SOME SUGGESTIONS FOR A SIMPLER AND MORE EQUITABLE INCOME TAX SYSTEM.

BY J. MACKIE, F.C.A.

[Read Friday, March 12, 1920.]

I hope so to deal with the subject for discussion to-night that the Members of this Society who have no first-hand practical knowledge of the existing Income Tax system will be able to study the forthcoming Report of the Royal Commission on the Income Tax with an interest that might otherwise be lacking.

It may be convenient at the outset to consider the terms of reference to the Royal Commission, its constitution, and certain other points which emerge from an examination of the Blue Books in which the Minutes of Evidence are contained.

Terms of Reference.

"To inquire into the Income Tax (including Super-tax) of the United Kingdom in all its aspects, including the scope, rates, and incidence of the tax, allowances and reliefs, administration, assessment, appeal and collection, and prevention of evasion, and to report what alterations of law and practice are in their opinion necessary or desirable and what effect they would have on rates of tax if it were necessary to maintain the total yield."

Original Constitution of the Commission.

The Rt. Hon. The Lord Colwyn (Chairman).
Chairman or Director of a number of large undertakings, including the Lancashire and Yorkshire Bank. Has presided over many Government Committees.

Mr. S. A. Armitage-Smith, C.B.
Principal Clerk to the Treasury.

Mr. Philip A. Birley, J.P.
Director of Charles Macintosh & Co., Ltd., Rubber Manufacturers, Manchester.

Rt. Hon. C. W. Bowerman, M.P.
President of Trades Union Congress, 1901, and Secretary of Congress since 1911; was created Privy Councillor in 1916.

Rt. Hon. W. Brace, M.P.
A member of the Royal Commission on Coal Supplies; Vice-Chairman of Labour Party, 1911; Parliamentary Under-Secretary to Home Office, May, 1915; was created Privy Councillor in 1916.
Mr. J. Walker Clark, J.P.
A General Commissioner of Income Tax, and engaged
in business in Halifax, Yorks.

Mr. N. F. Warren Fisher, C.B. (now Sir Warren Fisher,
K.C.B.).
Was Chairman of the Board of Inland Revenue.

Mr. W. Graham, M.P.
Represents the Central Division of Edinburgh in the
Labour interest, and is a member of many public
bodies in Edinburgh.

Sir J. S. Harmood-Banner, M.P.
President of the Institute of Chartered Accountants in
England and Wales, 1904-5, and of the Association
of Municipal Corporations, 1907.

Mr. Arthur Hill (since deceased).
Chairman of the additional Commissioners of Income
Tax for the City of London, and a Director of the
London County and Westminster Bank, Ltd., and
other large undertakings.

Mr. R. M. Holland-Martin, C.B.
Hon. Secretary Bankers' Clearing House; Director of
Martin's Bank, Ltd., and other large undertakings.

Mr. D. M. Kerly, K.C.
Chairman of the Board of Referees in connection with
the Excess Profits Duty.

Mrs. Lilian C. A. Knowles.
Reader in Economic History to the University of London
since 1907; member of the Departmental Committee
on the rise in the cost of living to the working classes,
1918.

Mr. H. J. Mackinder, M.P. (now Sir Halford Mackinder,
Commissioner for South Russia).
Director of London School of Economics and Political
Science, 1903-1908.

Mr. W. McLintock.
Member of the Firm of Thomson, McLintock & Co.,
Chartered Accountants, Glasgow and London.

Mr. E. Manville, M.P.
Chairman of Daimler Co., Ltd., and of Car and General
Insurance Corporation, Ltd., and Deputy-Chairman
of Birmingham Small Arms Co., Ltd.

Mr. Henry J. May, O.B.E.
Secretary of the Parliamentary Committee of the Co-
operative Congress, Has served on various Govern-
ment Committees, and has taken part in many De-
partmental Conferences arranged during the War.

Mr. Geoffrey Marks, F.I.A., O.B.E.
President of the Institute of Actuaries.
Sir E. E. Nott-Bower, K.C.B.
Was Chairman of the Board of Inland Revenue.

Professor A. C. Pigou.
Professor of Political Economy, Cambridge, since 1908.

Rt. Hon. E. G. Pretzman, M.P.
Parliamentary Secretary to the Board of Trade, May, 1915, to December, 1916. Has held other important Government offices.

Mr. N. J. Synnott, J.P.
Director of the Bank of Ireland and of the Great Southern and Western Railway.

Sir Walter Trower.
President of the Council of the Law Society, 1913-1914.

Chairman and member of numerous Parliamentary Select Committees, and the author of articles on Economic and Social questions.

Secretary to the Commission:
Mr. Ernest Clark, Inland Revenue Department.

Alterations in the Original Constitution of the Commission.

Three vacancies were occasioned by the death of Sir T. P. Whittaker, and the resignations of Messrs. Arthur Hill and H. J. Mackinder; and two additional Members have been appointed, viz.:

Dr. J. C. Stamp, C.B.E.
Formerly an Assistant Secretary to the Board of Inland Revenue; and

Mr. H. A. Trotter.

Sittings and Minutes of Evidence.

The Commission sat in all on thirty-seven days from 7th May, 1919, to 5th December, 1919, for the purpose of receiving evidence.

Most of the official witnesses appeared before the Commission on more than one occasion, but according to my analysis the number of separate witnesses heard by the Commission was 175.

Four of the non-official witnesses attended from Ireland as follows:

18th July, 1919.—Mr. Stewart Blacker Quin, F.C.A., Belfast, as one of the representatives of the Association of British Chambers of Commerce.

5th November, 1919.—Mr. Robert Dunlop, J.P., on behalf of the Belfast Property Owners' Association.
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5th November, 1919.—Mr. J. Ralph Dagg, J.P., Clerk to the District Councils of Baltinglass Nos. 1, 2, and 3.

20th November, 1919.—Mr. Stewart Blacker Quin, Belfast, on behalf of the Institute of Chartered Accountants in Ireland.

20th November, 1919.—Mr. John Mackie, F.C.A., Dublin.

The Minutes of Evidence will be found in seven Blue Books (Cmd. 288.—1/7) in which the evidence in chief of the witnesses and their answers to questions put by the Commissioners, are recorded in 28,078 paragraphs, and which contain no less than seventy-one Appendices, most of which were put in by the Board of Inland Revenue for the information of the Commissioners, or at their express request.

It is anticipated that the Report (or the first of a series of Reports, for the problems involved are both intricate and far-reaching) will be submitted about the end of this month in time to enable the Chancellor of the Exchequer to embody in his Budget for 1920-21 the recommendations to which the Government may decide to give immediate effect.

Unless the recommendations in question make for greater simplicity and equity in the administration, assessment, and collection of the Tax it will be generally felt that the labours of the Commission have been largely in vain, but while a certain amount of agreement may exist as to the lines on which a more equitable distribution of the burden of the Income Tax might proceed, admittedly there is a great diversity of opinion as to the extent to which simplicity can be introduced without endangering the principle of "Taxation at the Source," to the maintenance of which the utmost importance is attached by the official witnesses.

This brings me at once to the root difficulty in connection with any thorough-going reform of the British Income Tax system. I was trained to regard "Taxation at the Source" as almost sacrosanct, and certainly as the most important factor in the success which has undoubtedly attended the British system, but a careful study of the problem at close quarters in the spirit, as I told the Royal Commission, of "a firm believer in the Income Tax as an ideal method of Taxation," forced me slowly but none the less surely to the conclusion that the best results can only be obtained by abandoning the principle of "Taxation at the Source," and correspondingly extending the system of "Direct Assessment," which is already largely in operation.

It was, accordingly, as an advocate of "Direct Assessment" all over that I appeared before the Royal Commission, and
it was principally on this point that I dissented from the Memorandum which was submitted by the Institute of Chartered Accountants in Ireland, but with which I am otherwise in substantial agreement.

Suggestion No. 1.

You will not be surprised, therefore, that although the forthcoming Report of the Royal Commission will probably recommend the maintenance of the principle of "Taxation at the Source," and the adoption of a number of more or less ingenious proposals designed to produce simplification of a kind, I intend to-night to suggest for your consideration that the only way in which the existing system can be rendered much simpler and at the same time more equitable in its operation is to abandon the principle of "Taxation at the Source" in favour of "Direct Assessment" all over.

Under a system of "Direct Assessment" Rents, Interest, Royalties, Annuities, the amounts distributed by incorporated undertakings in the shape of Dividends, Bonuses, &c., and similar payments, would, contrary to the present practice, all be allowed as proper deductions for the purpose of arriving at Assessable Profits. All such payments would, accordingly, be made without deduction of Income Tax, as the recipients would require to account direct to the Inland Revenue Authorities, who would check the Taxpayer's Returns by the "Information at the Source" papers which the payers would be obliged to furnish in order to obtain relief in respect of the payments in question.

I would like to draw your attention to the following extracts from the Minutes of Evidence:

Mr. R. V. N. Hopkins, C.B., a Commissioner of Inland Revenue:

Q. 41.—In my judgment the abandonment of the system would result in an annual dead loss to the Exchequer of upwards of £50,000,000 a year.

Examination by Mr. May:

Q. 126.—In paragraph 41 you say: "In my judgment the abandonment of the system would result in an annual dead loss to the Exchequer of upwards of 50 million pounds a year"?—Yes.

Q. 127.—May I ask how you arrive at that figure?—

This is, of course, ultimately simply a question of personal judgment as to what is going to happen if the
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taxing authority is, let me say, blindfolded. At the present time somewhere about 70 per cent. of the total yield of the Income Tax and Super-tax, which is 350 million pounds, is collected, or ultimately secured, at the source. If you abandon taxation at the source an immense area of taxation will be swept right away from that automatic method, and would be dependent on the personal return of individual taxpayers. As I have said once before, I have not in my mind, primarily, fraud. You are faced indeed, it is true, with fraud, but you are faced also with forgetfulness and ignorance on the part of the taxpayer, and the taxpayer who thinks it is consistent with his duty to wait until he is invited to make a Return, and the like. My own feeling is that with the tremendously high rates, which I presume we must expect in the future, if the whole system of "Taxation at the Source" were simply abolished, the revenue machine, however strong—and we have a strong machine at the present time—although it could minimise the loss, could not avert it, and I feel that the whole efficiency of the collection would be gravely impaired and would very quickly reflect itself in a large loss of duty.

Q. 128.—This figure of 50 million pounds simply represents your estimate of the extent to which the community would evade the tax?—Yes; provided you accept my definition of the word "evade"; that is to say, it has no fraudulent intention attached to it.

Q. 129.—In some cases?—In the majority of cases there would be no such intention.

Examination by Mr. McLintock.

Q. 244.—I take it that your 50 millions is a net figure at which you estimate the loss to the State by the abandonment of the system of "Taxation at the Source"?—Yes.

Examination by the Chairman (Lord Colwyn).

Q. 245.—It seems a very large figure having regard to the schedules from which the Tax comes, and knowing how slender is the chance of evasion on the main schedule, especially with the extension of limited companies?—You would like, perhaps, to have me up and put me through a close examination at some time.
By J. Mackie, F.C.A.

My examination by the Chairman (Mr. Kerly).

Q. 24914.—We are much obliged to you. Your suggestions are, judged by the general run of the witnesses, unconventional and exceptional, but you have given us your reasons for putting them forward, and I think we all appreciate the very great simplification that would be possible if we did away with taxation at the source. The whole question is, would not it probably cost too much—you think not?

I suppose I must not keep the Commission now, but I was hoping to be allowed to develop that point a little by suggesting to the Commission that they should ask Somerset House to justify the estimate of £50,000,000 per annum, because I went to the trouble last night of taking out the figures from Tables 5, 6, and 7 in Appendix No. 3 to the Minutes of Evidence, and it is very hard for me, as a layman, who, however, has had considerable experience of Income Tax practice and procedure, to see where a loss of £50,000,000 can come in.

Q. 24915.—We shall have probably to-morrow an experienced Income Tax official before us, and we will take care that that question is put to him?—Thank you.

Examination of Mr. E. R. Harrison, an Assistant Secretary to the Board of Inland Revenue, by the Chairman (Mr. Kerly).

Q. 25348.—Mr. Kerly: I will try to go somewhat rapidly over a few points I want to mention. In one of your former papers, you suggest that there would be 50 million pounds lost if deduction at the source were given up. That was based on some materials, no doubt?—That was based upon materials.

Q. 25349.—Could you put in quite a short note, indicating the materials upon which that was based?—I think I could do so—certainly.

Q. 25350.—I will not ask you to do it now, but will you kindly put it in?—Yes.

Although the seventh and, as I understand, the final instalment of the Minutes of Evidence contains no less than twenty-seven Memoranda which were put in by the Board of Inland Revenue on a variety of points, it does not contain the Memorandum promised in answer to Q. 25350!
I claim the following advantages for a system of "Direct Assessment" all over:

(a) It would obviate the over-assessment of taxpayers not liable to the "flat rate" which is an essential feature of a "taxation at the source" system. It would not, accordingly, be necessary for the Inland Revenue to collect and to hold (pending repayment) large sums of money to which it is not entitled, and which in many cases can ill be spared by those to whom it is due, nor would it be necessary to maintain for repayment purposes a staff which might be better employed in endeavouring to increase the productivity of the tax by looking more closely into total income returns made by taxpayers generally.

(b) It would obviate the under-assessment in the first instance of taxpayers who are liable at a higher rate than the "flat rate," and give the Revenue the use of a large sum of money which, in existing conditions, cannot be collected until the additional (super-tax) assessments are made and agreed in the ordinary course.

(c) It would facilitate the realisation of the ideal of one assessment on each taxpayer in respect of his or her income from every source, and would, accordingly, bring to an end the present system under which many taxpayers receive various assessments under Schedules A, B, D, and E from different districts.

(d) It would greatly simplify matters so far as taxpayers are concerned.

(e) It would admit of the application of a scale which could be graduated to any extent that might be considered desirable.

(f) It would facilitate the Inland Revenue authorities themselves by enabling them so to co-ordinate the administration of the service as to prevent a great deal of the overlapping which is inseparable from the existing system.

(g) It would increase the productivity of the tax, as the returns which it is suggested should be obtained from various sources with the object of checking the taxpayers' returns would disclose income which has not hitherto been fully assessed, or which has only been assessed in part.
Suggestion No. 2.

Schedules A, B, C, D, and E should be abolished, and all classes of Income and Profits should be ascertained on the same principles. For instance, purely arbitrary, or Statutory Incomes, such as are assessable under Schedules A and B, should not be accepted in lieu of the actual Income, which should be ascertained in the same way as in the case of Trades, Professions, &c., and all expenses necessarily incurred in earning the Income and/or making the Profits should be allowed as proper deductions, including in this connection:

(a) all "commercially expedient" expenses;  
(b) the writing down of Preliminary Expenses over a period of years;  
(c) the exhaustion of wasting assets which wear out in the process of producing Profits; and  
(d) expenditure on leaseholds, such as premiums on taking up a lease and additions and improvements which will revert to the landlord.

In lieu of Schedule A the Assessment should be made on the rents received less all applicable expenses, and where no income is actually received the Assessment should be made on the full letting value, less applicable expenses.

Where Schedule B applies at present the Assessment should be based upon the actual Income after making due allowance for all applicable expenses, but where proper accounts are not available the existing Schedule B might be used as a temporary measure of Profits or the Assessment might be based upon the available accounts of farms in the immediate neighbourhood.

The Royal Commission may recommend the merging of Schedules E and D, thus reducing the number of Schedules to four, but I question very much whether it will go any further on the present occasion.

Suggestion No. 3.

All classes of Profits should be brought under review. Co-operative Societies, for instance, should be assessed as Trading concerns in respect of the entire amount of their trade, while "Casual" and "Capital" Profits should also be assessed.

Although the question of the assessment of Co-operative Societies is attended with considerable difficulty it is probable that the Royal Commission will recommend an alteration of the existing practice.

As regards "Casual" and "Capital" Profits, it may be sufficient for the purpose of this paper to mention that the
Board of Inland Revenue has suggested to the Royal Commission that a start might be made by bringing under review certain classes of Profits which have hitherto escaped assessment. The problem is, however, one of great difficulty as you will see if you care to read the statement submitted by Mr. M. C. Furtado, an Assistant Chief Inspector of Taxes, on 21st November, 1919, "on the subject of 'Casual' or non-recurring Profits in their relation to Income Tax." (Cmd. 288-6).

* Suggestion No. 4. *

If the administrative difficulties in connection with the assessment of the Income and Profits of the year of assessment cannot readily be surmounted, then all Assessments should be made on the basis of the Income and Profits of the preceding year.

Income and Profits, according to their nature, are at present assessed on five bases, viz.:—

- Year of Assessment;
- Preceding-year;
- Three-years average;
- Five-years average;
- Seven-years average.

I do not personally think that any adjustment should be made on the change over to the new system, but that the exigencies of the situation should be treated as sufficient to justify the alteration of the basis in each case without any adjustment. It may, generally speaking, be assumed that profits have been for the past two or three years on a rising scale, so that the elimination of the three, five, and seven-year averages, and the assessment instead of the income of the preceding year, would presumably represent a large additional source of revenue for the first two or three years of the new system.

The Royal Commission may recommend the adoption of the preceding year except, possibly, in the case of manual workers, and their recommendation in this connection may be accompanied by suggestions for the making of adjustments during the "change over" period.

* Suggestion No. 5. *

Before any Income Tax liability can be established the "cost of maintenance" of the taxpayer and of all those wholly dependent upon him should be deducted from his total Income, irrespective of the amount of that Income; the "cost of maintenance" should be revised annually if
necessary; and the Income in excess of the "cost of maintenance" should be assessed on a graduated scale in which the steps should be much steeper in the ranges of Income where the "cost of maintenance" is comparatively negligible in relation to the total Income than in the ranges where the "cost of maintenance" forms an appreciable part of the total Income.

The following scale of maintenance allowances is suggested as justified by the present cost of living:—

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxpayer (married or unmarried)</td>
<td>£100</td>
</tr>
<tr>
<td>Wife (or husband, where the income is the wife's)</td>
<td>100</td>
</tr>
<tr>
<td>Child (under 16 years of age, or over that age who is receiving full-time education)</td>
<td>50</td>
</tr>
<tr>
<td>Dependent</td>
<td>50</td>
</tr>
</tbody>
</table>

Such a variety of evidence has been submitted as regards the proper allowances to be made for the taxpayer, his wife, children, and dependents that it is difficult to anticipate the Commission's findings.

**Suggestion No. 6.**

It would make for equity and also for simplification in administration if the allowance for Life Assurance premiums were discontinued. I advocate this change for the following reasons:—

(a) The allowance encourages insurance companies to secure business on the ground that the insurer will thereby escape payment of a certain amount of income tax, and it should not be within the power of any person or corporation to hold out any inducement of this kind.

(b) The relief is from the very nature of the case not such as can be claimed by those most likely to require it—i.e., delicate people whose lives will not be accepted. This means that its incidence operates unfairly amongst taxpayers whose incomes and other circumstances are otherwise equal.

(c) As the relief is enjoyed in existing conditions it operates largely to enable well-to-do people to escape payment of a substantial amount of income tax.

(d) Although life assurance may easily be distinguished from almost every other class of investment because of the insurance element in the premium payments, it is nevertheless a form of saving and, as such, is favoured by the State at the expense of every other form of saving.
(c) Even where life assurance is effected with the object of providing a fund for the payment of Death Duties, the relief operates unfairly by freeing the assurer from income tax on the premiums, while another taxpayer who makes provision in some other way for the payment of Death Duties obtains no relief.

Suggestion No. 7.

The distinction between "earned" and "unearned" Income should be abolished, as apart from the fact that the maintenance of this somewhat arbitrary distinction greatly complicates the administration of the Tax the relief is so administered as to make it in many cases largely illusory.

All the relief to which the taxpayer is entitled in respect of abatement and other allowances is granted, in the first instance, at the earned rate, and this often produces such a result as is shown in the following illustration, which is taken from "The Accountant" of 8th March, 1919:

(a) Married man with wife and four children under 16, whose total income of £600 is derived as regards £300 from salary and £300 from investments, and who pays £75 in life assurance premiums. The tax payable is £56 5s., thus:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>£300</td>
</tr>
<tr>
<td>Income from investments</td>
<td>£300</td>
</tr>
<tr>
<td><strong>Deduct:</strong></td>
<td></td>
</tr>
<tr>
<td>Abatement</td>
<td>£100</td>
</tr>
<tr>
<td>Allowance for wife</td>
<td>£25</td>
</tr>
<tr>
<td>Allowance for children</td>
<td>£100</td>
</tr>
<tr>
<td>Allowance for life assurance prems.</td>
<td>£75</td>
</tr>
<tr>
<td><strong>Balance on which tax at the unearned rate of 3s. 9d. is payable</strong></td>
<td>£300</td>
</tr>
</tbody>
</table>

(b) Assume similar conditions except that the whole of the income in this case is unearned. The tax payable would again be £56 5s. In other words, the relief of 9d. in the £ on £300, or £11 5s., to which (a) is theoretically entitled does not materialise, and he pays exactly the same tax in the given conditions as the man whose income is all unearned.

It is not at all certain, however, that the Commission will recommend the abolition of the distinction.
Suggestion No. 8.

Provision should be made for the assessment, collection, and repayment of Income Tax at the Office of the Inspector in each District, and for the making of one Assessment on each Taxpayer in respect of his or her Income from all sources, including shares of Partnership Profits.

In this connection it is suggested that:

(a) the method of assessing the Income Tax should proceed primarily, not upon the principle of facilitating the internal arrangements of the Inland Revenue Offices, but upon the principle of readily satisfying the average Taxpayer that the amount claimed from him really represents the tax properly payable by him in respect of his net Income from all sources after granting him all the relief to which he is entitled.

(b) The collection of Income Tax should be entirely in the hands of the Inland Revenue Authorities, and no one should be allowed to deduct Income Tax from rent, interest, annuity, dividend, and other payments, except as an agent of the Inland Revenue Authorities in connection with payments to persons not resident in the United Kingdom.

(c) The request for payment should follow as closely as may be found practicable upon the receipt of the Income and/or the making of the Profits forming the subject of the Assessment, and facilities should be granted for making payment by quarterly, monthly, or even weekly instalments, if desired.

The difficulties presented by the maintenance of the principle of "Taxation at the Source" are so great that the Commission may be forced to decide against recommending the "One Assessment" proposal.

Suggestion No. 9.

The Inland Revenue Authorities should be placed in a position to exercise an effective check upon the accuracy of Returns and Accounts submitted by taxpayers, and for this purpose power should be granted to the Commissioners of Inland Revenue to call for a copy of or extracts from the Bank Account of any individual or undertaking, and, on giving reasonable notice but without assigning any reason, to order an examination of the Books of any individual or undertaking, notwithstanding that the Accounts of the individual or undertaking in question may already have been certified.
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The Commission will no doubt recommend the granting of much greater powers to the Commissioners of Inland Revenue than they possess at present.

*Suggestion No. 10.*

Reciprocal concessions should be obtained as regards foreign and colonial Income and all such Income which has already suffered deduction of Tax in the country of origin should be entered in the taxpayer's Return in the gross amount before deduction, but from the Tax payable on the Assessable Income shown by the Return should be allowed the whole of the Tax deducted in the country of origin, subject to the proviso that the relief to be granted in this connection should not exceed Income Tax at the "effective rate" payable by the taxpayer.

The problem involved in the question of what is known as "double taxation" is so intricate and difficult that it is impossible to attempt to forecast the Commission's recommendations in the matter.

*Suggestion No. 11.*

The taxpayer should have the same "rights" in respect of appeals and other matters as the Inland Revenue Authorities, and appeals should lie to an independent body comprising—

(a) Official experts in Income Tax Practice and Procedure.

(b) Representatives of the Legal Profession.

(c) Professional Accountants, and

(d) Business men,

while provision should be made for the continuous hearing of appeals.

The Commission may make recommendations on these lines.

*Suggestion No. 12.*

Every possible effort should be made to get at the undistributed Profits of incorporated undertakings, which under the existing system escape Super Tax, and in this connection it is suggested that separate charges, or scales of charges, should be applied to:

(A) The Income (including shares of partnership profits and income received or receivable from sources outside the United Kingdom) of individuals resident in the United Kingdom.
(B) The undistributed profits of incorporated undertakings in the United Kingdom; and

(C) Interest, dividends, profits, &c., remitted out of the United Kingdom.

As regards (B) it seems to me that an attempt should be made to distinguish between

(a) Private limited companies of which the number of members, excluding employees, must not exceed 50; and

(b) Public limited companies.

So far as private limited companies are concerned, it might be found practicable to examine the personal returns of the shareholders with the object of ascertaining approximately the additional amount of income tax which would have been payable in the aggregate by the shareholders if the undistributed profits had been distributed, in which event the tax so payable would measure the liability of the company in respect of its undistributed profits.

It would obviously be much more difficult to proceed on the foregoing lines in the case of public limited companies, but it might be possible by making an analysis of the manner in which the capital of a number of large companies is held to establish a certain relation between:

(a) the all-over average effective rate of all incomes; and

(b) the undistributed profits of public limited companies.

An alternative proposal which might be applied both to private and public limited companies would be the application of a graduated scale with varying rates per £ up to (say) five or ten thousand pounds, and, thereafter, a graduated scale based upon varying percentages of the balance of the profits.

This question is engaging the careful attention of the Board of Inland Revenue, and there is no doubt that the Commission will endeavour to deal with the problem of the undistributed Profits of Private Limited Companies which escape Super Tax.