7	102·07	+ 2·07
R.A.M. Method	49,733 12 1	106·70	+ 6·70
C.F.L. Method	62,968 6 10	135·09	+ 35·09
P.F.M. Method	69,089 6 2	148·22	+ 48·22

10. Examples A and D on page 18 exhibit that under some circumstances the total tax on the R.A.M. method may for a short time be slightly less than that on a steady income, but had this effect been generally characteristic of it, the method recommended would not have been presented by your Commissioners as worthy of adoption. The wide divergence between the carrying forward of losses method and the averaging methods which precede it in the above table will not escape notice. We refrain from commenting further on this aspect of paragraphs 18 and 19 of the Minority's Reservation.

TAXABLE CAPACITY.

11. "Taxable capacity and taxable income we (the Minority) regard as interchangeable terms." On the basis of their own unsupported opinion that "taxable capacity" and "taxable income" are synonyms the Minority seek to overthrow the sustained argument of the main report, but offer not a single fact or argument to confirm their bald assertion that "averaging under the British system has always served one purpose and one purpose only." Questions of this character cannot be settled by the simple *ipse dixit* of the Minority, when history testifies to the contrary. Explaining the function of averaging under the British Act, Sir Henry Primrose, late Chairman of the Board of Inland Revenue, wrote—"The system of averaging is merely an incident in machinery devised for the purpose of determining a figure of income to be taxed," that is, to determine the assumed figure of income of the then current year to be taxed as "statutory income" tentatively, and subject to subsequent adjustment. When this was written—nearly 20 years ago—the British Act contained no recognised scheme of graduation. There were a few exemptions and abatements corresponding in principle and effect to the general

exemptions of the Federal Act, but graduation as understood in taxation science was then absent from the British Act. The position is expressed in the following extract from an official memorandum issued in 1919 by the Board of Inland Revenue :—

Although all these exemptions and partial exemptions of small incomes are really a form of graduation, they were not generally recognised to be so, but were regarded as innocuous even by the strongest opponents of that form of graduation which is achieved by charging a rate higher than the normal rate on the possessors of large incomes.

It was subsequent to the issue of Sir Henry's opinion that, in 1906, a new departure having been suggested, a Select Committee of the House of Commons was "appointed to inquire into and report upon the practicability of graduating the Income Tax and of differentiating, for the purpose of the tax, between permanent and precarious incomes." Not until 1909, when legislative effect was given in part to the recommendations of that Committee, did a scheme of graduation in a somewhat embryonic stage enter the British Act. The principle has since been developed. That "averaging under the British System has always served one purpose, and one purpose only" might be true (though he did not say so) when Sir Henry Primrose wrote nearly twenty years ago; it is *not* true under the conditions altered by Parliament in 1909 and existing to-day.

12. In these earlier years (that is prior to 1909) "averaging had nothing to do with ascertaining the rate of tax," for the simple reason that with the exception of ten years (1853–1863) there had been in force throughout the whole career of the British tax *one flat rate only* in each year, applicable to all taxable incomes, high or low. But with the entrance of graduation in a rudimentary form in 1909 and its substantial extension in 1914, averaging entered upon a new mission, and in the numerous cases to which it applies, it now determines the grade or the taxable capacity of the taxpayer, and by this in turn is ascertained (by reference to the scale for the time being in force) the rate of tax payable by him. Under the now existing conditions averaging *has* "to do with ascertaining the rate of tax."

13. It is no part of an averaging system to determine the rates of tax: that devolves upon the Legislature, but, this fixed, it is the function of an averaging system to determine the average income over such period as may be laid down by law so that there may be ascertained the grade to which the taxpayer belongs, that is, his taxable capacity. Whether the figure (the average income) which determines his taxable capacity shall also be treated as the basis of liability is quite another question for determination by the Legislature. It may or it may not be the basis, according as the law prescribes, but clearly the two things are not identical, and they should in the study of a taxing system and its incidence be distinguished. That the British Commission failed in their deliverance to distinguish between the two can the more easily be understood when there are found here three Commissioners who, after the distinction has been pointed out to them, declare that "taxable capacity" and "basis of liability" are one and the same thing, and "no distinction can be drawn between the two in either theory or practice." Yet they are just as distinct from one another as the operation of ascertaining the purchasing power of the sovereign is distinct from the operation of applying the Statistician's results to regulate the wages payable to labour.

PRINCIPLE OF EQUITY IN TAXATION.

14. From several references in the Reservation it appears that the basic principles on which the recommendation of your Commissioners rests have not been clearly comprehended by its opponents. *Vide* the following :—

Paragraph 19.—"It is, we submit, clear that the Report, in adopting comparison with a steady income as the supreme test of any method, has chosen a standard much too rigid and narrow."

Paragraph 51.—Where the Minority fail to express the vital difference between other methods of averaging under which the basis of liability is the average income of a series of years and the method recommended by your Commissioners under which the basis of liability is the actual income of the year immediately preceding the year of assessment.

Paragraph 55.—"Our conception of taxable capacity is that on the whole it is likely to be more accurately expressed in the annual net income" than in "the average income over a period of five years."

Paragraph 56.—"The net annual income, in our opinion, is invariably the best index of true taxable capacity."

Paragraph 57.—"If complete equity is ever attained in a taxation system, it will not be through an attempt to achieve mechanical identity of tax payment, but through a just estimate of the many factors which constitute the basis of accurate comparison."

15. Arrested by the closing sentence, one may ask where in the method of "carrying forward of losses" is to be found any estimate, just or unjust, of "the many factors which constitute the basis of accurate comparison"? As the Reservation offers no reply, one is emboldened to ask further, whether some of these "many factors," which the Minority do not even name, should not be dealt with when the questions of exemptions, differentiation of source, and graduation of rates are under discussion?

16. These statements impel us to state briefly the principles for which your Commissioners contend, and which find expression in our recommendation.

17. Regarding any system of graduated income tax, three postulates meet general acceptance—

- (1) Any system of averaging that covers in one span the whole taxing—that is, the whole income-earning—life of a taxpayer will, *ceteris paribus*, disclose his true taxable capacity, and will by reference to the rates and regulations ruling for the time being produce equality of tax payment as between one whose income fluctuates and one whose income is steady.
- (2) Any shortening of the period of time from the whole taxing life will involve a departure from true taxable capacity and produce divergence in tax payment as between a fluctuating income and a steady income, making the payment in some cases greater, in others less. The shorter the period the greater will the divergence be.
- (3) Assuming one-year periods to be the shortest ever so used, the period of time (one year) adopted under the present Federal method involves the greatest departure from true taxable capacity and produces the greatest divergence possible in tax payment as between a fluctuating income and a steady income.

And, as a corollary—

Any lengthening of the period beyond the one-year period adopted under the present Federal method will involve closer approach to true taxable capacity and reduce the divergence in tax payment as between a fluctuating income and a steady income. The longer the period the less will the divergence be.

18. Excluding shorter periods and the arbitrary exactions of despots, the most harsh and inequitable scheme of income taxation as to time range which could be devised would be one in which each day was separated from every other day, and tax demanded on the full profits of the most profitable days without any allowance for the deficiencies of neighbouring days. The scheme would, for other reasons, be impracticable, but the point to be stressed is its inherent injustice. Yet "once the system of graduation is admitted as being generally the most equitable," such a tax as this would be declared by the Minority to be "certain in its operation, and wherever applied manifestly just." Comment is superfluous. Such a tax, whatever be its scheme of differentiation or graduation, could not reflect true taxable capacity; it could not be just.

19. Mitigation would be found in stretching the period to a week, for the deficiency of Monday could then be set off against the larger profit of Tuesday and tax be levied on the free surplus only—in a very restricted way deficits would be absorbed in profits. Extension to a month, a quarter, a year, would at each remove be without any possible doubt an improvement, an alleviation of hardship, and a nearer approach to justice. But why at that point stop progress to that desirable goal? Why not a period of three years, five, ten years? Why not the whole economic and income-receiving life of the citizen? The most accurate valuation of the taxable capacity of the citizen, the most accurate standard of his ability to pay income tax, is the income of the whole span of income-earning life, finally adjusted by revision and readjustment of the whole period when all the facts were known. Surely the Minority will concede that this is not "a standard much too rigid and narrow," particularly if the "many factors (whatever they be) which constitute the basis of accurate comparison" are brought to bear upon it. For practical reasons this is as unworkable on the one hand as a tax on daily profits would be unjust on the other.

20. In Australia there has operated for years a system of taxing on graduated scales the income of each year without regard to adjoining years, and from it has sprung a crop of injustice which, supinely tolerated when rates were comparatively low, has now stirred the sufferers into protest. The intolerable burden of a tax, which in a specially profitable year taxes every pound at a high rate without any allowance whatever for the greatly reduced incomes or positive losses of the adjacent years results in harsh inequalities when compared with the milder treatment meted out to steady unfluctuating incomes of equal volume. Yet the Minority write in paragraph 56 "The net annual income in our opinion is invariably the best index of true taxable capacity." On the injustice of this condition of things our Report furnished several

examples, examples which could be multiplied many times over, for, with rare exceptions, the incomes of all taxpayers fluctuate, some mildly, some violently. Even the Minority admit this. But for a "disease bred in the bone" of an unjust system the "carrying forward of losses" system can offer no treatment more efficacious than the removing of the eruption which occasionally appears on the surface of one case in a hundred, while the seat of the evil is untouched in all. The cause, well understood, demands not occasional superficial treatment as proposed by the Minority, but an effective preventive cure of general application to all labouring under its malign touch. The tax should be levied on the nearest approach to a non-fluctuating income that is ascertainable in a practical way and in reasonable time—that is, on "a long time basis, long enough to give a fair average indication of means." Ten years appears impracticable. Shall we say seven, as in the United Kingdom in certain cases, or three as in others? Or take the happy mean, five—a period sufficient to include a fair range of the varying vicissitudes of erratic seasons, which are a feature of Australian conditions and well within the control of reasonable administrative machinery? As a step towards ideal justice, it is certainly a distinct advance on the existing quarantining of each year from its neighbours, and would afford much-needed and general relief to taxpayers. We have, we think, proved—that the averaging method over a period of five years as proposed by your Commissioners is the nearest approach to equity which recognition of practical necessities enables us in the circumstances to recommend.

AVERAGING.

21. To expose the alleged delusive pretensions of a system of averaging the Minority have prepared a special case—none of the about 150 actual cases submitted to the Commission being deemed suitable—and on the strength of its inconclusive results found a number of interesting charges. (See paragraphs 12 to 15 of the Reservation.)

22. From this special case losses were purposely excluded by the Minority, and the discovery is made by them that "the total of the averages will rarely correspond with the total income of the taxpayer." Whoever expected that the total of any averages would agree with the total of the original numbers averaged? It never did, and never can. The average knowledge of any body is not the same as the total knowledge of all its members. "Will rarely correspond," they write. "Will never correspond" would be more accurate. They have also discovered that the averages are always greater or less than the income of the latest year. What else could be expected except when by some chance coincidence the last figure happens also to be the exact mean of the five? That the average shall coincide with the final figure in all cases would be possible only in the case of an absolutely steady income, and the very object of averaging is to correct the inequalities of fluctuating incomes. Why expect in fluctuating figures conditions which can exist in the case of steady unchanging figures only?

23. When, however, from these discoveries the Minority conclude "the above figures indicate that over the period shown, £24,942 of income have in effect not entered into the fixing of the rate of tax" they are seriously astray. Each and every figure of average is accurate and responds to test. Perfect in all their parts, the averages are perfect as a whole. This may be more clearly seen if the figures of the example in Paragraph 11 of the Reservation be marshalled, thus:—

Years.	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
(1) ..	..	..	..	..	3,943 ..	4,499 ..	4,618 ..	5,819 ..	4,701 ..	6,729 ..
(2) ..	..	..	..	3,943 ..	4,499 ..	4,618 ..	5,819 ..	4,701 ..	6,729 ..	5,387 ..
(3) ..	..	..	3,943 ..	4,499 ..	4,618 ..	5,819 ..	4,701 ..	6,729 ..	5,387 ..	21,983 ..
(4) ..	..	3,943 ..	4,499 ..	4,618 ..	5,819 ..	4,701 ..	6,729 ..	5,387 ..	21,983 ..	7,295 ..
(5) ..	3,943 ..	4,499 ..	4,618 ..	5,819 ..	4,701 ..	6,729 ..	5,387 ..	21,983 ..	7,295 ..	23,834 ..
Totals	3,943 ..	8,442 ..	13,060 ..	18,879 ..	23,580 ..	26,366 ..	27,254 ..	44,619 ..	46,095 ..	65,228 ..
Average Taxable Capacity	3,943 ..	4,221 ..	4,353 ..	4,720 ..	4,716 ..	5,273 ..	5,451 ..	8,924 ..	9,219 ..	13,046 ..

The rate of tax appropriate to the taxable capacity ascertained by averaging as above, expressed in pence per £1, viz:—

30·34 32·13 32·97 35·32 35·29 38·86 40·00 60·96 62·29 74·05

is always applied to the actual taxable income as shown in line (5). The Statement of the Minority in paragraph 47 of the Reservation that "this mode of averaging would cause the position to arise that in effect a large amount of income would not enter into the fixing of rates with the consequence that the revenue may never receive its due share" is disproved by the above table. It will be seen that each year's income throws its full weight into each of the five years during

which it operates. In the method recommended by your Commissioners every pound of income within the operative period, be it quinquennial or shorter, enters into the fixing of the rate of tax. This holds true at each successive stage, and it holds true of every figure of average. Not one pound of income earned has failed to contribute its full weight and effect to the fixing of the average, by which the rate of tax is ascertained, and it is also true that on the rate thus ascertained in the method recommended by your Commissioners every pound of income pays immediately the full quota of tax chargeable under the taxing Act. Scrutiny of the example in paragraph 15 of the Reservation shows that tax is payable on the whole of the actual income (£88,808), and not, as inferred in the comments of the Minority, on the total of the average (£63,866) only. Remembering that the tax is founded on the principle of ability to pay as expressed in a suitable scale of graduated rates and that every taxpayer is required to pay in accordance with such ability, the revenue is never behind and never ahead; it collects every year its true, full, and correct quota. For the statement that averaging is not fair between individual taxpayers there is not a vestige of proof. No practicable scheme has yet been found which is more equitable as between individual taxpayers, and as between the individual taxpayer and the community—the public revenue.

24. Returning to the subject in paragraph 46, the Minority declare, "the new scheme is simply a different mode of averaging." This, however, had previously found expression in paragraph 60 of our Report. The method recommended by your Commissioners was never submitted as anything other than an improvement on the mode of the British Act. When in paragraph 3 the Minority write, "in no State, with the doubtful exception of New South Wales, did a system of averaging find acceptance with the State Commissioners of Taxation," the reader should have been informed that of these official witnesses one only had heard of the method recommended by your Commissioners while all disclaimed intimate knowledge of the British method or its operation, and also that three witnesses who had formerly held—and resigned from—office as Deputy Commissioners under the Federal Act were each emphatic in recommending an averaging system as necessary. Much more to the point is the opinion of Sir Timothy A. Coghlan, for twenty years Government Statistician and subsequently Agent-General for New South Wales, who was employed by Sir George Reid's Government to draw up a scheme of Land and Income Tax, and who prepared the Bill which is the basis of the present law in that State, and on which the Acts of some other States have been modelled. An author of world-wide fame and experienced in taxation, he had intimate knowledge of both the Australian and the British systems, when he stated in evidence before a Select Committee in 1906, "It is a defect in the Australian Income Tax Acts that they have not a system of averaging." The defect is remedied in the method recommended by your Commissioners, which adopts the wholesome elements of the British system, with careful eradication of the faults which have clustered round it.

CARRYING FORWARD OF LOSSES.

25. We are in agreement with the Minority when, in paragraph 23 of the Reservation, describing the purpose and limited scope of their method, they write:—"The purpose of the method of carrying forward losses which we recommend is to preserve equity *below the line where taxation begins*." But, taxpayers ask, what useful purpose in any scheme of taxation can be served by a method which operates only "*below the line where taxation begins*"? Even its sponsors have to admit (paragraph 27) that "where there is a taxable income the carrying forward of losses system would have no application"—that is, it would have no application to about ninety-nine cases out of a hundred, and only a very limited application to the hundredth. Then, reaching up to the ideal expressed in paragraph 52, "any new method *wherever applied* should be manifestly just," they, in paragraph 58, claim, "*within that area* its action is simple, just, and beneficial to the taxpayer," and "free from the disappointing inequities which characterize the averaging system." What have the ninety and nine, excluded from its parsimonious benefits, to say to that? Let them rest soothed and contented with the assurance of the Minority—for this is the only benefit their scheme claims to offer them—"we are convinced that in practice it will give much more widespread satisfaction than the averaging system recommended in the Report." Thus commended and thus condemned, it would be mere waste of time to disprove in detail the claims made for the "carrying forward of losses" in paragraphs 58 and 59 of the Reservation.

JOHN JOLLY.
J. G. FARLEIGH.
W. T. MISSINGHAM.
JOHN THOMSON.

APPENDICES.

ROYAL COMMISSION ON TAXATION.

APPENDIX No. 1.

LIST OF WITNESSES AND ASSOCIATIONS, ETC., REPRESENTED BY WITNESSES.

Witnesses.	*Minutes of Evidence—Pages.						
	Sydney.	Melbourne.	Brisbane.	Adelaide.	Perth.	Kalgoorlie.	Hobart.
A.							
ACCOUNTANTS, Australasian Corporation of Public	239	989	..	125	..	..	..
" Federal Institute of ..	..	2098	..	..	..	..	..
" Incorporated Institute of, Commonwealth of Australia	..	1552, 3938	..	..	..	..	1
" Institute of, in South Australia	..	..	..	369	..	..	..
" Western Australian Institute of ..	..	..	..	..	433	..	..
ADCOCK, William Edward ..	..	2354	..	..	..	..	..
AIKINS, William Alexander ..	..	2757	..	..	..	..	..
ALLWORTH and Sons, W. F. ..	11, 121, 133, 152	..	..	..	..	..	..
ALSTON, Thomas Cauvine ..	..	1113	..	..	..	..	..
ANNELLS, George Richard ..	..	..	..	309	..	..	..
ARTHUR, Dr. Richard, M.L.A. ..	750	..	..	..	..	..	..
ASPINALL, Joseph William ..	..	540	..	..	..	..	..
ASSOCIATION, Australian Mines and Metals ..	..	989, 1202	..	..	..	..	..
" Australian, of British Manufacturers	659	..	..	..	..	..	..
" Australian Sugar Producers ..	..	..	460	..	..	..	..
" Boot and Shoe Retailers, of Victoria	..	3318	..	..	..	..	..
" Boot Manufacturers ..	..	1304	..	..	..	..	..
" Central Fruit-growers ..	..	540	..	..	..	..	..
" Central and Northern Graziers ..	..	..	7	..	..	..	..
" Co-operative Butter Factories ..	..	887, 898	..	..	..	..	..
" Farmers and Settlers, of New South Wales	3	..	..	..	..	..	..
" Federal Life Insurance Offices ..	679	..	..	..	..	..	..
" Federated Caterers, of Victoria ..	..	2311	..	..	..	..	..
" Federated Graziers, of Australia ..	391	2368, 3829	..	..	..	..	..
" Graziers ..	330	..	..	..	..	..	..
" Grocers, of Victoria ..	..	582	..	..	..	..	..
" Melbourne and Suburban Retail Fruiters	..	549	..	..	..	..	..
" Melbourne Warehousemen ..	..	1974, 3527	..	..	..	..	..
" Metropolitan Fruit Growers ..	..	540	..	..	..	..	..
" Mining, of Western Australia ..	..	..	..	..	174	..	..
" Municipal of Victoria ..	..	2780	..	..	..	..	..
" Pastoralists, of Western Australia	..	..	..	..	759, 806	..	..
" Primary Producers ..	..	..	..	..	883	..	..
" Stock-owners ..	..	..	..	457	..	..	..
" Stock-owners, of New South Wales	83	..	..	..	..	..	..
" Sydney and Suburban Timber Merchants	791A	..	..	..	..	..	..
" Tasmanian Farmers and Stock-owners	..	..	..	..	..	..	303
" Taxpayers, of Queensland ..	..	..	5,752	..	..	..	..
" Taxpayers, of Victoria ..	..	478	..	..	..	..	..
" Taxpayers, of Western Australia	..	..	..	..	4	..	..
" Tweed River Fruit-growers ..	..	..	486	..	..	..	..
" United Cane-growers ..	..	..	340	..	..	..	..
" Victorian Hardware ..	..	1974, 3527	..	..	..	..	..
" Victorian Master Drapers ..	..	2331	..	..	..	..	..
" Victorian Merchants ..	..	1974, 3527	..	..	..	..	..
" Victorian Milk Producers and Retail Dairy-men	..	1401	..	..	..	..	..
" Victorian Mill-owners ..	..	2096	..	..	..	..	..
" Victorian Storekeepers and Traders	..	2331	..	..	..	..	..
ATKINSON, Professor Meredith, M.A. ..	..	64, 839	..	..	..	..	..
AUSTRALASIAN Corporation of Public Accountants	239	989	..	125	..	..	..
AUSTRALIAN Association of British Manufacturers	659	..	..	..	..	..	..
" Industries Protection League ..	..	775	..	..	..	..	..
" Labour Party ..	..	3404	..	..	..	..	..
" Mercantile Land and Finance Co. Ltd.	..	3265, 3327	..	..	..	..	..
" Minies and Metals Association ..	..	989	..	..	..	..	..
" Sugar Producers Association Ltd. ..	..	..	460	..	..	..	..

* Evidence not printed.

LIST OF WITNESSES AND ASSOCIATIONS, ETC., REPRESENTED BY WITNESSES—continued.

Witnesses.	*Minutes of Evidence—Pages.						
	Sydney.	Melbourne.	Brisbane.	Adelaide.	Perth.	Kalgoorlie.	Hobart.
B.							
BALLARAT Trustees, Executors, and Agency Co. Ltd.	..	2757	..	..	..	..	..
BARTON, Albert Edward	569	..	..	..	..	..	..
BATEMAN, Albert .. ..	..	..	..	399	..	..	..
BEALE, Octavius Charles	605	..	..	..	..	..	..
BENJAMIN, William	3, 391, 423, 842	2368	..	..	692A	..	..
BILLINGTON, Richard .. ..	..	..	806	..	..	..	..
BINNIE, Charles	83	..	..	..	..	..	..
BLACK, Edwin Alexander .. ..	..	..	..	..	254, 950, 1037	..	..
BLACKET, Reginald	637	..	..	..	..	..	..
BOOT and Shoe Retailers Association of Victoria ..	..	3318	..	..	..	..	..
BOOTH, Dr. James .. ..	..	2297	..	..	..	..	..
BOOT Manufacturers Association .. ..	..	1304	..	..	..	..	..
BOWMAN, William James	11, 121, 133, 152	..	..	..	..	..	..
BOYD, William Lowry .. ..	..	..	7, 36, 124	..	..	..	..
BRADDON, Sir Henry Yule, K.B.E., M.L.C. ..	883	..	..	..	..	..	..
BRAND, William Alfred, M.L.A. .. ..	..	..	747	..	..	..	..
BRENNAN, Hugh Dale .. ..	..	..	539, 942	..	..	..	..
BRIERLEY, Henry Charles	605	..	..	..	..	..	..
BRITISH Manufacturers, Australian Association of	659	..	..	..	..	..	..
BROMLEY, Frederick Charles .. ..	..	..	..	391	..	..	..
BROWNE, George Edward	210	..	..	..	..	..	..
BUTTER Factories Association, Co-operative ..	887, 898	..	..	..	..	..	..
C.							
CAMPBELL, Thomas Irving	3	..	..	..	..	..	..
CATERERS Association of Victoria, Federated ..	..	2311	..	..	..	..	..
CATTERMULL, Henry Albert, M.L.A. .. ..	..	..	739	..	..	..	..
CHAMBER of Commerce, Melbourne .. ..	..	1267	..	..	..	..	..
" " Sydney	279, 668	..	..	..	..	..	..
" " Hobart .. ..	..	..	..	..	..	..	1, 92
" Manufacturers, Associated	605	..	..	..	..	..	..
" " New South Wales	605	..	..	..	..	..	..
" " South Australia .. ..	..	..	..	110	..	..	..
" " Victoria .. ..	..	989	..	..	..	..	..
" Mines, Kalgoorlie .. ..	..	..	..	..	3, 4, 60	..	92
CHAPMAN, James Robertson .. ..	..	..	..	..	..	..	..
CHAPMAN, John Hedley, M.L.A. .. ..	..	..	..	477	..	..	268
CHEEK, Hon. John Wm., M.L.C. .. ..	..	..	..	..	..	..	283
CLARENCE Municipal Council .. ..	..	..	..	..	..	..	..
CLARK, James .. ..	..	..	945	..	..	..	..
CLARKSON, Albert Ernest .. ..	..	..	..	110	..	..	..
CLOWE, Robert Thomas .. ..	..	3133	..	..	..	..	..
CLUB, Victorian Amateur Turf .. ..	..	2824, 2858	..	..	..	..	..
CLUB, Victoria Racing .. ..	..	2824, 2858	..	..	..	..	..
COASTAL Farmers Co-operative Society	637	..	..	..	..	..	..
COMMERCE, Chamber of	279, 668	1267	..	..	..	..	1, 92
COMMISSIONER of Taxation, Federal	827	149, 1647, 1694, 3963	..	..	..	..	..
" " Deputy Federal	447, 524	..	847	..	473, 584, 646	..	431, 680
" for Stamp Duties .. ..	..	..	923	..	..	..	..
" for Taxation, State .. ..	..	..	539, 942	..	..	..	..
" of Taxation, New South Wales ..	360	..	..	..	..	..	..
" " for Western Aus- tralia .. ..	..	..	..	..	254, 950, 1037	..	..
" " South Australia .. ..	..	..	196	..	..	..	115A, 748
" of Taxes for Tasmania .. ..	..	..	..	..	..	..	..
" " Victoria .. ..	..	2877, 3946	..	..	..	..	..
" Western Lands Board (Chief) ..	819	..	..	..	..	..	..
CO-OPERATIVE Butter Factories Association ..	..	887, 898	..	..	..	..	506
COPLAND, Professor Douglas Berry, M.A. ..	..	..	..	..	..	..	..
CORNWALL, Frank Herbert Goode .. ..	..	553	..	..	..	..	..
COTES, Percy Robert .. ..	..	3487	..	..	..	..	..
COWDERY, Charles Edward	644	..	..	..	..	..	..
CRAIGIE, Edward John .. ..	..	..	..	96	..	..	1
CUMMINS, Harry Haddon .. ..	..	..	..	..	..	..	..
D.							
DAIRYMENS Association, Victorian Milk Pro- ducers and Retail .. ..	..	1401	..	..	..	..	..
DAIRY Farmers Co-operative Milk Co.	738	..	..	..	..	60	..
DALY, Herbert James .. ..	..	..	..	..	..	..	..
DAVIES, Will .. ..	..	..	..	..	174	..	..
DENNIS, Arthur Seymour .. ..	..	3790	..	..	..	..	..
DIXON, Francis Edward .. ..	..	1204, 3174	..	..	..	..	..
DOBSON, Louis Lempriere .. ..	..	..	..	..	..	..	623
DOHERTY, William Henry .. ..	..	..	340	..	..	..	431, 680
DOUGLAS, Percy Cunningham .. ..	..	..	..	..	..	..	..
DOWNIE, George Gordon .. ..	..	2095	..	..	..	..	115A, 748
DOWNIE, Henry Edmond .. ..	..	..	..	..	..	..	..
DRAPERS Association, Victorian Master .. ..	..	2331	..	..	..	..	..
DUNCAN, Hon. Walter Gordon, M.L.C. .. ..	..	..	..	457	..	..	..
DUNLOP, Maxwell Pollok	554	..	..	..	..	..	..

* Evidence not printed.

LIST OF WITNESSES AND ASSOCIATIONS, ETC., REPRESENTED BY WITNESSES—continued.

Witnesses.	*Minutes of Evidence—Pages.						
	Sydney.	Melbourne.	Brisbane.	Adelaide.	Perth.	Kalgoorlie.	Hobart.
E.							
EASTWOOD, John Saville	132	3829	..	..	..	..	..
ECONOMIC Research Society, Melbourne ..	..	2050, 3572A	..	..	..	..	..
EEDY, Arthur Malcolm	679	..	..	..	..	..	..
EGAN, Peter Joseph	723	..	..	..	..	..	..
EMPLOYERS Federation, Victorian .. ..	..	1178	..	..	..	..	..
EWING, Robert	827	149, 1647, 1694, 3963	..	..	..	..	..
EXECUTOR (and Trustee) Companies	167, 239, 644	495, 955, 1510, 2272	3, 154	81	..	..	..
F.							
FARMERS and Settlers Association of New South Wales	3	..	..	..	..	..	..
„ and Stock-owners Association of Tas- mania .. ..	..	..	..	..	..	..	303
„ Union, Victorian .. ..	..	594	..	..	..	..	..
FEDERAL Commissioner of Taxation	827	149, 1647, 1694, 3963	..	..	..	..	..
„ „ „ Deputy	447, 524	..	847	..	473, 584, 646	..	431, 680
„ Institute of Accountants, Incorporated ..	..	2098	..	..	..	..	..
„ Life Insurance Offices Association ..	679	..	..	..	..	..	..
FEDERATED Caterers Association of Victoria ..	..	2311	..	..	..	..	..
„ Graziers Association of Australia ..	391	2368, 3829	..	..	..	..	..
FEDERATION, Victorian Employers .. ..	..	1178	..	..	..	..	..
FITZPATRICK, Edward .. ..	..	..	923	..	..	..	..
FLEMING, Thomas Hastie	547	..	..	..	..	..	..
FOWLER, James Richard .. ..	..	..	..	401	..	..	..
FREE Trade and Land Valuation League of New South Wales	689	..	..	..	..	..	..
FRUITERERS Association, Melbourne and Sub- urban Retail .. ..	..	549	..	..	..	..	..
FRUIT-GROWERS Association, Central .. ..	..	540	..	..	..	..	..
„ „ Metropolitan .. ..	..	540	..	..	..	..	..
„ „ Tweed River .. ..	..	..	486	..	..	..	..
G.							
GARCIA, George Maurice .. ..	..	3639	..	..	..	..	..
GIBLIN, Lyndhurst Falkiner .. ..	..	..	..	..	..	..	323
GIPPSLAND and Northern Co-operative Selling and Insurance Co. Ltd. .. ..	..	914	..	..	..	..	..
GIRDLESTONE, Frank Kelling .. ..	..	..	..	..	883	..	..
GLYNN, Hon. Patrick McMahon, K.C. .. ..	..	..	..	420	..	..	..
GRAVES, Edward Haniford	513	..	..	..	..	..	..
GRAZIERS Association	330	..	..	..	..	..	..
„ „ Central and Northern .. ..	..	..	7, 36	..	..	..	..
„ „ of Australia, Federated	391, 423, 842	2368, 3829	..	..	..	..	..
GRIERSON, Robert John	700	..	..	..	..	..	..
GROCERS Association of Victoria .. ..	..	582	..	..	..	..	..
H.							
HALLAHAN, James Patrick .. ..	..	..	..	..	..	80	..
HAMILTON, Albert Edwin .. ..	..	..	..	125	..	..	..
„ R. .. ..	..	..	..	..	..	3	..
HARDWARE Association, Victorian .. ..	..	1974, 3527	..	..	..	..	..
HARKNESS, Thomas Young .. ..	..	1304	..	..	..	..	..
HARNETT, Albert Alfred .. ..	..	..	..	..	..	..	423
HARRIS, Charles Marshall .. ..	..	..	..	..	242	..	..
HARTE, Albert Edward .. ..	..	..	356	..	..	..	..
HAWLEY, John	161	..	..	..	..	..	..
HEATH, Albert Edward	791A	..	..	..	..	..	..
HEATON, Herbert .. ..	..	..	..	442	..	..	..
HENLEY, Sir Thomas, K.B.E., M.L.A.	721, 739	..	..	..	..	..	..
HERRING, Maurice Stanley .. ..	..	..	3, 154	..	..	..	..
HIGGS, Frederick Marshall .. ..	..	2050, 3572A	..	..	..	..	..
HORNE, Louis Edgar .. ..	..	..	..	..	4	..	..
HUGHES, John Foster	423	..	..	..	..	..	..
HUIE, Alexander Gordon	689	..	..	..	..	..	..
HULME, Thomas Shallcross	447, 524	..	..	..	..	..	..

* Evidence not printed.

LIST OF WITNESSES AND ASSOCIATIONS, ETC., REPRESENTED BY WITNESSES—*continued.*

Witnesses.	*Minutes of Evidence—Pages.						
	Sydney.	Melbourne.	Brisbane.	Adelaide.	Perth.	Kalgoorlie.	Hobart.
I.							
INCORPORATED Institute of Accountants, Commonwealth of Australia	1552, 3938	..	..	..	..	1
INDUSTRIES Protection League, Australian	775	..	..	..	..	..
INSTITUTE, Law, of the State of Victoria	1113, 2844, 2859	..	..	..	..	..
„ of Accountants, Commonwealth of Australia Incorporated	1552	..	..	..	..	1
„ „ Federal Incorporated	2098	..	..	..	..	..
„ „ in South Australia	369	..	..	..
„ „ Western Australia	433	..	..
INSURANCE Offices Association, Federal	679	..	..	..	..	..	..
IRVINE, Professor Robert Francis, M.A.	2, 490	..	..	..	..	..	..
ISLES, James Thomas	964	..	..	..	..
J.							
JENKINS, Philip Llewellyn	659	..	..	..	..	..	..
JOHNSON, Walter Charles	747	..	..
JONES, George	2331	..	..	..	..	..
„ John Robert	167	..	..	..	..	..	..
JOWETT, Edmund, M.H.R.	594, 953	..	..	..	..	..
JUKES, James Vaughan	4	..
K.							
KEAN, John	3404	..	..	..	..	..
KEELY, Michael Timothy	847	..	..	..	..
KEEP, Walter J.	148	..	..	..	..	..	..
KELLY, Edwin Clarence Whiteman, B.A., LL.B.	2	..	..	..	..	..
KENNA, Joseph	7A, 111	..	..	..	..
KIDDLE, John Beacham	2844, 2859, 3242	..	..	..	..	..
KIDMAN, Sir Sidney, K.B.	474	..	..	..
KINGSMILL, Hon. Walter, M.L.C.	630	..	..
KNOX, Edward William	440	..	..	..	..	..	..
L.							
LABOUR Council, Trades and	3404	..	..	..	..	..
„ Party, Australian	3404	..	..	..	..	..
„ „ Parliamentary	601
LANDS Department, Assistant Under-Secretary	907	..	..	..	..
LANG, Frederick Andrew	495, 955, 1510, 2272	..	..	..	..	..
LAVATER, Louis	3138	..	..	..	..	..
LAW Institute of the State of Victoria	1113, 2844, 2859	..	..	..	..	..
„ Society, Tasmanian	645, 711
LEAGUE, Australian Industries Protection	775	..	..	..	..	..
„ Free Trade and Land Values, of New South Wales	689	..	..	..	..	..	..
„ Single Tax of South Australia	96	..	..	..
„ „ „ Victoria	1427	..	..	..	..	..
LIFE Insurances Offices Association, Federal	679	..	..	..	..	..	..
LIGHTBAND, Russell Martin	5, 752	..	..	..	..
LONGFORD, Municipal Council	263
LOUDEN, Robert Edward	700	..	..	..	..	..	..
LOWRY, Albert	2341	..	..	..	..	..
M.							
MACKENZIE, Robert William Berry	1267	..	..	..	..	..
MACLEAY, Kenneth Leslie Oram	2712A, 3150	..	..	..	..	..
MAKOWER, Ernest Samuel	460	..	..	..	..	..
MANUFACTURERS, Associated Chambers of	605	..	..	..	..	..	..
„ New South Wales Chamber of	605	..	..	..	..	..	..
„ South Australian Chamber of	110	..	..	..
„ Victorian Chamber of	989	..	..	..	..	..
MARKHAM, Patrick Joseph	1427	..	..	..	..	..
MARKS, Elijah Caleb Job	535	..	..	..	..
MASON, Reginald John	3265, 3327	..	..	..	..	..
MASTER Drapers Association, Victorian	2331	..	..	..	..	..
MATTIE, Walter	78	..
MELBOURNE Economic Research Society	2050, 3572A	..	..	..	..	..
„ Philharmonic Society	2312A, 2324	..	..	..	..	..
„ Symphony Orchestra	2324	..	..	..	..	..
„ Warehousemen's Association	1974, 3527	..	..	..	..	..
MELVILLE, Arthur George	907	..	..	..	..
MERCHANTS Association, Victorian	1974, 3527	..	..	..	..	..
METALS Association, Australian Mines and	989, 1202	..	..	..	..	..

LIST OF WITNESSES AND ASSOCIATIONS, ETC., REPRESENTED BY WITNESSES—continued.

Witnesses.	*Minutes of Evidence—Pages.						
	Sydney.	Melbourne.	Brisbane.	Adelaide.	Perth.	Kalgoorlie.	Hobart.
MIDLAND Railway Company of Western Australia	692A, 729, 747	..	..
MILLER, Sir Denison, K.C.M.G.	862	..	..	..	..	..	..
Robert Duncan	779	..	..	..	..	..	..
MILL-OWNERS Association, Victorian	..	2095	..	..	..	..	..
MILLS, Hon. William George James, M.L.C.	291	..	..	..
MINERS Federation	711	..	..	..	..	..	..
MINES and Metals Association, Australian	..	989, 1202	..	..	..	..	..
MINES, Chamber of, Kalgoorlie	174	..	..
MINING Association of Western Australia	3, 4, 60	..
MIRAMS, Hugh Norman Heywood	..	1202	..	..	..	..	..
MORGAN, David	..	887	..	..	..	..	..
MORLEY, George James	491	..	..	..
MORTLOCK, Harold John	458	..	..
MUIRHEAD, James Atkin	..	813	..	..	..	..	..
MUNICIPAL Association of Victoria	..	2780	..	..	..	..	..
Council, Clarence	283
" Longford	268
MURCOTT, Edwin	729	..	..
MURDOCH, Hon. Jas., M.L.C.	283
MURPHY, Read	..	1525	..	..	..	..	..
MUSICAL Society of Victoria	..	3138, 3146	..	..	..	..	..
Mc							
McILWRICK, William Matthew	..	3112	..	..	..	..	..
McINNES, John Stewart	355, 357	..	..	..	..
McMASTER, Colin James	819	..	..	..	..	..	..
McNEIL, James Alexander	..	2728	..	..	..	..	..
N.							
NANKIVELL, Thomas	759, 806	..	..
NATIONAL Union	..	989, 1903	355	300	..	..	..
NICHOLLS, Hon. Hubert Alan, M.L.C.	303
NIXON, Edwin Vandervord	..	989, 1903	..	..	..	..	..
O.							
O'DONNELL, Charles	75, 85	..
OEHR, Rudolph John	..	2312A	..	..	..	..	..
OGDEN, James Ernest	601
O'KEEFE, Daniel Bede	738	..	..	..	..	..	..
ORCHESTRA, Melbourne Symphony	..	2324	..	..	..	..	..
OUTHWAITE, Alick Hugh	..	1974, 3527	..	..	..	..	..
OVERHEU, Frederick Charles	433	..	..
OWEN, Edgar Theodore	1015	..	..
P.							
PARLIAMENTARY Labour Party	601
PASTORALISTS Association of Western Australia	759, 806	..	..
Western Australia	433	..	..
PENNY, John Curwen	808	..	..	..	..
PERMANENT Trustee Co. Ltd.	239	..	..	..	..	..	..
PERPETUAL Trustee Co. Ltd.	167, 644	..	..	..	..	..	..
PHILHARMONIC Society, Melbourne	..	2312, 2324	..	..	..	..	..
PIKE, George Herbert	804	..	..	..	..	..	..
POLLARD, Percy George	411
POWELL, Sydney	300	..	..	..
PRATT, Ambrose	..	775	..	..	..	..	..
PRIMARY Producers	330, 554	..	..	..	883	..	423
PRINGLE, Percival John	..	1385, 1680	..	..	..	..	..
PRITCHARD, George Henry	460	..	..	..	..
PROTECTION League, Australian Industries	..	775	..	..	..	..	..
Q.							
QUEENSLAND Trustees Ltd.	3, 154	..	..	..	..
R.							
RACING Club, Victoria	..	2824, 2858	..	..	..	..	..
REALTY Development Co.	808	..	..	..	..
REDPATH, Hedley Norman	..	2098	..	..	..	..	..
RESEARCH Society, Melbourne, Economic	..	2050, 3572A	..	..	..	..	..
RICHARDSON, The Hon. Horace Frank, M.L.C.	..	2780	..	..	..	..	..
RINGWOOD, Arthur Ernest	..	3313	..	..	..	..	..
ROBINSON, Henry	..	893	..	..	..	..	..
ROGERS, William Foster	..	2806	..	..	..	..	..
ROSE, Frank William	1	..	..	..
ROSS, Professor Alexander David	904	..	..
ROWE, Henry Ellis	..	1178	..	..	..	..	..
RUBICON Lumber and Tramway Co. Ltd.	..	3112	..	..	..	..	..

* Evidence not printed.

LIST OF WITNESSES AND ASSOCIATIONS, ETC., REPRESENTED BY WITNESSES—continued.

Witnesses.	*Minutes of Evidence—Pages.						
	Sydney.	Melbourne.	Brisbane.	Adelaide.	Perth.	Kalgoorlie.	Hobart.
S.							
SHANN, Professor Edward Owen Giblein .. ..	..	..	..	..	926	..	..
SHOOBRIDGE, William Ebenezer .. ..	..	..	..	..	..	..	289, 394
SIEVERS, Edward Johnson	320, 392	..	..	..	..	..	..
SIMMONS Matthew Wilkes .. ..	..	..	..	..	..	..	645, 711
SINGLE Tax League of South Australia .. ..	..	..	..	96	..	..	..
" " " Victoria .. ..	..	1427	..	..	..	..	..
SKY, Frederick Morse	330	..	..	..	..	..	..
SLEEMAN, Herbert Richard .. ..	..	..	..	..	217	..	..
SMITH, Lort .. ..	..	2824, 2858	..	..	..	..	..
SMITH, Richard William .. ..	..	..	..	196	..	..	..
SOCIETY, Coastal Farmers Co-operative	637	..	..	..	..	..	..
" Melbourne Economic Research .. ..	..	2050, 3572A	..	..	..	..	..
" " Philharmonic .. ..	..	2312A, 2324	..	..	..	..	..
" Musical, of Victoria .. ..	..	3138, 3146	..	..	..	..	..
" Rochdale Co-operative Wholesale	700	..	..	..	..	..	..
" Tasmanian Law .. ..	..	..	..	..	..	..	645, 711
" West Wallsend Co-operative	700	..	..	..	..	..	..
SPRY, Frederick William .. ..	..	1552, 3938	..	..	..	..	..
STATE Commissioner of Taxation, New South Wales	360	..	..	..	..	..	..
" " " Queensland .. ..	..	..	539, 942	..	..	..	..
" " " South Australia .. ..	..	..	..	196	..	..	..
" " " Western Aus- .. ..	..	..	..	..	254, 950	..	..
" " " tralia .. ..	..	..	..	..	1037	..	..
" " " Tasmania .. ..	..	..	..	..	..	..	115A, 748
" " " Victoria .. ..	..	2877, 3946	..	..	..	..	..
STATISTICIAN, Tasmanian Government .. ..	..	..	..	..	..	..	323
STEPHEN, Arthur Winburn	203, 290	..	..	..	..	..	..
STOCK-OWNERS Association of New South Wales	83	..	..	..	..	..	..
" " South Australian .. ..	..	..	..	457	..	..	..
" " Tasmanian Farmers .. ..	..	..	..	..	..	..	303
" " and .. ..	..	..	..	..	..	..	..
STOREKEEPERS and Traders Association, Vic- .. ..	..	2331	..	..	..	..	..
toria .. ..	..	..	..	..	..	..	..
STUART, Frederick William .. ..	..	..	486	..	..	..	..
SYDNEY and Suburban Timber Merchants Asso-	791A	..	..	..	..	..	..
ciation .. ..	..	..	..	..	..	..	..
T.							
TAXATION Standing Committee .. ..	..	989, 1903	355	300	..	..	..
TAXPAYERS Association of Queensland .. ..	..	..	5, 752	..	..	..	..
" " Victoria .. ..	..	478, 1204	..	..	..	..	..
" " Western Australia .. ..	..	..	..	..	4	..	..
" and Property-owners Association .. ..	..	1204	..	..	..	..	..
THOMPSON, Gilbert Edgar .. ..	..	..	..	413	..	..	..
Stephen Percy, M.A., LL.M. .. ..	..	1343, 3610	..	..	..	..	..
THOMSON, John, M.L.A. .. ..	..	..	..	..	564, 803	..	..
William Thomas .. ..	..	2311	..	..	..	..	..
TIMBER Merchants Association, Sydney and Sub-	791A	..	..	..	..	..	..
urban .. ..	..	..	..	..	..	..	..
TRADES and Labour Council .. ..	..	3404	..	..	..	..	..
" Hall, Ballarat .. ..	..	3404	..	..	..	..	..
" Melbourne .. ..	..	3404	..	..	..	..	..
TROY, Michael Francis .. ..	..	..	..	..	876	..	..
TRUSTEE and Agency Co. of South Australia, .. ..	..	..	..	81	..	..	..
Executor .. ..	..	..	..	..	..	..	..
TRUSTEES, Executors, and Agency Co. Ltd., Bal- .. ..	..	2757	..	..	..	..	..
larat .. ..	..	..	..	..	..	..	..
TRUSTEE and Executor Companies	167, 239,	495, 955,	3, 154	81	..	..	..
644	1510, 2272	..	..	..	..	..	..
TRUSTEES Limited, Queensland .. ..	..	..	3, 154	..	..	..	..
TRUSTEE Company Ltd., Permanent	239	..	..	..	..	..	..
" " Perpetual	167, 644	..	..	..	..	..	..
TURF Club, Victorian Amateur .. ..	..	2824, 2858	..	..	..	..	..
TWEED River Fruit-growers .. ..	..	..	486	..	..	..	..
U.							
UNION, National .. ..	..	989	355	300	..	..	..
" Primary Producers	554	..	..	..	..	..	..
" Victorian Farmers .. ..	..	594	..	..	..	..	..
UNITED Cane-growers Association .. ..	..	..	340	..	..	..	..

* Evidence not printed.

LIST OF WITNESSES AND ASSOCIATIONS, ETC., REPRESENTED BY WITNESSES—*continued*.

Witnesses.	*Minutes of Evidence—Pages.						
	Sydney.	Melbourne.	Brisbane.	Adelaide.	Perth.	Kalgoorlie.	Hobart.
V.							
VALUER-GENERAL	320, 392	..	..	..	..	..	..
VALUER, Government	513	..	..	..	..	..	..
VICKERY, Arthur	763	..	..	..	..	..	..
VICTORIA Amateur Turf Club .. .. .	..	2824, 2858	..	..	..	..	..
„ Racing Club .. .. .	..	2824, 2858	..	..	..	..	..
VICTORIAN Butter Factories Co-operative Com- pany Ltd. .. .. .	..	914	..	..	..	..	..
„ Chamber of Manufactures .. .. .	..	989	..	..	..	..	..
„ Employers Federation .. .. .	..	1178	..	..	..	..	..
„ Farmers Union .. .. .	..	594	..	..	..	..	..
„ Hardware Association .. .. .	..	1974, 3527	..	..	..	..	..
„ Master Drapers Association .. .. .	..	2331	..	..	..	..	..
„ Merchants Association .. .. .	..	1974, 3527	..	..	..	..	..
„ Milk Producers and Retail Dairymens Association .. .. .	..	1401	..	..	..	..	..
„ Mill-owners Association .. .. .	..	2095	..	..	..	..	..
„ Producers Co-operative Company Ltd. .. .. .	..	2712a, 3150	..	..	..	..	..
„ Storekeepers and Traders Association .. .. .	..	2331	..	..	..	..	..
W.							
WADDELL, Hon. Thomas, M.L.C.	495	..	..	..	..	..	..
WALTON, Edmund .. .. .	..	3125	..	..	..	..	..
WAREHOUSEMEN'S Association, Melbourne .. .. .	..	1974, 3527	..	..	..	..	..
WAUGH, Ernest William .. .. .	..	..	..	..	759, 806	..	..
WELDON, Robert McIntyre .. .. .	..	2877, 3946	..	..	..	..	..
WESTERN District Factories Co-operative Produce Company Ltd. .. .. .	..	914	..	..	..	..	..
WEST Wallsend Co-operative Society	700	..	..	..	..	..	..
WHIDDON, William Henry	360	..	..	..	..	..	..
WHITE, Stanley McKellar .. .. .	..	..	814	..	..	..	..
WHITELEY, John Francis .. .. .	..	..	..	..	473, 584, 646	..	..
WHITING, Robert William	426	..	..	..	..	..	..
WIGNALL, William Miller .. .. .	..	1401	..	..	..	..	..
WILLIAMS, Albert Edward .. .. .	..	549	..	..	..	..	..
„ John Nicholas .. .. .	..	582	..	..	..	..	..
WILLIAMSON, Ernest Woolmer .. .. .	..	..	..	81	..	..	..
WILLIS, Albert Charles	711	..	..	..	..	..	..
WILSON, Alexander William .. .. .	..	914	..	..	..	..	..
WILSON, James .. .. .	..	2190, 2303	..	..	..	..	..
WINTON, Herbert Anthony .. .. .	..	478	..	..	..	..	..
WRIGHT, Harry .. .. .	..	..	928	..	..	..	..
WYLES, Thomas Andrew .. .. .	..	..	..	121	..	..	..
Y.							
YARWOOD, Frank Nelson	239, 668	..	..	..	..	..	..
Z.							
ZELMAN, Alberto .. .. .	..	2324, 3146	..	..	..	..	..

* Evidence not printed.

APPENDIX No. 2.

QUESTIONNAIRE TO TAXATION COMMISSIONERS.

The Commission will be glad to have answers to the following questions :—

1. *Delimitation of Spheres of Taxation between the Commonwealth and States :—*

Is such a delimitation—(a) practicable; and (b) desirable as a means of preventing duplication and expense? If so, what forms of taxation should, in your opinion, be exclusively reserved to the respective authorities?

2. *Harmonization of Commonwealth and State Taxation :—*

Apart from apportionment of taxes, what action do you consider most appropriate to bring about harmonization?

3. *As part of the preceding question :—*

(1) Would uniform legislation be required before the adoption of uniform returns?

(2) Under existing conditions, how could forms of return be simplified?

(3) Do you favour the use by Commonwealth and State of separate forms, suitable for—

(a) Salary and wage earners;

(b) Farmers;

(c) Ordinary traders.

(4) Do you favour deduction by employers of tax from weekly wages and payment of the tax by means of stamps?

4. *Differentiation in Rates between Income derived from Personal Exertion and Income from Property :—*

(1) Is differentiation justifiable?

(2) Do you regard the present degree of differentiation in the Federal Income Tax reasonable?

(3) Do you favour the British system under which beyond a certain point of income a super tax *not differing according to the source of income is levied*?

(4) In this connexion, will you compare the methods adopted under the Acts of New Zealand, the several Australian States, and those of any other country with which you may be familiar?

(5) Would you recommend some other method, e.g., the Italian method of Classification into—

(a) Personal exertion;

(b) Business profit;

(c) Property.

5. *Graduation of Tax :—*

(1) Should the tax be proportional or graduated?

(2) Assuming the retention of the principle of graduation, should the Commonwealth system of calculating the tax be retained, or a simpler form substituted?

(3) What is the nature of the scale under the Income Tax Law of your State?

(4) Have you any suggestions to make as to the range of the graduation, both as to its beginning, steepness, and highest limit in respect of rate, and in respect of income to which such limit should apply?

(5) Should the rates and incidence of Income Tax be modified, or regulated by reason of the incidence of other taxes, e.g., Customs duties, Excise Duties, Land Tax, Estate Duties, &c.?

(6) If your answer be "yes," on what principles and by what rules should such modification or regulation be determined?

6. *Double Income Tax :—*

(1) Would you recommend adoption of the scheme recommended by the British Royal Commission, which involves relief by the United Kingdom up to a certain point, and the granting of any further relief by the Dominion or State authorities?

(2) In this connexion should income derived from sources outside Australia be taxed in the hands of an Australian resident?

(3) Having regard to the extension of commercial enterprise and the fact that persons, natural and juristic, have interests in and derive income from many parts of the Realm, what method should be adopted to distribute the tax equitably as between constituent States and Dominions?

(4) What steps, if any, should be taken to prevent double taxation as between the Australian States in respect of the same income?

7. *Profits resulting from the Export of Goods :—*

(1) Should income be assessed on the basis of f.o.b. prices in Australia, or

(2) On parity values in Australia at the date when goods are shipped, or

(3) On the price realized when the goods are sold abroad, or

(4) In some other way?

(5) How should losses resulting from sale abroad of exported goods be treated?

8. *Taxation at the Source :—*

(1) Is taxation at the source practised under the Acts of your State?

(2) If so, what led to the adoption of that method?

(3) What is the Company rate, and what is the highest individual rate?

(4) Where the Company is taxed upon dividends, is the amount of dividend taken into account for the purpose of determining the rate payable by a shareholder?

(5) Does the State system of taxation at the source relate to dividends only, or, e.g., to interest, rents, salaries, &c.?

(6) Where the Company rate differs from the rate at which an individual shareholder is liable, is there a provision for adjustment?

(7) Do you favour—

(a) Taxation of the Company without adjustment to individual shareholders, or,

(b) A system of adjustment?

9. *Live Stock—Natural Increases or Purchased Stock :—*

- (1) What methods do you follow in dealing with this subject for the purposes of Income Tax ?
- (2) Would you, from your experience, recommend any other method ?

10. *Shipping Businesses trading beyond Australia :—*

On what basis are incomes of these businesses taxed ?

11. *Income of Beneficiaries under a Will or Settlement :—*

- (1) Is such income classified as income from personal exertion ?
- (2) Is such income taxable against the beneficiary as income from personal exertion or income from property, in accordance with its origin, or is it taxed otherwise ?
- (3) Under what circumstances, if any, is a Trustee liable to tax ?

12. *Leases, or transfer of Leases :—*

- (1) Are premiums for leases or transfer of leases taxable under the State Act ?
- (2) If so, are they charged at property rate ?
- (3) What deductions, if any, are made to :—
 - (a) The payer ;
 - (b) The transferee ;
- (4) Is there any reason why the gain on an occasional realization of a lease should be taxable, when similar gain on the realization of freehold land is not taxable under the Federal Income Tax Act ?

13. *Residence owned by Taxpayer :—*

- (1) Is a percentage of the capital value assessed to Income Tax ?
- (2) If so, what deductions, if any, are allowed ?
- (3) What percentage of the capital value is the basis of taxation ?
- (4) What is your practice in reference to a taxpayer who owns and maintains for his own occupation more than one residence ?

14. *Wasting Assets, Coal Mines, Franchises, Delegated Rights, &c. :—*

What, if any, are the special deductions allowed in these cases ?

15. *Tax-free Securities :—*

To what extent in your case is the revenue affected by the Tax-free securities issued—

- (a) By Commonwealth or State Governments ;
- (b) By Companies ?

In the latter case should Companies be prohibited from issuing securities free of tax ? (This is done in the State of New York.)

16. *Undistributed Profits :—*

- (1) In your opinion is it desirable in the interests of production that undistributed profits, if retained and used in the business, should be—
 - (a) Wholly exempt from taxation ; or,
 - (b) Partially exempt ?
- (2) If you favour partial exemption, what percentage of the rate charged upon dividends should be imposed ?
- (3) Can you suggest a method for extending the principle of total or partial exemption of undistributed profits to—
 - (a) Partnerships ;
 - (b) Individual business ; and,
 - (c) Invested savings of other taxpayers ?

17. *Averaging of Income over a term of years for purposes of Income Tax :—*

- (1) Do you favour adoption of a system of averaging over a term of say, 5 years, or any other period ?
- (2) If so, do you think the system should be confined to primary producers, or be open to any taxpayer who elects to take advantage of it ?
- (3) If the system be adopted, should it be obligatory upon any section or sections of taxpayers ?
- (4) If averaging be adopted, should the average be taken over a period of past years, or begin from a date to be fixed—say the beginning of the next tax year ?
- (5) Can you form an estimate of the revenue effect in your State of the adoption of the averaging system. Illustrate by examples taken at random from the actual returns of primary producers.
- (6) Assuming that a reduction in revenue would result, should the loss be borne by Income Tax revenue, or be charged to general revenue ?
- (7) How should the averaging system be applied :—
 - (a) To adjust transactions with an outgoing taxpayer where a business changes hands ;
 - (b) In dealing with the incoming taxpayer ;
 - (c) In dealing with a new business, the owner of which has no "past years" ?
- (8) In your answers to question 17 have you had in view :—
 - (a) The averaging of the total income of the taxpayer, or,
 - (b) The averaging of the income from any one business, of which he may be the owner, as e.g., in the case of a pastoralist who is also a merchant ?

18. *Setting of Losses against Profits :—*

- (1) As an alternative to the averaging system, would it be preferable, from the point of view either of administration or of equity, to allow a set off of losses against profits of succeeding years ?
- (2) Please discuss this method on the lines, so far as they are applicable, of the questions asked with respect to averaging.

19. *Casual Profits* :—

- (1) Are casual profits liable to Income Tax in your State ?
- (2) How are casual profits defined ?

20. *Bonus Shares* :—

For taxation purposes, how do you treat bonus shares :—

- (a) Distributed on the basis of so-called profits arising out of the re-valuation of fixed assets ;
- (b) Based on profits arising from the sale of fixed assets ;
- (c) Based on the capitalization of undistributed profits ?

21. *Exemptions and Deductions* :—

- (1) In your opinion could the Commonwealth and States suitably agree upon :—

- (a) Amount of the general exemption ;
- (b) Deductions for dependent children ;
- (c) Other exemptions and deductions ?

- (2) Should the deductions mentioned in (1) apply to all taxable incomes irrespective of amount ?

- (3) On what principle should the general exemption be determined ?

- (4) Do you consider the deduction on account of charitable contributions should be :—(a) Abolished, or (b) Increased or reduced, or (c) Treated in the method indicated in sub-clause (2).

- (5) In the case of concessional deductions, i.e., deductions not in the nature of losses or outgoings incurred in gaining according to the rate applicable to the taxpayer's net income, with a view to greater equity, would you recommend in lieu of a deduction from the taxpayer's net income a deduction of an amount calculated at the starting rate of the tax ?

- (6) Do you consider the present Commonwealth and State rates of exemption applicable to married and single persons respectively, equitable ?

- (7) For the last tax year what were the totals of :—

- (a) Concessional deductions allowed ;
- (b) All deductions allowed ?

- (8) (a) What percentages of the total concessional deductions allowed were attributable to allowances on account of :—

- (i) Children ;
- (ii) Life insurance premiums ;
- (iii) Rates and taxes.

- (b) Do you regard rates and taxes as a concessional deduction ?

- (9) What deductions are allowed in your State to Companies on account of :—

- (a) Rates and taxes ;
- (b) All other deductions ?

22. *Depreciation* :—

- (1) What is your practice as to depreciation ?

- (2) Do you publish rates of allowance ?

- (3) In your opinion should allowance be made for depreciation or wastage for wear and tear of :—

- (a) Buildings ;
- (b) Fencing ;
- (c) Tanks and dams ;
- (d) Suckering and scrubbing ;
- (e) Expiry of leases ?

23. *Co-operative Societies* :—

Are such Societies treated for purposes of Income Tax in the same way as Limited Liability Companies ?

24. *Corporation Tax* :—

If necessary for revenue purposes, would you favour as a substitute for an Excess Profits Tax :—

- (1) A proposal to impose a corporation tax on the British lines of say, 1s. in the £ on the profits and income of concerns with limited liability and engaged in trading or similar transactions ? (See Speech by the British Chancellor on making the Financial Statement, 19th April, 1920.)

- (2) Any other method ?

25. *Decentralization* :—

- (1) Are officers deputed to visit country centres for the purpose of :—

- (a) Assisting taxpayers ;
- (b) Making investigations ?

- (2) If so, should this system be continued and extended ?

26. *Dates and Method of Payment of Taxes* :—

- (1) As a means of relieving taxpayers, could practical working arrangements be made between the Commonwealth and the States as to the dates of payment of tax ?

- (2) Should payment by instalments be allowed, and if so, on what basis ?

- (3) Has the Commissioner power, under your Act, acting on his own discretion, to extend time for payment ?

- (4) Should one date be selected on which Federal Income Tax in practically all cases would be payable ?

27. *Delay in Payment of Assessed Tax* :—

Where some fine or penalty is imposed for failure to pay the tax within the prescribed period, should such penalty be :—

- (a) A fixed amount, or
- (b) A percentage of the tax, or
- (c) Interest at a fixed annual rate ?

28. *Objections to Assessment :—*

- (1) In your State have taxpayers free access to the Commissioner for purposes of discussing objections before taking any formal action by way of appeal.
- (2) Is it the practice for the case of both the Department and the taxpayer to be fully and frankly disclosed ?

29. *Appeals, &c. :—*

- (1) In your State to what tribunals may taxpayers appeal from the Commissioner's decision ?
- (2) Is there any complaint :—
 - (a) That appeals are too costly, or
 - (b) That there is too much delay in obtaining final decisions ?
- (3) Is there any demand for the constitution of a Board to which taxpayers might appeal in lieu of going to a Court ?
- (4) If some such Board is favored, how should it be constituted ?
- (5) To what extent should the decisions of the Board be final ?

30. *Relief Provisions :—*

What provisions, if any, are there in the Acts of your State for affording relief from tax, total or partial, in cases where hardship would result from enforcement of collection ?

31. *Evasion of Tax :—*

Have you reason for thinking that evasion is largely practised by—

- (a) Neglecting to furnish Returns ;
- (b) Withholding of information or falsification of figures submitted ;
- (c) Any other methods ?

32. *Aggregation of Income. Husband and Wife :—*

Should the income of husband and wife be aggregated for Income Tax purposes, as is done in the United Kingdom ?

33. What is the cost of collection of Income Tax in your State :—

- (a) Per assessment ;
- (b) Per £100 collected ?

34. Can you furnish statistics extending over a period of say, ten years, showing particulars of tax as set out in Federal Statement, copy attached.

35. (a) Are Ordinances or General Orders, or Office Orders (by whatever name known) issued for guidance of the Staff, in which there are circulated the opinions of Crown Law officers *re* interpretation of the Act, and Judgments of the Court of other rules ?
- (b) Are these made available to the public ? If so, on what conditions ? If not, is there any reason why they should not be made available ?

36. (a) Is an annuity which has been purchased with cash by or for the annuitant taxable as income to the full value in the year in which such annuity is received ?

- (b) If taxable, is it taxable as income from personal exertion or income from property ?

37. *Composite Income :—*

- (1) Should Composite Income be dealt with as in the Third Schedule of the Federal Income Tax Assessment Act ?
- (2) If not, have you any suggestions to make as to the treatment of Composite Incomes ?

38. *Reduction of Revenue by proposed Amendments :—*

Where, on the ground of equity, amendments are suggested which would have the effect of reducing revenue, how should such reduction be made good ?

39. *Differences between Commonwealth and State Law and Practice :—*

Please comment on any outstanding differences between the Income Tax law and practice of your State and that of the Commonwealth.

Land Tax :—

1. For purposes of Land Tax, has valuation been made of all the land in the State ?
2. To what extent are the State valuations adopted by local authorities ?
3. What fee is charged to local authorities ?
4. Are the State valuations accessible to the public ?
5. What fee is charged to the public for certified copy of valuation of any land ?
6. Is the valuation register largely resorted to by the public ?
7. Has the existence of the Valuation Register had any discernible effect in steadying the price-movements of land ?
8. Are you in favour of a system of valuation for all purposes, Federal and State. If so, under what control should this be ? *e.g.*, should it be under—
 - (a) State control, as in the New South Wales Valuer-General's system ; or
 - (b) Entirely under Federal control ; or
 - (c) Under Federal control to the extent only of a general supervision for the purpose of securing as far as possible unity of method and elimination of the personal equation.
9. What period is allowed under your Act within which an amended assessment may be issued ?

10. *Valuation of Improvements :—*

- (1) Do the definitions in your Act correspond with those in the Federal Act ?
- (2) If a difference exists, does that difference prejudice the adoption of Federal valuations for State purposes.
- (3) Would it be—(a) just ; and (b) desirable to exclude non-visible improvements ?

11. *Unimproved Value :—*

In Campbell's case, Mr. Justice Rich suggested that the definition be put on a practical basis instead of a hypothetical basis. How could this best be effected ?

12. What directions are given to valuers for taxation purposes ? Please produce copy of instructions, if any.
13. Will you compare the provisions of the State Land Tax Act relating to joint-owners with the provisions of the Commonwealth Act.
14. (1) Should a tribunal in the nature of a Board of Appeal be constituted with power to determine matters in dispute between the Department and the taxpayer ;
- (2) How should such a tribunal be constituted ?
15. What provision, if any, is made for relief of a taxpayer in a case where payment of tax involves hardship ?
16. What is the position of Lessees (other than Crown Lessees) under the State Act ?
17. *Crown Leaseholds :—*

Should such leaseholds be subject to Land Tax ? If so, what should be the basis of valuation ?

18. *Exemption :—*

Is there in your opinion any justification for reducing the exemption of £5,000 in the Federal Act ? What exemption is allowed by the State Act ?

Turn-over Tax and Levy on Wealth :—

Among other forms of taxation suggested to the Commission are :—

- (a) A Turn-over Tax, i.e., a tax at a percentage rate upon the price of all articles sold, tax to be paid at the time of purchase of goods ;
 - (b) A levy on wealth ;
- Please express your opinion on the desirability or otherwise of these suggestions from the points of view—
- (c) Economy principle ;
 - (d) Administration.

Probate Duties and other forms of Direct Taxation :—

Where such taxation exists in your State, please give a short summary of the provisions of each of the Acts and comment upon material points of difference, if any, between these Acts and corresponding Commonwealth Acts.

APPENDIX No. 3.

CONCESSIONAL ALLOWANCES UNDER THE INCOME TAX ACTS OF THE COMMONWEALTH AND STATES.
CHILDREN.

Commonwealth.	New South Wales.	Victoria.	Queensland.	South Australia.	Western Australia.	Tasmania.
<i>Income Tax Assessment Act 1915-1918.</i> Section 18 (1) (k). (k) The sum of Twenty-six pounds in respect of each child, who is under the age of sixteen years at the beginning of the financial year in which the income was received, wholly maintained by any taxpayer who is not an absentee.	<i>Act No. 11/1912.</i> Section 16 (1) (b). (b) The sum of Fifty pounds in respect of each child who is wholly maintained by him and who is under the age of eighteen at the end of the year of income.	Nil	<i>Income Tax Acts (Consolidated) 1902-1920.</i> Section 13 (v). (v) The amount of Twenty-six pounds in respect of each and every child of a taxpayer ordinarily resident in Queensland whose net income does not exceed Eight hundred pounds, under the age of sixteen years on the first day of the year in respect of which the assessment is made, and who is actually dependent on the taxpayer; and see proviso to this sub-section.	<i>Act No. 1337/1918 (Section 7).</i> Section 22 (x1A). (x1A) If the net amount of the income (before making the deduction provided for by subdivision xi. of this section) does not exceed Five hundred and fifty pounds and the account is the account of the taxpayer in his sole individual right and the taxpayer is resident in South Australia, there shall also be deducted from the net amount of the income the sum of Fifteen pounds in respect of every child of such taxpayer wholly maintained by such taxpayer who was living and under the age of fifteen years at the commencement of and under the period for which the income is calculated. In this subdivision the expression "child" includes a step-child, but does not include a child not born in lawful wedlock, unless such child has been legitimated under the provisions of the <i>Legitimation Act 1898</i> .	<i>Act No. 15/1907.</i> Section 30 (10). (10) A sum representing Twenty-six pounds for each child under the age of sixteen years, residing with and dependent upon the taxpayer.	<i>Act 32/1912. (Rates Act.)</i> Section 3 (c). (c) Every taxpayer, the taxable amount of whose income is under Three hundred and fifty pounds shall be entitled to a deduction from the tax payable by him of Six shillings in respect of each child under the age of sixteen years residing with and dependent upon such taxpayer. No person shall be entitled to the benefit of this provision unless he claims such deduction within thirty days from the time of the tax being demanded, and also furnishes to the Commissioner such particulars in support of his claim as the Commissioner may require.

MAINTENANCE OF RELATIVES.

Commonwealth.	New South Wales.	Victoria.	Queensland.	South Australia.	Western Australia.	Tasmania.
Nil	Nil	Nil	<i>Income Tax Acts (Consolidated) 1902-1920.</i> Section 13 (v).—Part. The amount of Twenty-six pounds in respect of the wife and each and every relative by blood or marriage of a taxpayer ordinarily resident in Queensland whose net income does not exceed Eight hundred pounds, if such wife or relative is wholly maintained by him: The amount of Twenty-six pounds in respect of a female relative, whether by blood or marriage or by adoption during childhood, of a taxpayer ordinarily resident in Queensland whose net income does not exceed Eight hundred pounds, if such relative resides with him for the purpose of caring for any child or adopted child of his and is incapacitated either by age or infirmity and has not an income of her own exceeding Twenty-five pounds per annum and is actually dependent on him: Provided that if the net income of a taxpayer ordinarily resident in Queensland exceeds Eight hundred pounds the allowances to which he shall be entitled under any of the provisions of this paragraph shall be reduced by One pound for each Five pounds by which his net income exceeds Eight hundred pounds: Provided, further, that, in arriving at the net income of the taxpayer for the purposes of any of the provisions of this paragraph, the amount of any deduction which the taxpayer may be entitled to under any of such provisions shall be disregarded.	Nil	Nil	Nil

APPENDIX No. 3—CONCESSIONAL ALLOWANCES UNDER THE INCOME TAX ACTS OF THE COMMONWEALTH AND STATES—continued.

STATUTORY (GENERAL) EXEMPTION.

Commonwealth.	New South Wales.	Victoria.	Queensland.	South Australia.	Western Australia.	Tasmania.																		
<p><i>Income Tax Assessment Act 1915-1918.</i></p> <p>Section 19 (1)-(4).</p> <p>19.—(1.) In the case of a person (other than a company, an absentee, or a person who is not married and has no dependants) there shall be deducted, in addition to the sums set forth in the last preceding section, the sum of One hundred and fifty-six pounds and less One pound for every Three pounds by which the income exceeds One hundred and fifty-six pounds.</p> <p>(2.) In the case of a person (not being a company or an absentee) who is not married and has no dependants there shall be deducted, in addition to the sums set forth in the last preceding section, the sum of One hundred and fifty pounds for every Five pounds by which the income exceeds One hundred pounds.</p> <p>(3.) When the income consists partly of income from personal exertion and partly of income from property the deduction under this section shall be made in the first place from the income from property, and when the deduction exceeds that income the excess shall be deducted from the income from personal exertion.</p>	<p>Act 11/1912.</p> <p>Section 16 (1) (a).</p> <p>16. (1) Except as hereinafter provided, the Commissioners shall deduct from the income of every principal taxpayer, not being a company or a taxpayer coming within the provisions of section nineteen of this Act, the moneys and expenses hereunder mentioned, and the amount of income remaining after such deduction shall be the income on which tax shall be payable:—</p> <p>(a) The sum of Two hundred and fifty pounds.</p>	<p>Act 2638/1915.</p> <p>Section 17 (j).</p> <p>(j) The income of every taxpayer not being a company so far only as regards income to the extent of One hundred and fifty pounds: Provided however that the income chargeable with tax does not exceed the sum of Five hundred pounds.</p> <p>Section 26.</p> <p>26. In the assessment of a taxpayer in his sole individual right the exemption of One hundred and fifty pounds as in this Act provided shall be deducted from income the produce of property, but if such income does not amount to One hundred and fifty pounds the difference or if there is no income the produce of property then the whole of the said One hundred and fifty pounds shall be deducted from the income from personal exertion.</p>	<p><i>Income Tax Acts (Consolidated) 1902-1920.</i></p> <p>Section 7 (3), (iv), (a), and (b).</p> <p>(iv) Provided further that—</p> <p>(a) A person (not being a company or an absentee) whose net income (whether derived from personal exertion or from the produce of property, or partly from personal exertion and partly from the produce of property) during the year in respect of which the assessment is made, does not amount to more than £200, shall not be liable to tax;</p> <p>(b) With respect to any person (not being a company or an absentee) whose net income (whether derived from personal exertion or from the produce of property or partly from personal exertion and partly from the produce of property) during the year in respect of which the assessment is made, amounts to more than £200 but does not amount to more than £1,000, a part, but not exceeding £200, of such income shall be exempt from the tax, and shall of the taxable income. The amount of such exemption shall be ascertained as follows:—The amount of £200 shall be exempt if the net income does not amount to more than £203. The amount of £199 shall be exempt if the net income is £204, and the amount of exemption shall be reduced by £1 for each £4 of net income in excess of £204, so that there shall not be any exemption if the net</p>	<p>Act No. 1200/1915.</p> <p>Section 22 (xi).—Part.</p> <p>xi. If the account is the account of a taxpayer in his sole individual right, One hundred and fifty pounds shall be deducted from the net amount of income the produce of property, but if such income does not amount to One hundred and fifty pounds, the difference shall be deducted from the income derived from personal exertion: . . . (under, "Losses to be set off . . .").</p> <p>Provided that—</p> <p>(a) no person who has been out of the State for the twelve consecutive months covered by the period under assessment, except an officer employed by the State whilst so employed out of the State, shall be entitled to any deduction by way of exemption from income tax;</p> <p>(b) the provisions of this subdivision shall not apply to the account or income of any taxpayer being a company.</p>	<p>Act No. 15/1907.</p> <p>Section 16 (1).—Provisos.</p> <p>Provided that if the "income chargeable" from all sources of any person shall not, in the year next preceding the year of assessment, exceed One hundred pounds, such income shall be exempt from taxation:</p> <p>Provided also that if the "income chargeable" from all sources of any person who is married or has a dependant shall not, in any year next preceding the year of assessment, exceed One hundred and fifty-six pounds, if such person is a returned soldier; or</p> <p>(b) One hundred and twenty-five pounds, if such person is not a returned soldier—</p> <p>shall not be liable to the tax.</p>	<p>Act 32/1912. (<i>Rates Act</i>).</p> <p>Section 3 (iii).—Provisos.</p> <p>Provided that—</p> <p>(a) A person whose net income during the year ending the thirtieth day of June immediately preceding the year of assessment did not exceed the sum of—</p> <p>(aa) Two hundred pounds if such person is a returned soldier; or</p> <p>(bb) One hundred and fifty-six pounds if such person is not a returned soldier—</p> <p>and who is a widower or widow having a child under the age of sixteen years dependent upon him or her, or is married, shall not be liable for the tax:</p> <p>And that an unmarried person whose net income during the year ending the thirtieth day of June immediately preceding the year of assessment did not exceed the sum of—</p> <p>(cc) One hundred and fifty-six pounds, if such person is a returned soldier; or</p> <p>(dd) One hundred and twenty-five pounds, if such person is not a returned soldier—</p> <p>shall not be liable to the tax.</p> <p>Provided further that—</p> <p>(b) Where the taxable amount of the income from all sources in any year of a returned soldier who is a widower or widow having a child under the age of sixteen years dependent upon him or her, or is married, exceeds Two hundred pounds, such returned soldier shall be entitled to a deduction of One hundred and fifty-six pounds by way of exemption; and that where the taxable amount of the income from all sources in any year of a returned soldier, who is unmarried, exceeds One hundred and fifty-six pounds, such returned soldier shall be entitled to a deduction of One hundred pounds by way of exemption;</p> <p>And that where the taxable amount of the income of any person (not being a returned soldier or a company) from all sources in any year is not less than One hundred pounds, and is less than Four hundred pounds, such person shall be entitled to a deduction by way of exemption in accordance with the following scale:—</p> <p>Where the taxable amount of the income is not less than</p> <table><tr><th>And is less than</th><th>Deductions allowed.</th></tr><tr><td>£ 100</td><td>£ 70</td></tr><tr><td>110</td><td>60</td></tr><tr><td>125</td><td>50</td></tr><tr><td>150</td><td>40</td></tr><tr><td>250</td><td>30</td></tr><tr><td>350</td><td>20</td></tr><tr><td>400</td><td>Nil</td></tr><tr><td>400 and over</td><td></td></tr></table>	And is less than	Deductions allowed.	£ 100	£ 70	110	60	125	50	150	40	250	30	350	20	400	Nil	400 and over	
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<p>(4.) For the purposes of this section "income" means the income of a taxpayer after allowing the deductions allowed by any other section of this Act.</p>		<p>income is £1,000. In deducting the amount of such exemption the income derived from personal exertion, if any, shall be first resorted to.</p> <p>See also section 8 (proviso) under "Tax—Rates of."</p>	<p>See also section 9 of 1337 of 1918 under "Liability," "Exemptions — Active Service."</p>	<p>Act 34/1912. (Rates Act.)</p> <p>Section 3 (iii).—Part.</p> <p>Where the income of any such person (including a returned soldier but not a company) is derived partly from business and partly from property the deduction allowed under this proviso shall be made from his income from business, and if his income from business is insufficient to allow him the full benefit of such deduction, then the balance of such deduction shall be made from his income from property.</p> <p>This proviso shall not apply to any income receivable by any person as a prize in any lottery authorized by law in Tasmania, but all such income shall be liable to taxation without any exemption whatsoever.</p>
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