

STATEMENT ON TAXATION.

(Evidence of the Hon. Geo. Fowlds, given before the Taxation Committee at Auckland on May 8, 1924).

The fact that taxation systems call for constant revision and endless inquiries into their incidence in an endeavour to locate anomalies and remedy defects, would indicate to thinking men that there is something unsound, uneconomic, and futile in all existing methods of taxation, and that processes of amendment, however good the intention, are devoid of a scientific basis and therefore can never be final. The process is like an attempt to stop up 10 leaks in a vessel with nine plugs, each hole being in turn stopped up with a plug removed from another hole. The vital evil contained in every system of taxation consists of the fact that it despoils a man of a portion of the product of his individual labour, and could only be justified by necessity. No such necessity exists, therefore the only way to "mend" any system of taxation is to "end" it.

The system obtaining in this Dominion is much the same as obtains in most other countries with the one exception of the land tax (so called). Revenue in the main is derived from Customs and

Excise, Income Taxes and Death Duties. Customs taxation is so notoriously inequitable (even amongst taxes which have no basis in justice) that it is a wonder that they persist in the twentieth century. (I speak of revenue duties as apart from protective duties, the latter of which, if the policy of protection is sound, should raise little or no revenue.) It is admitted practically by every authority on taxation that Customs revenue duties press heaviest on the poor man and are equivalent to an income tax graduated against the smaller incomes. They should be wiped out forthwith once and for all. Such duties as are "protective" have the same evil effect pressing heaviest on the under dog, the only difference being that, instead of the Government directly levying the tax (as with revenue duties) it presents individuals with a charter whereby they can tax the people in the interests of certain sections of the

community. Protective duties have two main effects: (1) They raise the cost of living and of production, (2) they prevent exports by keeping out goods which need to come in in payment of exports. Such a policy cannot be upheld in the interests of the community as a whole. Before leaving Customs

duties I may be permitted to point out that the recent revision of the tariff has resulted in an increase per cent. on the bulk of the schedules, and that an estimate, made recently, showed that the increase of taxation involved in the revision, allowing for average importations (the mean between the years 1920, a boom period, and 1922, a lean period, being taken) amounted to no less than £1,644,438 per year. Such a policy is a retrograde step in methods of taxation.

Income taxes are preferable to Customs taxes in the matter of incidence, especially when graduated, which makes it more difficult to pass them on, but they have serious defects in other directions. They are inquisitorial, their collection calling for information which no State Department should be empowered to demand. In normal times and when the rate is high the major portion of the income tax must be passed on to the consumer and so increase the cost of living; to the extent in which the Income Tax cannot be passed on because of the exemption and the graduations it is an unfair impost on one Trader as against others in the same line of business.

Death Duties are attractive to the average person, because, with ex-

emptions and a sliding scale they bear heavily on the wealthy. The idea is, that if a man amasses a large fortune, he has, in all probability, obtained the most of his wealth without rendering an equivalent to the community.

If such is the case, the remedy lies, not in taxing his estate at so much per cent., but in the adjustment of social conditions so that the accumulation of such wealth would be impossible. If men "get without earning" other men must "earn without getting" hence, even if all the misappropriated money were taken at death, justice would not be done, seeing that the deceased had

been levying a tribute of taxation, are devoid of equity and should, if possible be abolished *in toto*. I say "if possible" advisedly, for I affirm that the State can obtain all the revenue required, in times of peace at any rate, without levying on the individual earnings of any man. All that is necessary is for the State to appropriate "rent." I use the term in its economic sense, as meaning the annual value of land apart from any improvements placed upon it, or in it, that is, what is commonly called the "unimproved value" or "ground" or "site" value. Ex hypothesis, any value that attaches to land must be created by the community, seeing that the result of individual labour (improvements) is exempted. It follows, therefore, that if the State were to appropriate rent, it would not be levying taxation on individuals but merely restoring to the community those values which the community had first created. Thus values of a communal nature, instead of being, as now, appropriated and retained by land owners, would be diverted into the State Treasury. This revenue would be sufficient to enable the State to repeal all taxes. Even if it were not sufficient, the rent whatever it may be, should be taken first, before any levy is made on individuals.

With our systems of valuation it can be shown that the revenue would cover all legitimate State needs. The unimproved value of New Zealand land is set down in the latest Year Book at 329 millions

sterling, which valuation if accurate is necessarily less than the true economic value because of existing land values taxation which obviously reduces selling or market values. Taxing "rent" at 5 per cent. of the capital unimproved value, as stated, we get roughly 16½ millions, which added to the 1½ millions now collected, would give a total of 18 millions of revenue to replace the tax revenue as at present, £15,594,288 (1923). It is possible that under our present system of "fee simple" ownership the valuations are inflated and include "prospective values," but the margin, in my opinion, would cover any such inflation, especially as in many cases there is under-valuation. For the year 1922-23 the landowners of New Zealand owning £330,000,000 of un-

improved land values, paid in land tax £1,541,502, the dead people paid in death duties £1,829,852, the smokers of the Dominion paid £1,181,330 in tobacco duty.

The question of housing is closely bound up with the question of taxation. The recent announcement by the Government that it would advance loans up to 95 per cent. of the value caused quite a land boom in city and suburban sections, which were sold on a small deposit and monthly instalments. The payment of these monthly instalments has had a clearly visible effect on the volume of business during the last year. The present system of taxation increases the price of nearly every commodity which goes into the building of a house and the absence of adequate land value taxation is responsible for the high and speculative price which has to be paid for a site on which to build it.

The true policy for the Government, therefore, is to gradually increase the land values taxation year by year, or session by session, using the accruing revenue to reduce, and finally extinguish, all taxes on individual industry. The periodical increase in land values taxation should continue until such time as land "apart from improvements" ceases to have any selling value, until that is, the whole of the economic rent goes to the community which has created it.